

ideastream

FINANCIAL REPORT

SEPTEMBER 30, 2018

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Independent Auditors' Report

Board of Trustees
ideastream
Cleveland, Ohio

We have audited the accompanying consolidated financial statements of **ideastream** (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **ideastream** as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited **ideastream**'s 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Meloney + Novotny LLC

Cleveland, Ohio
December 11, 2018

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2018

(With Comparative Totals at September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
<u>ASSETS</u>					
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,395,640	\$ 1,787,727		\$ 3,183,367	\$ 1,747,731
Short-term investments	139,624			139,624	1,443,861
Receivables, net	902,987	4,913,334		5,816,321	6,060,976
Campaign for the Community receivables		234,953		234,953	1,043,526
Prepaid expenses, deposits and other	509,017			509,017	676,364
Total current assets	<u>2,947,268</u>	<u>6,936,014</u>		<u>9,883,282</u>	<u>10,972,458</u>
LONG-TERM INVESTMENTS	29,913,031		\$ 1,026,415	30,939,446	30,720,628
CAMPAIGN FOR THE COMMUNITY RECEIVABLES		312,742		312,742	950,835
PROPERTY, PLANT AND EQUIPMENT					
Leasehold improvements	237,451			237,451	223,958
Equipment	22,411,984			22,411,984	21,103,096
	<u>22,649,435</u>			<u>22,649,435</u>	<u>21,327,054</u>
Less accumulated depreciation	<u>20,177,235</u>			<u>20,177,235</u>	<u>19,469,916</u>
	2,472,200			2,472,200	1,857,138
INTANGIBLE ASSET - RADIO SEAWAY, INC.	<u>2,420,000</u>			<u>2,420,000</u>	<u>2,420,000</u>
Total assets	<u>\$ 37,752,499</u>	<u>\$ 7,248,756</u>	<u>\$ 1,026,415</u>	<u>\$ 46,027,670</u>	<u>\$ 46,921,059</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES					
Accounts payable	\$ 1,041,538			\$ 1,041,538	\$ 747,877
Accrued liabilities and other	1,676,485			1,676,485	1,645,703
Total current liabilities	<u>2,718,023</u>			<u>2,718,023</u>	<u>2,393,580</u>
NET ASSETS					
Operating	3,962,323	\$ 6,526,004		10,488,327	12,277,064
Plant	12,713,593	722,752		13,436,345	13,516,150
Endowment	<u>18,358,560</u>		<u>\$ 1,026,415</u>	<u>19,384,975</u>	<u>18,734,265</u>
Total net assets	<u>35,034,476</u>	<u>7,248,756</u>	<u>1,026,415</u>	<u>43,309,647</u>	<u>44,527,479</u>
Total liabilities and net assets	<u>\$ 37,752,499</u>	<u>\$ 7,248,756</u>	<u>\$ 1,026,415</u>	<u>\$ 46,027,670</u>	<u>\$ 46,921,059</u>

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
SUPPORT AND REVENUES					
Operating:					
Individual Support	\$ 7,115,847			\$ 7,115,847	\$ 6,901,724
Foundation and Corporate Support	135,873	\$ 5,010,096		5,145,969	6,450,302
Net assets released from restrictions	<u>5,595,355</u>	<u>(5,595,355)</u>		-	-
	12,847,075	(585,259)		12,261,816	13,352,026
Education and Public Service Grants and Contracts	251,681	3,078,351		3,330,032	3,335,740
Net assets released from restrictions	<u>3,089,885</u>	<u>(3,089,885)</u>		-	-
	3,341,566	(11,534)		3,330,032	3,335,740
Government Grants		3,324,562		3,324,562	3,762,649
Net assets released from restrictions	<u>3,365,826</u>	<u>(3,365,826)</u>		-	-
	3,365,826	(41,264)		3,324,562	3,762,649
Campaign for the Community - General Purpose		303,015		303,015	967,046
Net assets released from restrictions	<u>1,726,973</u>	<u>(1,726,973)</u>		-	-
	1,726,973	(1,423,958)		303,015	967,046
Other support and revenues	225,168	420,307		645,475	249,547
Net assets released from restrictions	<u>95,942</u>	<u>(95,942)</u>		-	-
	321,110	324,365		645,475	249,547
Royalty income	1,219,440			1,219,440	1,086,482
In-kind contributions	615,004			615,004	607,826
Investment income	5,092			5,092	22,398
Transfers of net assets	<u>145,000</u>			<u>145,000</u>	<u>188,500</u>
Total operating	23,587,086	(1,737,650)		21,849,436	23,572,214
Plant:					
Federal, state and other grants		1,144,295		1,144,295	-
Transfers of net assets	616,920			616,920	537,300
Net assets released from restrictions	<u>754,332</u>	<u>(754,332)</u>		-	-
Total plant	1,371,252	389,963		1,761,215	537,300
Endowment:					
Contributions	51,829			51,829	1,140,844
Investment income	1,364,313	74,555		1,438,868	2,647,915
Transfers of net assets	(761,920)			(761,920)	(725,800)
Net assets released from restrictions	<u>74,555</u>	<u>(74,555)</u>		-	-
Total endowment	728,777	-		728,777	3,062,959
Nonoperating activity:					
Other				-	(1,033,564)
Total support and revenues	25,687,115	(1,347,687)		24,339,428	26,138,909

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
EXPENSES					
Operating:					
Program services:					
Technology	\$ 2,314,207			\$ 2,314,207	\$ 2,368,364
Content	12,253,915			12,253,915	11,351,714
Educational services	1,164,020			1,164,020	1,102,653
Communications	477,051			477,051	589,302
In-kind contributions	615,004			615,004	607,826
Total program services	<u>16,824,197</u>			<u>16,824,197</u>	<u>16,019,859</u>
Development:					
Community development	2,409,848			2,409,848	3,427,352
Marketing	1,779,866			1,779,866	1,641,019
Total development	<u>4,189,714</u>			<u>4,189,714</u>	<u>5,068,371</u>
General and administrative	<u>2,459,969</u>			<u>2,459,969</u>	<u>2,738,589</u>
Total operating	23,473,880			23,473,880	23,826,819
Plant:					
Depreciation	728,318			728,318	811,198
Plant expenses	381,117			381,117	726,355
Expenses from limited liability companies	895,878			895,878	274,441
Other nonrecurring expenses	-			-	4,252,907
Total plant	<u>2,005,313</u>			<u>2,005,313</u>	<u>6,064,901</u>
Endowment:					
Investment fees	<u>78,067</u>			<u>78,067</u>	<u>71,530</u>
Total expenses	<u>25,557,260</u>			<u>25,557,260</u>	<u>29,963,250</u>
CHANGE IN NET ASSETS	129,855	\$ (1,347,687)		(1,217,832)	(3,824,341)
NET ASSETS – BEGINNING	<u>34,904,621</u>	<u>8,596,443</u>	<u>\$ 1,026,415</u>	<u>44,527,479</u>	<u>48,351,820</u>
NET ASSETS – ENDING	<u>\$ 35,034,476</u>	<u>\$ 7,248,756</u>	<u>\$ 1,026,415</u>	<u>\$ 43,309,647</u>	<u>\$ 44,527,479</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,217,832)	\$ (3,824,341)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	728,318	811,198
Net realized and unrealized gains on investments	(1,015,539)	(2,293,742)
Net loss from limited liability companies	895,878	4,527,348
Revenue restricted for long-term purposes	(1,144,295)	-
Changes in operating assets and liabilities:		
Receivables	1,691,321	(684,455)
Prepaid expenses, deposits and other	167,347	(78,734)
Accounts payable, accrued liabilities and other	324,443	(604,373)
Total adjustments	<u>1,647,473</u>	<u>1,677,242</u>
Net cash provided (used) by operating activities	429,641	(2,147,099)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,343,380)	(605,348)
Revenue restricted for long-term purposes	1,144,295	-
Purchase of investments	(2,424,965)	(9,936,594)
Proceeds from the sale of investments	3,630,045	9,474,489
Net cash provided (used) by investing activities	<u>1,005,995</u>	<u>(1,067,453)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,435,636	(3,214,552)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>1,747,731</u>	<u>4,962,283</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 3,183,367</u>	<u>\$ 1,747,731</u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

- A. *Organization and Operation* – **ideastream** is an Ohio nonprofit corporation. The mission of **ideastream** is to strengthen our communities. **ideastream** pursues this mission as a multiple media public service organization by providing distinctive, thought-provoking programs and services that enlighten, inspire, educate and entertain. **ideastream** programs and services are used by 2.8 million people in a typical month, primarily from an 18-county service area which includes Ashland, Ashtabula, Carroll, Cuyahoga, Erie, Geauga, Holmes, Huron, Lake, Lorain, Medina, Portage, Richland, Stark, Summit, Tuscarawas, Trumbull and Wayne Counties. Programs and services include: television viewing, listening and streaming radio content, accessing content through the website www.ideastream.org, accessing on-demand video, participation in education services professional development and engaging in **ideastream** public dialogue events. **ideastream** is sustained primarily through community fund raising, grants and service contracts from federal and state agencies and service contracts with local school systems.
- B. *Principles of Consolidation* – These financial statements include the accounts of **ideastream** and Radio Seaway, Inc., a wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.
- C. *Accounting Method* – The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. **ideastream** has reported information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets result from the receipt of funds which are not subject to donor restriction on the timing or purpose of the use of those funds, less expenses.

Temporarily restricted net assets result from timing differences between the receipt of funds and the incurrence of the related expenses. **ideastream** reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently restricted net assets represent endowment funds which are subject to the restriction of the donors that the principal be invested in perpetuity.

- D. *Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- E. *Net Asset Group Accounting* – The assets, liabilities and net assets of **ideastream** are reported in the unrestricted, temporarily restricted and permanently restricted net asset groups as follows:

Operating Fund

Operating – Includes unrestricted, temporarily restricted and designated resources.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)E. *Net Asset Group Accounting (Continued)*Plant Fund

Plant – Includes unrestricted resources expended for property and equipment, net of accumulated depreciation and Board designated and donor restricted funds to be expended for future capital expenditures.

Endowment Fund

Endowment – Includes unrestricted funds designated by the Board to function as endowment and funds which donors have permanently restricted.

Unrestricted net assets are classified as follows:

Operating Fund

Operating:

Ohio Governmental Telecommunications	\$ 729,929	
K-12 Math and Science Consortium Collaborative	294,088	
Statehouse News Bureau	348,172	
Northern Ohio Technology Association	115,735	
Undesignated	49,706	
Radio Seaway, Inc.	<u>2,424,693</u>	\$ 3,962,323

Plant Fund

Investment in 6600 Broadview, LLC	618,252	
Investment in OPS Investors, Ltd.	9,741,374	
Net investment in plant	<u>2,353,967</u>	12,713,593

Endowment Fund

Board designated endowment		<u>18,358,560</u>
		<u>\$ 35,034,476</u>

See Notes 3 and 4 for a summary of temporarily restricted and permanently restricted net assets.

- F. *Revenue Recognition* – Contributions and unconditional promises to give are recorded as support in the consolidated statement of activities and recognized when received. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the contributor, are recognized when the conditions on which they depend are substantially met.

Contributions, contracts and grants restricted for the purchase, production or transmission of programs or for performance of other duties for which the requirements are not yet completed are recorded as temporarily restricted support. At the time of fulfillment of the terms of the contribution, contract or grant, the amounts are transferred to unrestricted revenue in the consolidated statement of activities.

Contributions received with donor restrictions that require the principal be invested in perpetuity and only the income be utilized are recorded as permanently restricted support.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

F. *Revenue Recognition (Continued)*

Contributions of cash or other assets restricted to the acquisition of long-lived assets are recorded as temporarily restricted contributions. If there are no donor restrictions on the long-lived asset's use, the donor restrictions are considered met once the long-lived assets are placed in service and the temporarily restricted net assets are reclassified to the unrestricted net asset class.

Nonoperating other – Beginning in 2017, **ideastream** revised its policies to record support from sustaining memberships in the fiscal year in which the cash is received. The effect of this transition was a one-time, nonrecurring reduction of revenue recognition of approximately \$1,033,000 for 2017.

G. *Fair Value of Financial Instruments* – **ideastream** estimates the fair value of financial instruments using available market information and other generally accepted valuation methodologies. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are classified into three levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs in which little or no market data exists

The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. **ideastream's** assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The following table sets forth by level within the fair value hierarchy **ideastream's** financial assets and liabilities that were accounted for at a fair value on a recurring basis as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Short-term investments				
Fixed income securities		\$ 139,624		\$ 139,624
Long-term investments				
Money market funds		878,575		878,575
Fixed income securities	\$ 2,317,425			2,317,425
Equity securities	4,456,056			4,456,056
Mutual funds	12,886,934			12,886,934
	19,660,415	878,575		20,538,990
Total	\$ 19,660,415	\$ 1,018,199	\$ -	\$ 20,678,614

Money Market Funds – Money market funds consist of investments in various bank money market funds which are valued at \$1 per share, as quoted by the fund managers, and are classified as Level 2.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

G. *Fair Value of Financial Instruments (Continued)*

Fixed Income Securities – Fixed income securities in the short-term category consist of investments in money market accounts and certificates of deposit, which are valued based upon observable interest rates for similar instruments and are classified as Level 2. Fixed income securities in the long-term category consist of investments in commercial paper, corporate bonds, treasury notes and treasury bonds which are valued using quoted prices in active markets and are classified as Level 1.

Equity Securities – Equity securities represent investments in common stock of domestic and international corporations in a variety of industries, which are valued using quoted prices in active markets, and are classified as Level 1.

Mutual Funds – Mutual funds represent investments in publicly traded mutual funds and exchange traded funds which focus on a variety of industries and strategies, which are valued using quoted prices in active markets, and are classified as Level 1.

H. *Cash and Cash Equivalents* – **ideastream** considers all highly liquid debt instruments with a maturity of 90 days or less to be cash equivalents.

ideastream maintains cash and cash equivalents at financial institutions which, at times, may exceed federally insured amounts and may exceed statement of financial position amounts due to outstanding checks.

I. *Receivables, Net* – Receivables are carried at the gross amount of contracts, grants and pledges as of September 30, 2018, less an allowance for uncollectable accounts. At September 30, 2018, receivables related to contracts were \$4,913,334 and to grants were \$902,987. Additionally, management has determined that no allowance was necessary for all receivables as of September 30, 2018 based upon a historical analysis of collections.

J. *Campaign for the Community Receivables* – The Campaign for the Community (the Campaign) is a special multi-year fundraising effort to build the capacity of **ideastream** to provide programs and services and to sustain an increased level of service far into the future. Of the \$20.3 million campaign goal, \$12.3 million is for people, programs and technology and \$8 million is for endowment. As of September 30, 2018, the Campaign has achieved a total of \$20,328,032 in funds pledged and promised. This total includes \$14,679,204 for people, programs and technology of which \$13,267,603 has been received and \$5,648,828 for endowment including unrecorded bequests and planned gifts of which \$2,116,209 has been received. As of September 30, 2018, **ideastream** has recorded \$560,100 of pledges receivable which are expected to be received as follows: \$234,953 in less than one year and \$325,147 in one to five years. A discount rate of 3.5% was utilized for pledges receivable beyond one year which reduced the balance by \$12,405 resulting in a long-term receivable of \$312,742. At September 30, 2018, management has determined that no allowance was necessary on the Campaign pledges.

K. *Prepaid Expenses, Deposits and Other Assets* – Prepaid expenses, deposits and other assets represent cash payments prior to September 30, 2018 for which the related benefit will be recognized in the fiscal year ended September 30, 2019. At September 30, 2018, prepaid expenses, deposits and other assets are primarily related to programming contracts for periods subsequent to year-end.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

L. *Intangible Asset - Radio Seaway, Inc.* – Intangible asset represents the appraised value of the radio station license owned by Radio Seaway, Inc. as of October 1, 2011. The station license is deemed to have an indefinite life and is not amortized but is subject to periodic impairment tests. Management reviews the station license annually for impairment; additional tests for potential impairment are performed if warranted by the occurrence of events or changes in circumstances between annual tests that indicate the station license may be impaired. There was no impairment recorded for the year ended September 30, 2018.

M. *Property, Plant and Equipment* – Property, plant and equipment is recorded at historical cost and is depreciated over the estimated useful lives of the assets utilizing the straight-line method. Significant additions are capitalized. Maintenance and repairs are charged to expense when incurred. Depreciable lives used for most property items within each property classification are:

Leasehold improvements	20 to 40 years
Equipment	3 to 15 years

Depreciation expense was \$728,318 for the year ended September 30, 2018.

N. *Contributed Support and In-Kind Contributions* – Contributed support and in-kind contributions are recorded as revenue and expense in the accompanying consolidated statement of activities. Contributed support consists of **ideastream's** pro rata share of Ohio's Broadcast Educational Media Commission expenditures related to the support of public broadcasting as well as other contributions of goods and services. In-kind contributions consist of donated material and professional services for exempt purposes. Revenues and expenses of contributed support are presented throughout the applicable revenue and expense categories for which the support was contributed in the consolidated statement of activities. For the year ended September 30, 2018, \$615,004 of in-kind contributions was recognized related to programming and production services.

O. *Income Taxes* – No provision for income taxes has been reflected in the accompanying consolidated financial statements as **ideastream** is a nonprofit corporation and is exempt from state and federal income taxes on activities relating to exempt purposes under Internal Revenue Code Section 501(c)(3) and under Ohio law. **ideastream** is liable for taxes on any unrelated business income. There was no provision required for these taxes in 2018. There were no unrecognized tax benefits.

Radio Seaway, Inc. is a taxable corporation for federal purposes, but operates as an Ohio not-for-profit for state and local tax purposes. There were no unrecognized tax benefits as of September 30, 2018.

As of September 30, 2018, **ideastream's** and Radio Seaway, Inc.'s income tax years remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities, generally for a period of three years.

P. *Reclassifications* – Certain 2017 amounts have been reclassified to conform to 2018 presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- Q. *Comparative Information* – The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with **ideastream's** consolidated financial statements for the year ended September 30, 2017, from which the summarized information was derived.
- R. *Subsequent Events* – **ideastream** has evaluated all events subsequent to the consolidated statement of financial position of September 30, 2018, through December 11, 2018, which is the date these consolidated financial statements were available to be issued and has determined that no events have occurred which require disclosure.

Note 2. Investments

Short-Term Investments – Short-term investments consist of various liquid investments such as certificates of deposit and corporate bonds with a maturity of one year or less at the date of purchase. The cost of these investments approximates market at September 30, 2018.

Long-Term Investments – Long-term investments consist of securities with maturities of over one year. Investments in exchange traded funds and money market funds are recorded at market value, based on quoted market prices. The investments in OPS Investors, Ltd. and 6600 Broadview, LLC are approximately 50% interests and are being accounted for on the equity method.

As of September 30, 2018, cost and carrying value of investments were as follows:

	<u>Cost</u>	<u>Carrying Value</u>	<u>Unrealized (Depreciation) Appreciation</u>
Short-term investments			
Fixed income securities	\$ 139,624	\$ 139,624	\$ -
Long-term investments			
Money market funds	878,575	878,575	-
Fixed income securities	2,430,010	2,317,425	(112,585)
Equity securities	2,841,042	4,456,056	1,615,014
Mutual funds	11,235,188	12,886,934	1,651,746
Investment in OPS Investors, Ltd.	9,741,374	9,741,374	-
Investment in 6600 Broadview, LLC	618,252	618,252	-
CSV life insurance	40,830	40,830	-
	<u>27,785,271</u>	<u>30,939,446</u>	<u>3,154,175</u>
Total investments	<u>\$ 27,924,895</u>	<u>\$ 31,079,070</u>	<u>\$ 3,154,175</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Investments (Continued)

Investment income, excluding activities related to the investment in OPS Investors, Ltd. and 6600 Broadview, LLC, was comprised of the following for the year ended September 30, 2018:

Interest and dividends	\$ 428,421
Realized gains	344,345
Unrealized gains	<u>671,194</u>
	<u>\$ 1,443,960</u>

Investments in Limited Liability Companies:

In 2005, **ideastream** entered into a series of agreements, including an investment in a limited liability company, OPS, LLC, to partner with Playhouse Square Foundation in the redevelopment and joint occupancy of the One Playhouse Square Building at 1375 Euclid Avenue in Cleveland, Ohio, which is now known as the Idea Center at Playhouse Square (Idea Center). Effective June 30, 2017, the members of OPS, LLC exchanged their interest in OPS, LLC for an interest in OPS Investors, Ltd. As part of this transaction, **ideastream** recognized a one-time, non-recurring expense of \$4,252,907 which is presented in the consolidated statement of activities in the plant section as nonrecurring expenses. As of September 30, 2018, the equity balance of the investment was \$9,741,374.

In 2009, **ideastream** invested in 6600 Broadview, LLC with another local television station, to build, equip and operate a shared broadcasting tower. As of September 30, 2018, the equity balance of the investment was \$618,252.

As of September 30, 2018, the assets, liabilities and net results of operations of OPS Investors, Ltd. and 6600 Broadview, LLC were as follows:

	OPS Investors, Ltd.	6600 Broadview, LLC
Assets	\$ 27,331,978	\$ 1,313,965
Liabilities	7,849,229	48,447
Net results of operations	(1,611,154)	(130,995)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	Beginning Balance	Additions	Released	Ending Balance
<u>Operating:</u>				
Individuals, Foundations and Corporate Support				
Foundations	\$ 1,840,885	\$ 1,135,237	\$ (1,695,599)	\$ 1,280,523
Corporate	1,012,375	3,874,859	(3,899,756)	987,478
	2,853,260	5,010,096	(5,595,355)	2,268,001
Education and Public Service Contracts				
Educational services	443,048	1,045,028	(1,006,561)	481,515
Public service contracts	1,529,993	2,033,323	(2,083,324)	1,479,992
	1,973,041	3,078,351	(3,089,885)	1,961,507
Government Grants				
BEMC	182,787	283,728	(265,899)	200,616
Cuyahoga Arts & Culture	219,811	642,871	(701,964)	160,718
Community Service Grant	-	2,397,963	(2,397,963)	-
	402,598	3,324,562	(3,365,826)	361,334
Other				
Campaign for the Community	3,031,558	303,015	(1,726,973)	1,607,600
Other operating support and revenues	3,197	420,307	(95,942)	327,562
	3,034,755	723,322	(1,822,915)	1,935,162
Total operating	8,263,654	12,136,331	(13,873,981)	6,526,004
<u>Plant:</u>				
State Grants and Other				
Campaign for the Community	-	10,000	(10,000)	-
Transmission and Production Equipment	332,789	1,134,295	(744,332)	722,752
Total plant	332,789	1,144,295	(754,332)	722,752
<u>Endowment:</u>				
Investment earnings	-	74,555	(74,555)	-
	\$ 8,596,443	\$ 13,355,181	\$ (14,702,868)	\$ 7,248,756

Note 4. Permanently Restricted Net Assets

Permanently restricted net assets represent donor restricted contributions that are to be invested in perpetuity, the income generated to be used to support:

Programming	\$ 713,914
General operating	312,501
	\$ 1,026,415

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Endowment Funds

ideastream has an investment policy detailing the long-term goals, asset allocation, guidelines for security selection, measurable objectives and on-going communication. The purpose of the invested funds is to support various current and future programs and plant and equipment needs of **ideastream**. Accordingly, there are two principal objectives. The first objective is to provide a predictable source of funding to meet the Board approved spending policy. The second objective is to increase the value of the invested funds to ensure that future needs can be met. All endowment funds are subject to the investment policy approved by the Board of Trustees.

ideastream's endowment funds consist of funds functioning as endowment and permanently restricted endowment funds. Permanently restricted endowment funds represent funds which are donor restricted as to use in perpetuity. As of September 30, 2018, **ideastream** continues to record permanently restricted gifts and endowment funds at historic dollar value.

The Board approved spending policy calls for **ideastream** to transfer up to 5%, annually, of the rolling twelve-month average market value of the endowment funds, which will be used for operations and plant. For the year ended September 30, 2018, \$145,000 was allocated to operations and \$616,921 was allocated to plant per the spending policy, which was less than the 5% spending policy. The maximum spending allowable per the policy for the year ended September 30, 2018 was \$815,364.

Endowment assets consisted of the following for the year ended September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 17,707,850		\$ 1,026,415	\$ 18,734,265
Investment return:				
Investment income, net of fees	326,346	\$ 18,916		345,262
Net realized gain	325,479	18,866		344,345
Net unrealized gain	634,421	36,773		671,194
Total investment return	1,286,246	74,555		1,360,801
Contributions	51,829			51,829
Appropriation of endowment assets for expenditure	(687,365)	(74,555)		(761,920)
Endowment assets, end of year	\$ 18,358,560	\$ -	\$ 1,026,415	\$ 19,384,975

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Retirement Plan

ideastream sponsors a retirement plan under Section 403(b) of the Internal Revenue Code through the Teachers Insurance and Annuity Association-College Retirement Equities Fund. The Plan is a defined contribution plan, which permits participant contributions and covers all full-time employees of **ideastream** meeting certain eligibility requirements. **ideastream** matches employees' contributions to the Plan up to 5% of their compensation. **ideastream**'s contribution to the Plan was \$424,994 for the year ended September 30, 2018.

Note 7. Line of Credit

ideastream has available a line of credit with a local financial institution, which expires in April 2019. The line of credit is secured by certain investments of **ideastream** and allows for maximum borrowings of \$1,500,000. The agreement provides that interest will be charged on the outstanding balance at a rate of the one-month LIBOR plus 2.25%. At September 30, 2018, there was no outstanding balance on the line of credit.

Note 8. Operating Lease

ideastream has an operating lease with OPS Investors, Ltd. to lease space in the Idea Center. The lease expires on October 31, 2030 and carries one additional five-year renewal option and requires a monthly base rent payment of \$37,504 plus a pro-rata share of operating costs determined annually.

Based on the anticipated timeline, minimum rental payments over the next five years are as follows:

	<u>Rental Payments</u>
2019	\$ 726,970
2020	726,970
2021	726,970
2022	726,970
2023	726,970

For the year ended September 30, 2018, **ideastream** recognized rent expense of \$686,116.

Note 9. Royalty Income

During 2007, **ideastream** entered into agreements to allow two different telecommunications organizations access to excess capacity on educational broadband spectrum licensed to **ideastream** by the FCC. Under the agreements, the telecommunications organizations made an initial payment with additional payments to be made for the next 21 years, with incremental increases every five years. Future minimum payments expected to be received over the next five years will be approximately \$8,660,046.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. Functional Expenses

ideastream's functional expense classification for the year ended September 30, 2018 is as follows:

Program	\$ 18,829,510
Management and general	2,538,036
Fundraising	<u>4,189,714</u>
	<u>\$ 25,557,260</u>