

**ideastream**

**FINANCIAL REPORT**

**SEPTEMBER 30, 2013**

**ideastream**

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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, 2013, 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, 2013, 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** 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Meloney + Novotny LLC*

Cleveland, Ohio  
December 12, 2013

**ideastream**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

September 30, 2013  
(With Comparative Totals at September 30, 2012)

<u>ASSETS</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 139,772	\$ 1,311,946		\$ 1,451,718	\$ 2,411,449
Short-term investments		353,635		353,635	500,615
Receivables, net	1,759,819	4,358,643		6,118,462	5,354,014
Prepaid expenses, deposits and other	2,496,791			2,496,791	2,559,779
Total current assets	4,396,382	6,024,224		10,420,606	10,825,857
NOTES RECEIVABLE	12,000,000			12,000,000	12,000,000
LONG-TERM INVESTMENTS	17,209,405		\$ 1,026,415	18,235,820	16,530,598
<b>PROPERTY, PLANT AND EQUIPMENT</b>					
Leasehold improvements	220,478			220,478	220,478
Equipment	18,985,400			18,985,400	18,766,705
	19,205,878			19,205,878	18,987,183
Less accumulated depreciation	16,128,340			16,128,340	14,477,769
	3,077,538			3,077,538	4,509,414
INTANGIBLE ASSET - RADIO SEAWAY, INC.	2,420,000			2,420,000	2,420,000
Total assets	<u>\$ 39,103,325</u>	<u>\$ 6,024,224</u>	<u>\$ 1,026,415</u>	<u>\$ 46,153,964</u>	<u>\$ 46,285,869</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 876,035			\$ 876,035	\$ 2,527,545
Accrued liabilities and other	1,673,621			1,673,621	1,250,517
Bonds payable				-	362,791
Total current liabilities	2,549,656			2,549,656	4,140,853
<b>NET ASSETS</b>					
Operating	18,875,617	\$ 5,974,496		24,850,113	24,440,703
Plant	4,784,752	49,728		4,834,480	5,215,352
Endowment	12,893,300		\$ 1,026,415	13,919,715	12,488,961
Total net assets	36,553,669	6,024,224	1,026,415	43,604,308	42,145,016
Total liabilities and net assets	<u>\$ 39,103,325</u>	<u>\$ 6,024,224</u>	<u>\$ 1,026,415</u>	<u>\$ 46,153,964</u>	<u>\$ 46,285,869</u>

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

**ideastream**

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended September 30, 2013  
(With Comparative Totals for September 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<b>SUPPORT AND REVENUES</b>					
Operating:					
Individual, Foundation and Corporate Support	\$ 6,508,239	\$ 4,531,086		\$ 11,039,325	\$ 11,586,283
Net assets released from restrictions	5,305,339	(5,305,339)		-	-
Education and Public Service Contracts	1,178,345	2,253,662		3,432,007	3,397,970
Net assets released from restrictions	2,016,689	(2,016,689)		-	-
Government Grants		3,231,336		3,231,336	3,110,086
Net assets released from restrictions	3,228,144	(3,228,144)		-	-
Contribution of Radio Seaway, Inc.				-	2,539,086
Interest - note receivable	942,000			942,000	942,000
Royalty income	1,010,400			1,010,400	774,568
Contributed support and in-kind contributions	663,534			663,534	526,572
Campaign for the Community		1,454,488		1,454,488	-
Net assets released from restrictions	8,945	(8,945)		-	-
Other support and revenues	313,838	333,070		646,908	642,387
Net assets released from restrictions	254,679	(254,679)		-	-
Income from investment in limited liability companies	213,481			213,481	250,483
Investment income	4,664			4,664	5,992
Transfers of net assets	148,000			148,000	117,100
Total operating	<u>21,796,297</u>	<u>989,846</u>		<u>22,786,143</u>	<u>23,892,527</u>
Plant:					
Federal, state and other grants		427,610		427,610	8,400
Other revenues	50,792			50,792	-
Transfers of net assets	419,700			419,700	468,200
Net assets released from restrictions	472,031	(472,031)		-	-
Total plant	<u>942,523</u>	<u>(44,421)</u>		<u>898,102</u>	<u>476,600</u>
Endowment:					
Contributions and other	39,602			39,602	104,034
Investment income	1,871,460	161,009		2,032,469	2,513,194
Transfers of net assets	(567,700)			(567,700)	(585,300)
Net assets released from restrictions	161,009	(161,009)		-	-
Total endowment	<u>1,504,371</u>	<u>-</u>		<u>1,504,371</u>	<u>2,031,928</u>
 Total support and revenues	 24,243,191	 945,425		 25,188,616	 26,401,055

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

## CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended September 30, 2013  
(With Comparative Totals for September 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<b>EXPENSES</b>					
Operating:					
Program services:					
Technology	\$ 2,533,753			\$ 2,533,753	\$ 2,610,051
Content	9,035,475			9,035,475	8,117,408
Educational services	1,585,780			1,585,780	1,816,439
Communications	548,244			548,244	498,471
Contributed support and in-kind contributions	663,534			663,534	526,572
Total program services	<u>14,366,786</u>			<u>14,366,786</u>	<u>13,568,941</u>
Development:					
Community development	2,879,907			2,879,907	2,778,905
Marketing	1,459,745			1,459,745	1,391,092
Total development	<u>4,339,652</u>			<u>4,339,652</u>	<u>4,169,997</u>
Community collaboration	327,961			327,961	309,573
General and administrative	<u>2,210,493</u>			<u>2,210,493</u>	<u>2,191,320</u>
Total operating	21,244,892			21,244,892	20,239,831
Plant:					
Other plant expense	579,540			579,540	78,201
Expenses from investment in limited liability companies	158,112			158,112	144,720
Depreciation	<u>1,673,860</u>			<u>1,673,860</u>	<u>1,662,306</u>
Total plant	2,411,512			2,411,512	1,885,227
Endowment:					
Investment fees	<u>72,920</u>			<u>72,920</u>	<u>59,019</u>
Total expenses	<u>23,729,324</u>			<u>23,729,324</u>	<u>22,184,077</u>
CHANGE IN NET ASSETS	513,867	\$ 945,425		1,459,292	4,216,978
NET ASSETS – BEGINNING	<u>36,039,802</u>	<u>5,078,799</u>	<u>\$ 1,026,415</u>	<u>42,145,016</u>	<u>37,928,038</u>
NET ASSETS – ENDING	<u>\$ 36,553,669</u>	<u>\$ 6,024,224</u>	<u>\$ 1,026,415</u>	<u>\$ 43,604,308</u>	<u>\$ 42,145,016</u>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended September 30, 2013

(With Comparative Totals for September 30, 2012)

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,459,292	\$ 4,216,978
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	1,673,860	1,662,306
Realized and unrealized gain on investments	(1,752,748)	(2,282,014)
Non-cash contribution of Radio Seaway, Inc.	-	(2,539,086)
Net income from investment in limited liability companies	(55,369)	(105,763)
Changes in operating assets and liabilities:		
Receivables	(764,448)	589,628
Prepaid expenses, deposits and other	62,988	(502,748)
Accounts payable, accrued liabilities and other	(1,228,406)	1,977,325
Total adjustments	<u>(2,064,123)</u>	<u>(1,200,352)</u>
Net cash (used) provided by operating activities	(604,831)	3,016,626
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(241,693)	(845,733)
Purchase of investments	(7,423,301)	(3,745,765)
Proceeds from the sale of investments	7,582,943	3,507,082
Distributions received from limited liability companies	89,942	230,460
Net cash provided (used) by investing activities	<u>7,891</u>	<u>(853,956)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of bond principal	<u>(362,791)</u>	<u>(526,438)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(959,731)	1,636,232
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	<u>2,411,449</u>	<u>775,217</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 1,451,718</u>	<u>\$ 2,411,449</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 5,449</u>	<u>\$ 25,922</u>

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



## ideastream

### 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 by providing distinctive, thought-provoking programs and services that enlighten, inspire, educate and entertain." The principal purpose of **ideastream** is to meet the educational and public service needs of Northeastern Ohio and beyond through public service media including audio, video and text distributed through public radio, public television, broadband interactive distance learning, the internet, cable and fixed media. **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 unrestricted 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 - Invested – Includes unrestricted or temporarily restricted resources expended for property and equipment, net of accumulated depreciation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Plant - Designated – Includes 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 permanently restricted resources.

Unrestricted net assets are classified as follows:

Operating Fund

## Operating:

Ohio Governmental Telecommunications	\$ 535,599	
K-12 Math and Science Consortium Collaborative	142,574	
Statehouse News Bureau	111,581	
Northern Ohio Technology Association	190,101	
Undesignated	391,000	
Note receivable	12,000,000	
Radio Seaway, Inc.	2,420,000	
Investment in OPS, LLC	<u>3,084,762</u>	\$ 18,875,617

Plant Fund

Board designated	893,466	
Investment in 6600 Broadview, LLC	831,760	
Net investment in plant	<u>3,059,526</u>	4,784,752

Endowment Fund

Board designated endowment		<u>12,893,300</u>
		<u>\$ 36,553,669</u>

See Notes 4 and 5 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, 2013:

	Level 1	Level 2	Level 3	Total
Short-term investments				
Fixed income securities	\$ 353,635			\$ 353,635
Long-term investments				
Money market		\$ 210,221		210,221
Fixed income securities	1,255,858			1,255,858
Equity securities	5,303,293			5,303,293
Mutual funds	7,549,926			7,549,926
	14,109,077	210,221		14,319,298
Total	\$ 14,462,712	\$ 210,221	\$ -	\$ 14,672,933

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 both the short-term and long-term categories consist of investments in short-term certificates of deposit, commercial paper, corporate bonds, treasury notes and treasury bonds which are valued using quoted prices in active markets and are classified as Level 1.

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### 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 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. Allowance for Doubtful Accounts Receivable – Receivables are carried at the gross amount of contracts, grants and pledges as of September 30, 2013, less an allowance for uncollectable accounts. At September 30, 2013, receivables related to contracts were \$4,185,367, to grants were \$1,241,273 and to pledges were \$761,777. Management estimates an allowance of \$69,955 as of September 30, 2013 based upon a historical analysis of collections.

##### J. Prepaid Expenses, Deposits and Other Assets – Prepaid expenses, deposits and other assets represent cash payments prior to September 30, 2013 for which the related benefit will be recognized in the fiscal year ended September 30, 2014. At September 30, 2013, prepaid expenses, deposits and other assets are primarily related to programming contracts for periods subsequent to year-end.

##### K. 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, 2013.

##### L. 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:

Building and improvements	20 to 40 years
Equipment	3 to 15 years

Depreciation expense was \$1,673,860 for the year ended September 30, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 1. Summary of Significant Accounting Policies (Continued)**

- M. *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 the eTech Ohio's 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.

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

	Year Ended September 30, 2013		
	Contributed Support	In-Kind Contributions	Total
Program services:			
Broadcasting	\$ 538,251		\$ 538,251
Programming and production	_____	\$ 125,283	125,283
	\$ 538,251	\$ 125,283	\$ 663,534

- N. *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 2013. There were no unrecognized tax benefits.

Effective January 1, 2012, Radio Seaway, Inc. revoked its election to be taxed as a subchapter-S corporation under the Internal Revenue Code and became a taxable corporation for federal, state and local purposes. There were no unrecognized tax benefits as of September 30, 2013.

As of September 30, 2013, **ideastream's** and Radio Seaway, Inc.'s income tax years from 2009 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

- O. *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** financial statements for the year ended September 30, 2012, from which the summarized information was derived.
- P. *Reclassifications* – Certain 2012 amounts have been reclassified to conform to 2013 presentation.
- Q. *Subsequent Events* – **ideastream** has evaluated all events subsequent to the consolidated statement of financial position of September 30, 2013, through December 12, 2013, which is the date these consolidated financial statements were available to be issued and has determined that no events have occurred which require disclosure.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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, 2013.

*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, 2013, cost and carrying value of investments were as follows:

	Cost	Carrying Value	Unrealized Appreciation (Depreciation)
Short-term investments			
Fixed income securities	\$ 353,635	\$ 353,635	\$ -
Long-term investments			
Money market funds	210,221	210,221	-
Fixed income securities	1,303,626	1,255,858	(47,768)
Equity securities	3,886,909	5,303,293	1,416,384
Mutual funds	6,507,196	7,549,926	1,042,730
Investment in OPS, LLC	3,084,762	3,084,762	-
Investment in 6600 Broadview, LLC	831,760	831,760	-
	<u>15,824,474</u>	<u>18,235,820</u>	<u>2,411,346</u>
Total investments	<u>\$ 16,178,109</u>	<u>\$ 18,589,455</u>	<u>\$ 2,411,346</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, 2013:

Interest and dividends	\$ 284,385
Net realized and unrealized gains	<u>1,752,748</u>
	<u>\$ 2,037,133</u>

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, 2013, the equity balance of the investment was \$3,084,762.

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, 2013, the equity balance of the investment was \$831,760.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 3. Notes Receivable**

During 2007, **ideastream** accepted assignment of a promissory note receivable of \$11,000,000 from a local bank. As part of this transaction, **ideastream** received the note along with the various other agreements in place - pledge, indemnity, guarantee, mortgage and lease and certain modifications. The entire principal balance is due on January 1, 2015, with interest payable at a fixed rate of 7.85% to **ideastream** monthly.

During 2011, **ideastream** advanced \$1,000,000 to the borrower noted above to assist with the development of additional space within the Idea Center. A promissory note was obtained requiring monthly interest payments at a fixed rate of 7.85% and full payment of the principal on April 30, 2014. When this note is repaid, it is management's interest to invest for long-term purposes; therefore, it has been classified as a long-term asset.

**Note 4. Temporarily Restricted Net Assets**

Temporarily restricted net assets are restricted for the following purposes:

	Beginning Balance	Additions	Released	Ending Balance
<b><u>Operating:</u></b>				
<b>Individuals, Foundations and Corporate Support</b>				
Individuals	\$ 65,059	\$ 254,183	\$ (287,313)	\$ 31,929
Foundations	1,776,713	800,528	(1,659,819)	917,422
Corporate	967,249	3,476,375	(3,358,207)	1,085,417
	2,809,021	4,531,086	(5,305,339)	2,034,768
<b>Education and Public Service Contracts</b>				
Educational services	331,612	536,012	(483,574)	384,050
Public service contracts	1,167,373	1,717,650	(1,533,115)	1,351,908
	1,498,985	2,253,662	(2,016,689)	1,735,958
<b>Government Grants</b>				
eTech	115,718	165,598	(157,117)	124,199
Other	252,265	3,065,738	(3,071,027)	246,976
	367,983	3,231,336	(3,228,144)	371,175
<b>Other</b>				
Campaign for the Community		1,454,488	(8,945)	1,445,543
Other operating support and revenues	308,661	333,070	(254,679)	387,052
	308,661	1,787,558	(263,624)	1,832,595
Total operating	4,984,650	11,803,642	(10,813,796)	5,974,496
<b><u>Plant:</u></b>				
<b>Federal and State Grants</b>				
Transmission and Production Equipment	8,149		(8,149)	-
<b>Other</b>				
	86,000	427,610	(463,882)	49,728
Total plant	94,149	427,610	(472,031)	49,728
<b><u>Endowment:</u></b>				
<b>Operations</b>				
Investment income		161,009	(161,009)	-
	\$ 5,078,799	\$ 12,231,252	\$ (11,285,827)	\$ 6,024,224

**ideastream**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 5. 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 6. 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, 2013, **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.

The allocation to the various funds per the spending policy was as follows for the year ended September 30, 2013:

Operating	\$ 148,000
Plant	<u>419,700</u>
	<u>\$ 567,700</u>



**ideastream**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Endowment Funds (Continued)**

Endowment assets consisted of the following for the year ended September 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	\$ 11,462,546		\$ 1,026,415	\$ 12,488,961
Investment return:				
Investment income, net of fees	189,146	\$ 16,958		206,104
Net appreciation (realized and unrealized)	1,608,697	144,051		1,752,748
Total investment return	1,797,843	161,009	-	1,958,852
Contributions	39,602	-		39,602
Appropriation of endowment assets for expenditure	(406,691)	(161,009)	-	(567,700)
Endowment assets, end of year	\$ 12,893,300	\$ -	\$ 1,026,415	\$ 13,919,715

**Note 7. 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 \$323,262 for the year ended September 30, 2013.

**Note 8. Line of Credit**

**ideastream** has available a line of credit with a local financial institution, which expires in April 2014. 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, 2013, there was no outstanding balance on the line of credit.

**Note 9. Bonds Payable**

On May 1, 2008, Cuyahoga County (Ohio) issued \$2,500,000 of tax-exempt Economic Development Revenue Bonds on behalf of **ideastream**. The purpose of the bonds was to pay for broadcasting and educational equipment that provide digital and distance learning technologies, respectively. The bonds were funded entirely by a bank which holds a lien on the equipment purchased.

The bonds carried interest at a fixed rate of 3.99% and required monthly payment of principal and interest of \$46,030. The full balance of the bond was paid in May 2013. Interest expense for the year ended September 30, 2013 was \$5,449.

## ideastream

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### Note 10. 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 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. **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 five years are as follows:

	<u>Rental Payments</u>	<u>Sublease Receipts</u>
2014	\$ 2,062,794	\$ 33,756
2015	2,062,794	33,756
2016	2,062,794	33,756
2017	2,062,794	33,756
2018	2,062,794	33,756

For the year ended September 30, 2013, **ideastream** recognized rent expense of \$2,203,373.

#### Note 11. 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 25 years, with incremental increases every five years. Future minimum payments expected to be received over the next five years will be \$5,435,240.