

ideastream

FINANCIAL REPORT

SEPTEMBER 30, 2016

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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, 2016, 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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Meloney + Novotny LLC

Cleveland, Ohio
January 17, 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2016

(With Comparative Totals at September 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
<u>ASSETS</u>					
CURRENT ASSETS					
Cash and cash equivalents	\$ 149,534	\$ 4,812,749		\$ 4,962,283	\$ 2,223,091
Short-term investments	1,202,490	196,510		1,399,000	2,585,111
Receivables, net	2,524,795	2,734,222		5,259,017	7,271,532
Campaign for the Community receivables		759,684		759,684	1,393,017
Prepaid expenses, deposits and other	<u>597,630</u>			<u>597,630</u>	<u>499,151</u>
Total current assets	4,474,449	8,503,165		12,977,614	13,971,902
LONG-TERM INVESTMENTS	31,210,575		\$ 1,026,415	32,236,990	30,978,221
CAMPAIGN FOR THE COMMUNITY RECEIVABLES		1,652,181		1,652,181	1,033,142
PROPERTY, PLANT AND EQUIPMENT					
Leasehold improvements	220,478			220,478	220,478
Equipment	<u>20,672,975</u>			<u>20,672,975</u>	<u>20,148,482</u>
	20,893,453			20,893,453	20,368,960
Less accumulated depreciation	<u>18,830,465</u>			<u>18,830,465</u>	<u>17,961,223</u>
	2,062,988			2,062,988	2,407,737
INTANGIBLE ASSET - RADIO SEAWAY, INC.	<u>2,420,000</u>			<u>2,420,000</u>	<u>2,420,000</u>
Total assets	<u>\$ 40,168,012</u>	<u>\$ 10,155,346</u>	<u>\$ 1,026,415</u>	<u>\$ 51,349,773</u>	<u>\$ 50,811,002</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES					
Accounts payable	\$ 1,269,045			\$ 1,269,045	\$ 1,034,359
Accrued liabilities and other	<u>1,728,908</u>			<u>1,728,908</u>	<u>1,626,775</u>
Total current liabilities	2,997,953			2,997,953	2,661,134
NET ASSETS					
Operating	19,715,868	\$ 9,288,745		29,004,613	29,539,597
Plant	2,737,771	866,601		3,604,372	4,165,524
Endowment	<u>14,716,420</u>		\$ 1,026,415	<u>15,742,835</u>	<u>14,444,747</u>
Total net assets	<u>37,170,059</u>	<u>10,155,346</u>	<u>1,026,415</u>	<u>48,351,820</u>	<u>48,149,868</u>
Total liabilities and net assets	<u>\$ 40,168,012</u>	<u>\$ 10,155,346</u>	<u>\$ 1,026,415</u>	<u>\$ 51,349,773</u>	<u>\$ 50,811,002</u>

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

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CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2016
(With Comparative Totals for September 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
SUPPORT AND REVENUES					
Operating:					
Individual, Foundation and Corporate Support	\$ 7,154,736	\$ 6,308,339		\$ 13,463,075	\$ 13,587,751
Net assets released from restrictions	<u>6,473,175</u>	<u>(6,473,175)</u>		<u>-</u>	<u>-</u>
	13,627,911	(164,836)		13,463,075	13,587,751
Education and Public Service Grants and Contracts	961,361	2,653,954		3,615,315	3,522,350
Net assets released from restrictions	<u>2,721,691</u>	<u>(2,721,691)</u>		<u>-</u>	<u>-</u>
	3,683,052	(67,737)		3,615,315	3,522,350
Government Grants		3,580,974		3,580,974	3,434,020
Net assets released from restrictions	<u>3,581,681</u>	<u>(3,581,681)</u>		<u>-</u>	<u>-</u>
	3,581,681	(707)		3,580,974	3,434,020
Campaign for the Community - General Purpose		1,788,004		1,788,004	4,157,060
Net assets released from restrictions	<u>1,523,418</u>	<u>(1,523,418)</u>		<u>-</u>	<u>-</u>
	1,523,418	264,586		1,788,004	4,157,060
Other support and revenues	336,658	4,333		340,991	448,378
Net assets released from restrictions	<u>50,831</u>	<u>(50,831)</u>		<u>-</u>	<u>-</u>
	387,489	(46,498)		340,991	448,378
Royalty income	1,010,400			1,010,400	1,010,400
In-kind contributions	805,952			805,952	551,856
Investment income	11,970			11,970	1,611
Transfers of net assets	<u>173,800</u>			<u>173,800</u>	<u>157,600</u>
Total operating	24,805,673	(15,192)		24,790,481	26,871,026
Plant:					
State and other grants		334,200		334,200	130,000
Other revenues	57,330	35,000		92,330	-
Transfers of net assets	164,360			164,360	-
Net assets released from restrictions	<u>243,264</u>	<u>(243,264)</u>		<u>-</u>	<u>-</u>
Total plant	464,954	125,936		590,890	130,000
Endowment:					
Contributions	352,314			352,314	9,695
Investment income	1,361,964			1,361,964	(707,076)
Transfers of net assets	<u>(338,160)</u>			<u>(338,160)</u>	<u>(157,600)</u>
Total endowment	<u>1,376,118</u>			<u>1,376,118</u>	<u>(854,981)</u>
Total support and revenues	26,646,745	110,744		26,757,489	26,146,045

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

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CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended September 30, 2016
(With Comparative Totals for September 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
EXPENSES					
Operating:					
Program services:					
Technology	\$ 2,631,951			\$ 2,631,951	\$ 2,512,776
Content	10,640,198			10,640,198	10,545,057
Educational services	1,337,182			1,337,182	1,407,721
Communications	506,126			506,126	493,791
In-kind contributions	<u>805,952</u>			<u>805,952</u>	<u>551,856</u>
Total program services	15,921,409			15,921,409	15,511,201
Development:					
Community development	3,608,013			3,608,013	2,952,304
Marketing	<u>2,291,323</u>			<u>2,291,323</u>	<u>1,921,127</u>
Total development	5,899,336			5,899,336	4,873,431
General and administrative	<u>2,387,226</u>			<u>2,387,226</u>	<u>2,176,025</u>
Total operating	24,207,971			24,207,971	22,560,657
Plant:					
Other plant expense	1,235,395			1,235,395	263,588
Expenses from limited liability companies	164,898			164,898	155,091
Depreciation	<u>869,243</u>			<u>869,243</u>	<u>922,050</u>
Total plant	2,269,536			2,269,536	1,340,729
Endowment:					
Investment fees	<u>78,030</u>			<u>78,030</u>	<u>76,303</u>
Total expenses	<u>26,555,537</u>			<u>26,555,537</u>	<u>23,977,689</u>
CHANGE IN NET ASSETS	91,208	\$ 110,744		201,952	2,168,356
NET ASSETS – BEGINNING	<u>37,078,851</u>	<u>10,044,602</u>	\$ 1,026,415	48,149,868	45,981,512
NET ASSETS – ENDING	<u>\$ 37,170,059</u>	<u>\$ 10,155,346</u>	<u>\$ 1,026,415</u>	<u>\$ 48,351,820</u>	<u>\$ 48,149,868</u>

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended September 30, 2016
(With Comparative Totals for September 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 201,952	\$ 2,168,356
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	869,243	922,050
Realized and unrealized (gain) loss on investments	(1,246,905)	1,220,980
Net loss from limited liability companies	161,228	155,091
Changes in operating assets and liabilities:		
Receivables	2,026,809	(3,157,303)
Prepaid expenses, deposits and other	(98,479)	74,972
Accounts payable, accrued liabilities and other	<u>336,818</u>	<u>(287,145)</u>
Total adjustments	<u>2,048,714</u>	<u>(1,071,355)</u>
Net cash provided by operating activities	2,250,666	1,097,001
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(524,494)	(743,801)
Purchase of investments	(6,056,793)	(10,563,337)
Proceeds from the sale of investments	<u>7,069,813</u>	<u>7,919,095</u>
Net cash provided (used) by investing activities	<u>488,526</u>	<u>(3,388,043)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	2,739,192	(2,291,042)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>2,223,091</u>	<u>4,514,133</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 4,962,283</u>	<u>\$ 2,223,091</u>

The accompanying footnotes 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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

E. *Net Asset Group Accounting (Continued)*

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	\$	533,000	
K-12 Math and Science Consortium Collaborative		335,492	
Statehouse News Bureau		262,225	
Northern Ohio Technology Association		113,818	
Undesignated		959,454	
Radio Seaway, Inc.		2,432,034	
Investment in OPS, LLC		15,079,845	\$ 19,715,868

Plant Fund

Investment in 6600 Broadview, LLC		703,007	
Net investment in plant		2,034,764	2,737,771

Endowment Fund

Board designated endowment		14,716,420	
			\$ 37,170,059

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.

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, 2016:

	Level 1	Level 2	Level 3	Total
Short-term investments				
Fixed income securities		\$ 1,399,000		\$ 1,399,000
Long-term investments				
Money market		535,758		535,758
Fixed income securities	\$ 2,014,196			2,014,196
Equity securities	5,395,386			5,395,386
Mutual funds	8,508,799			8,508,799
	15,918,381	535,758		16,454,139
Total	\$ 15,918,381	\$ 1,934,758	\$ -	\$ 17,853,139

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

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

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, 2016, less an allowance for uncollectable accounts. At September 30, 2016, receivables related to contracts were \$3,195,895, to grants were \$1,029,558 and to sustaining membership pledges were \$1,087,962. Additionally, management estimates an allowance of \$54,398 for all receivables as of September 30, 2016 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, 2016, the Campaign has achieved a total of \$15,101,644 in funds pledged and promised. This total includes \$9,656,604 for people, programs and technology of which \$7,145,823 has been received and \$4,391,366 for endowment including unrecorded bequests and planned gifts of which \$964,366 has been received. As of September 30, 2016, **ideastream** has recorded \$2,510,781 of pledges receivable which are expected to be received as follows: \$759,684 in less than one year and \$1,751,097 in one to five years. A discount rate of 3.5% was utilized for pledges receivable beyond one year which reduced the balance by \$98,916 resulting in a long-term receivable of \$1,652,181. At September 30, 2016, 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, 2016 for which the related benefit will be recognized in the fiscal year ended September 30, 2017. At September 30, 2016, prepaid expenses, deposits and other assets are primarily related to programming contracts for periods subsequent to year-end.

- 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, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- 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 \$869,243 for the year ended September 30, 2016.

- 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.

The estimated fair values of these services by expense category are:

	Year Ended September 30, 2016		
	Contributed Support	In-Kind Contributions	Total
Program services:			
Broadcasting	\$ 106,680		\$ 106,680
Programming and production	_____	\$ 805,952	805,952
	\$ 106,680	\$ 805,952	\$ 912,632

- O. *Income Taxes* – No provision for income taxes has been reflected in the accompanying consolidated 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 2016. 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, 2016.

As of September 30, 2016, **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 2015 amounts have been reclassified to conform to 2016 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, 2015, 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, 2016, through January 17, 2017, 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, commercial paper 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, 2016.

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, LLC and 6600 Broadview, LLC are approximately 50% interests and are being accounted for on the equity method.

As of September 30, 2016, cost and carrying value of investments were as follows:

	<u>Cost</u>	<u>Carrying Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Short-term investments			
Fixed income securities	\$ 1,399,000	\$ 1,399,000	\$ -
Long-term investments			
Money market funds	535,758	535,758	-
Fixed income securities	3,121,032	2,014,196	(1,106,836)
Equity securities	4,184,301	5,395,386	1,211,085
Mutual funds	8,762,430	8,508,799	(253,631)
Investment in OPS, LLC	15,079,844	15,079,844	-
Investment in 6600 Broadview, LLC	703,007	703,007	-
	<u>32,386,372</u>	<u>32,236,990</u>	<u>(149,382)</u>
Total investments	<u>\$ 33,785,372</u>	<u>\$ 33,635,990</u>	<u>\$ (149,382)</u>

Investment income, excluding activities related to the investment in OPS, LLC and 6600 Broadview, LLC, was comprised of the following for the year ended September 30, 2016:

Interest and dividends	\$ 273,410
Realized losses	(14,844)
Unrealized gains	<u>1,115,368</u>
	<u>\$ 1,373,934</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Investments (Continued)

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). As of September 30, 2016, the equity balance of the investment was \$15,079,844.

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, 2016, the equity balance of the investment was \$703,007.

As of September 30, 2016, the assets, liabilities and net results of operations of OPS, LLC and 6600 Broadview, LLC were as follows:

	OPS, LLC	6600 Broadview, LLC
Assets	\$ 31,507,765	\$ 1,473,298
Liabilities	251,444	42,231
Net results of operations	(277,164)	(86,114)

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				
Individuals	\$ 2,750	\$ 20	\$ (2,750)	\$ 20
Foundations	1,639,768	1,294,418	(1,699,916)	1,234,270
Corporate	1,047,779	5,013,901	(4,770,509)	1,291,171
	2,690,297	6,308,339	(6,473,175)	2,525,461
Education and Public Service Contracts				
Educational services	343,809	491,832	(485,069)	350,572
Public service contracts	1,677,467	2,162,122	(2,236,622)	1,602,967
	2,021,276	2,653,954	(2,721,691)	1,953,539
Government Grants				
BEMC	189,147	251,253	(251,960)	188,440
Cuyahoga Arts & Culture	219,810	879,245	(879,245)	219,810
Community Service Grant	-	2,450,476	(2,450,476)	-
	408,957	3,580,974	(3,581,681)	408,250
Other				
Campaign for the Community	4,109,906	1,788,004	(1,523,418)	4,374,492
Other operating support and revenues	73,501	4,333	(50,831)	27,003
	4,183,407	1,792,337	(1,574,249)	4,401,495
Total operating	9,303,937	14,335,604	(14,350,796)	9,288,745
<u>Plant:</u>				
State Grants and Other				
Campaign for the Community	-	35,000	-	35,000
Transmission and Production Equipment	740,665	334,200	(243,264)	831,601
Total plant	740,665	369,200	(243,264)	866,601
	\$ 10,044,602	\$ 14,704,804	\$ (14,594,060)	\$ 10,155,346

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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	<u>312,501</u>
	<u>\$ 1,026,415</u>

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, 2016, **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 three-year average market value of the endowment funds, which will be used for operations and plant. For the year ended September 30, 2016, \$173,800 was allocated to operations and \$164,360 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, 2016 was \$696,400.

Endowment assets consisted of the following for the year ended September 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 13,418,332		\$ 1,026,415	\$ 14,444,747
Investment return:				
Investment income, net of fees	170,377	\$ 13,033		183,410
Net realized loss	(13,789)	(1,055)		(14,844)
Net unrealized gain	<u>1,036,112</u>	<u>79,256</u>		<u>1,115,368</u>
Total investment return	1,192,700	91,234		1,283,934
Contributions	352,314			352,314
Appropriation of endowment assets for expenditure	<u>(246,926)</u>	<u>(91,234)</u>		<u>(338,160)</u>
Endowment assets, end of year	<u>\$ 14,716,420</u>	<u>\$ -</u>	<u>\$ 1,026,415</u>	<u>\$ 15,742,835</u>

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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 \$380,368 for the year ended September 30, 2016.

Note 7. Line of Credit

ideastream has available a line of credit with a local financial institution, which expires in April 2017. 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, 2016, there was no outstanding balance on the line of credit.

Note 8. Operating Lease

ideastream has an operating lease with OPS Investors, Ltd., a subsidiary of OPS, LLC, to lease space in the Idea Center. The lease expires on October 31, 2030 and carries two additional five-year renewal options and requires a monthly base rent payment of \$171,900 plus a pro-rata share of operating costs determined annually. Effective June 30, 2014, the lease was amended to reduce the monthly base rent to \$65,600. **ideastream** has a sublease agreement with a third party to rent office space as an operating lease. The sublease agreement has a term of seven years, allows for two five-year renewal options and requires a monthly base rent of \$2,813. The sublease agreement requires the tenant to make monthly payments of its pro-rata operating costs.

Based on the anticipated timeline, minimum rental payments and sublease rental receipts over the next four years are as follows:

	<u>Rental Payments</u>	<u>Sublease Receipts</u>
2017	\$ 787,212	\$ 33,756
2018	787,212	33,756
2019	787,212	33,756
2020	787,212	33,756

For the year ended September 30, 2016, **ideastream** recognized rent expense of \$847,630.

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 23 years, with incremental increases every five years. Future minimum payments expected to be received over the next five years will be \$6,062,360.

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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, 2016 is as follows:

Program	\$ 18,190,945
Management and general	2,465,256
Fundraising	<u>5,899,336</u>
	<u>\$ 26,555,537</u>