

Chicago Public Media, Inc.

Consolidated Financial Report
June 30, 2014

Contents

Independent Auditor's Report	1 – 2
Consolidated Financial Statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6 – 17



Independent Auditor's Report

To the Board of Directors
Chicago Public Media, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Chicago Public Media, Inc. (the Organization) which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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 auditor considers 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 financial position of Chicago Public Media, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
November 26, 2014

Chicago Public Media, Inc.

**Consolidated Statements of Financial Position
June 30, 2014 and 2013**

	2014	2013
Assets		
Cash	\$ 2,199,637	\$ 1,953,223
Underwriting and other receivables (net of allowances of \$185,600 and \$216,616, respectively)	1,685,604	1,774,107
Grants receivable	739,775	604,204
Campaign for a Sound Future pledges receivable, net	583,534	970,164
Pledges receivable, net	1,475,274	1,478,480
Prepaid expense	245,237	218,445
Investments	27,426,617	23,578,167
Bond issuance and other related costs	227,935	236,608
Property and equipment, net	15,750,583	16,470,664
Frequency rights and other intangible assets	1,120,414	1,067,914
	<u>\$ 51,454,610</u>	<u>\$ 48,351,976</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 583,373	\$ 468,186
Accrued expenses	1,897,890	1,628,990
Deferred revenue	26,755	49,810
Promissory note payable	1,611,094	1,777,762
Revenue bonds payable	22,000,000	22,000,000
Liability under swap agreement	1,006,712	1,047,131
	<u>27,125,824</u>	<u>26,971,879</u>
Net Assets		
Unrestricted	21,908,347	18,779,458
Temporarily restricted	2,420,439	2,600,639
	<u>24,328,786</u>	<u>21,380,097</u>
	<u>\$ 51,454,610</u>	<u>\$ 48,351,976</u>

See Notes to Consolidated Financial Statements.

Chicago Public Media, Inc.

Consolidated Statements of Activities
Years Ended June 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue:						
Membership contributions	\$ 10,512,480	\$ 813,583	\$ 11,326,063	\$ 10,319,697	\$ 625,852	\$ 10,945,549
Corporation for Public Broadcasting - Community Service Grant	1,312,478	-	1,312,478	1,360,426	-	1,360,426
Other gifts and grants	86,105	1,165,906	1,252,011	569,380	822,539	1,391,919
Program underwriting	6,223,706	-	6,223,706	5,608,865	-	5,608,865
Interest and dividend income	498,289	-	498,289	516,853	-	516,853
Carriage fees, production revenue and other	3,080,492	-	3,080,492	2,816,663	-	2,816,663
In-kind services and contributions	1,109,254	-	1,109,254	1,126,342	-	1,126,342
Special events (net of expenses of \$752,572 and \$934,888, respectively)	(185,599)	-	(185,599)	(80,742)	-	(80,742)
	<u>22,637,205</u>	<u>1,979,489</u>	<u>24,616,694</u>	<u>22,237,484</u>	<u>1,448,391</u>	<u>23,685,875</u>
Net assets released upon meeting restricted purposes	2,159,689	(2,159,689)	-	2,394,047	(2,394,047)	-
	<u>24,796,894</u>	<u>(180,200)</u>	<u>24,616,694</u>	<u>24,631,531</u>	<u>(945,656)</u>	<u>23,685,875</u>
Expenses:						
Program services:						
Programming, production and public information	15,446,719	-	15,446,719	14,734,856	-	14,734,856
Broadcasting	3,289,032	-	3,289,032	3,065,653	-	3,065,653
	<u>18,735,751</u>	<u>-</u>	<u>18,735,751</u>	<u>17,800,509</u>	<u>-</u>	<u>17,800,509</u>
Supporting services:						
Management and general	1,942,825	-	1,942,825	1,310,875	-	1,310,875
Membership development	2,230,493	-	2,230,493	2,270,632	-	2,270,632
Fundraising	1,917,648	-	1,917,648	1,990,581	-	1,990,581
	<u>6,090,966</u>	<u>-</u>	<u>6,090,966</u>	<u>5,572,088</u>	<u>-</u>	<u>5,572,088</u>
	<u>24,826,717</u>	<u>-</u>	<u>24,826,717</u>	<u>23,372,597</u>	<u>-</u>	<u>23,372,597</u>
Increase (decrease) in net assets before other items	(29,823)	(180,200)	(210,023)	1,258,934	(945,656)	313,278
Other items:						
Net realized and unrealized gain on investments	3,118,293	-	3,118,293	687,171	-	687,171
Increase in value of interest rate swap agreement	40,419	-	40,419	332,057	-	332,057
Increase (decrease) in net assets	3,128,889	(180,200)	2,948,689	2,278,162	(945,656)	1,332,506
Net assets:						
Beginning of year	18,779,458	2,600,639	21,380,097	16,501,296	3,546,295	20,047,591
End of year	<u>\$ 21,908,347</u>	<u>\$ 2,420,439</u>	<u>\$ 24,328,786</u>	<u>\$ 18,779,458</u>	<u>\$ 2,600,639</u>	<u>\$ 21,380,097</u>

See Notes to Consolidated Financial Statements.

Chicago Public Media, Inc.

**Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

	2014	2013
Cash Flows from Operating Activities		
Increase in net assets	\$ 2,948,689	\$ 1,332,506
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,228,262	1,189,237
Net realized and unrealized gain on investments	(3,118,293)	(687,171)
Increase in value of interest rate swap agreement	(40,419)	(332,057)
Changes in:		
Underwriting and other receivables	88,503	306,962
Grants receivable	(135,571)	320,510
Campaign pledges receivable	386,630	550,013
Pledges receivable	3,206	(655,983)
Prepaid expenses	(26,792)	(64,645)
Accounts payable and accrued expenses	384,087	(284,898)
Deferred revenue	(23,055)	(90,456)
Net cash provided by operating activities	1,695,247	1,584,018
Cash Flows from Investing Activities		
Capital expenditures	(499,508)	(731,702)
Purchase of frequency rights	(52,500)	(300,000)
Purchases of investments	(973,191)	(1,028,310)
Sales of investments	243,034	174,984
Net cash used in investing activities	(1,282,165)	(1,885,028)
Cash Flows from Financing Activities		
Principal payments on obligations payable	-	(14,101)
Principal payments on promissory note payable	(166,668)	(166,678)
Net cash used in financing activities	(166,668)	(180,779)
Increase (decrease) in cash	246,414	(481,789)
Cash:		
Beginning of year	1,953,223	2,435,012
End of year	<u>\$ 2,199,637</u>	<u>\$ 1,953,223</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 625,709</u>	<u>\$ 600,460</u>

See Notes to Consolidated Financial Statements.

Chicago Public Media, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Originally established as an extension service of the Chicago Board of Education, Chicago Public Media, Inc. (the Organization) first signed on as WBEZ in 1943. For most of these early years, the station broadcast educational instruction programming on weekdays while Chicago Public Schools were in session. In 1970, the station became one of the first charter member stations of National Public Radio (NPR). In 1990, the Organization acquired the WBEZ license from the Board of Education as an independent community licensee and nonprofit.

Today, Chicago Public Media broadcasts its primary service on WBEZ 91.5 FM and WBEQ 90.7 FM. In 2005, Chicago Public Media launched a new public media service, Vocalo, which is broadcast on WBEW 89.5 FM and effective March 2013 on WRTE 90.7 FM. In September 2013, the Organization purchased another signal 91.7 FM (W219CD). In addition to local programming, Chicago Public Media produces *This American Life*, *Sound Opinions* and *Wait, Wait...Don't Tell Me!* (a co-production with National Public Radio) for national distribution.

In 2010, Chicago Public Media's Board of Directors adopted the name "Chicago Public Media" in order to become a better recognized and stronger leader among public media creators and distributors, while aiming to continue the creation of challenging, informative and emotional media experiences that enhance civic life and improve community health by further deepening and growing its existing portfolio of public media brands.

Chicago Public Media occupies current facilities on property leased under a long-term arrangement with Navy Pier, Inc., an Illinois nonprofit corporation at Navy Pier in Chicago. The facilities and improvements were financed, in part, by proceeds from the issuance of \$22,000,000 in revenue bonds.

Chicago Public Media, Inc. formed CPR Communications Services, LLC (CPR) in 2008 for the sole purpose of purchasing property for the construction of a new radio tower in Porter County, Indiana. Chicago Public Media, Inc. is the sole member of CPR. In July 2011, Media Chicago, LLC was formed to invest in and develop new media and other property, to hold title property and to collect income there from for the exclusive benefit of its sole member, Chicago Public Media, Inc. Chicago Public Media, Inc., CPR and Media Chicago, LLC are collectively referred to herein as the "Organization."

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

A summary of significant accounting policies is as follows:

Accounting policies: The Organization follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition, results of activities, and cash flows. References to accounting principles generally accepted in the United States of America (U.S. GAAP) in these footnotes are to the *FASB Accounting Standards CodificationTM*, sometimes referred to as the "Codification" or "ASC." Management also follows the Corporation for Public Broadcasting's publication, *Principles of Accounting and Financial Reporting for Public Telecommunication Entities*.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Basis of presentation: The Organization follows the accounting guidance for financial statements of nonprofit organizations which requires that net assets and related revenue, expenses, gains and losses be classified into three classes of net assets - unrestricted, temporarily restricted and permanently restricted, based upon the existence or absence of donor-imposed restrictions. These net asset classes are described as follows:

Unrestricted: Those resources with no donor-imposed restrictions.

Temporarily restricted: Temporarily restricted net assets arise from contributions whose use is limited by donor-imposed restrictions that either expire with the passage of time or can be fulfilled by actions of the Organization pursuant to those restrictions. When a donor restriction expires or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released upon meeting the restricted purposes.

Permanently restricted: Permanently restricted net assets are subject to the restrictions of gift instruments requiring the principal to be maintained intact and the income to be used for the general operating purposes of the Organization. The Organization had no permanently restricted net assets for the reporting periods presented in these consolidated financial statements.

Principles of consolidation: The consolidated financial statements include the activity of Chicago Public Media, Inc., CPR and Media Chicago, LLC. All significant intercompany transactions have been eliminated upon consolidation.

Revenue: Membership contributions are recorded as receivables and recognized as revenue when pledged. Grants and donations restricted for a particular purpose or project are recorded as temporarily restricted revenue when awarded and are transferred to the unrestricted fund when the provisions of the grants and donations are satisfied (net assets released upon meeting restricted purposes). Donor restricted contributions whose restrictions are met in the reporting period in which received are classified as unrestricted revenue. Revenue for program underwriting, carriage fees, production revenues and other revenue are recorded as a receivable and recognized when the programs are aired. Amounts received in advance are recorded as deferred revenue.

Cash: The Organization maintains its cash in bank accounts which, at times, may exceed the federally insured limits due to routine fluctuations in cash levels caused primarily by the timing of deposited checks clearing. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

Campaign for a Sound Future pledges receivable: The campaign pledges are generally payable over a three- to five-year period and are recorded at their net present value using a discount rate based on U.S. Treasury yields of similar maturity. A portion of the funds received from the campaign are used for certain operational needs of the Organization, as stated in the campaign. Unspent campaign funds are invested in managed money market accounts and other investment vehicles in accordance with the Organization's investment policy guidelines.

Management reviews outstanding pledge balances for collectability each year and establishes a reserve on a specific identification basis.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Pledges and underwriting receivables: Pledges receivable from subscribers are considered due within one year. Provision for estimated losses on collection of unpaid subscriber pledges is maintained at a level management believes is sufficient to cover potential losses and is based on the Organization's pledge collection history.

The Organization's sustaining membership program is known as High Fidelity. Donors choose an amount to give each month and the Organization automatically bills the donor's credit or debit card. Revenue is generally recognized monthly, except for one-year commitments that are recorded as pledges receivable.

Underwriting from corporations is recorded as a receivable each month after the corporations' name and message have been broadcast. An allowance for doubtful accounts is maintained at a level management believes is sufficient to cover potential losses. The allowance is based on specific identification of uncollectible accounts and the Organization's historical collection experience.

Investments: Investments are presented in the consolidated financial statements at fair value. Investment income, realized gains (losses), and change in unrealized gains (losses) are reflected in the consolidated statements of activities. Investments received as contributions are recorded at fair value at the date of receipt. Included in investments are cash equivalents which are intended to be held long term.

Investments are exposed to various risks such as interest rate, market and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

Bond issuance and other related costs: Costs of \$303,526 incurred in connection with the issuance of Series 2005 revenue bonds were capitalized as a deferred asset and are being amortized over the term of the bonds. Annual amortization is \$8,672 through 2040. Accumulated amortization was \$75,591 and \$66,918 at June 30, 2014 and 2013, respectively.

Property and equipment: Land, leasehold improvements, equipment and furnishings are recorded at cost. Qualifying website development costs have been capitalized in accordance with accounting standards for website development costs. Depreciation is being provided on equipment and furnishings on straight-line basis over the estimated useful lives of the assets. Leasehold improvements are being amortized over the shorter of their estimated useful lives or the term of the lease. Estimated useful lives range from three to forty years depending on the asset classification.

Frequency rights and other intangible assets: The Organization owns various frequency rights and intangibles. In September 2013, the Organization, with the approval of the Federal Communications Commission (FCC), purchased the license of W219CD (FM) from Lifetalk Radio, Inc. for \$52,500. In June 2012, the Organization, with the approval of the FCC, purchased the license of WRTE (FM) from the National Museum of Mexican Art for \$300,000. Both of these licenses are recorded as intangible assets on the statement of financial position.

Frequency rights and goodwill of \$1,085,513 and \$34,901, respectively, are considered to have an indefinite life and are therefore not amortized. The value of these intangibles is assessed for impairment on an annual basis.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Derivative financial instruments: Derivative financial instruments are recorded as either assets or liabilities at their fair-value and changes in fair value are reported as an other item on the consolidated statement of activities. The interest rate swap agreement represents such an instrument, and it is classified on the consolidated statement of financial position as liability under swap agreement and the change in its fair value is recognized on the consolidated statement of activities as a change in value of interest rate swap agreement. The value of the interest rate swap is marked to market based upon quotations from market makers. The fair value of the swap agreement is the estimated amount the Organization would pay or receive to terminate the agreement, taking into account current interest rates and the current credit worthiness of the swap counterparty.

Financial instruments and concentration of credit risk: The balances in certain of the Organization's cash accounts during the fiscal year have exceeded the federally insured limits from time to time. Management believes the Organization is not exposed to any significant credit risk related to cash.

The carrying amounts approximate fair value for cash and cash equivalents, pledges and underwriting receivables, accounts payable and other current liabilities meeting the definition of financial instruments. The carrying amount of debt (including liability under swap agreement) approximates fair value because the interest rates (and value of the swap agreement) fluctuate with market interest rates. Long-term investments are carried at fair value.

In-kind contributions and volunteer services: The estimated fair value of business-related in-kind contributions and volunteer services are recorded as revenue and expense in the period when the contributions and services are received. In-kind contributions, principally operating space and advertising, amounted to approximately \$1,063,000 and \$1,089,000 for fiscal years 2014 and 2013, respectively. The personal services of volunteers are valued at their estimated fair value and amounted to approximately \$25,000 and \$30,000 for fiscal years 2014 and 2013, respectively. Other in-kind contributions relating to professional services and general operations amounted to approximately \$21,000 and \$7,000 for fiscal years 2014 and 2013, respectively.

Use of estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income tax status: The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the consolidated financial statements from such a position, if any, are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the reporting periods presented in these consolidated financial statements.

The Organization files Form 990 in the U.S. federal jurisdiction and the State of Illinois and is generally no longer subject to examination by the Internal Revenue Service for tax years before 2011.

Chicago Public Media, Inc.

Notes to Consolidated Financial Statements

Note 2. Grants Receivable

Various grants for programming and general operations which had yet to be received in cash are recorded as grants receivable and revenue. Grants receivable at June 30, 2014 and 2013 consists of amounts due for various purposes, as follows:

	2014	2013
Internship program	\$ 200,000	\$ 16,665
Vocalo	205,000	65,000
General operations	294,775	372,539
Community reporting	-	50,000
Community issues - at risk youth	-	100,000
Education reporting	40,000	-
	<u>\$ 739,775</u>	<u>\$ 604,204</u>

Note 3. Campaign Pledges Receivable

Campaign for a Sound Future pledges receivable as of June 30, 2014 and 2013 were as follows:

	2014	2013
Campaign pledges received (cumulative)	\$ 14,761,437	\$ 14,761,437
Pledged amounts received in cash (cumulative)	(13,463,108)	(13,224,978)
Donor adjustment to pledge	(150,995)	(150,995)
	<u>1,147,334</u>	<u>1,385,464</u>
Reserve for campaign pledges	(505,800)	(340,300)
Present value discount (rates between 2.3% and 5%)	(58,000)	(75,000)
	<u>\$ 583,534</u>	<u>\$ 970,164</u>

The Campaign ended in fiscal year 2011. Campaign pledges receivable include \$135,000 and \$218,415 due from members of the Organization's Board of Directors at June 30, 2014 and 2013, respectively.

Chicago Public Media, Inc.**Notes to Consolidated Financial Statements****Note 4. Pledges Receivable**

The Organization receives pledges from various donors throughout the year. Donations that have yet to be received in cash are recorded as pledges receivable and revenue. Pledges receivable at June 30, 2014 and 2013 consists of the following:

	2014	2013
Pledges receivable	\$ 597,386	\$ 878,000
High Fidelity Pledges receivable	1,238,717	820,480
	1,836,103	1,698,480
Allowance for uncollectible pledges	(360,829)	(220,000)
	<u>\$ 1,475,274</u>	<u>\$ 1,478,480</u>
	2014	2013
Amounts due in		
Less than one year	\$ 1,121,474	\$ 1,172,359
One to five years	353,800	306,121
	<u>\$ 1,475,274</u>	<u>\$ 1,478,480</u>

Note 5. Investments

Investments at June 30, 2014 and 2013 consisted of:

	2014	2013
Cash equivalents	\$ 573,935	\$ 72,810
Zero-coupon bond	4,420,291	4,077,266
Fixed income securities	5,105,939	6,449,368
Equity mutual funds	17,326,452	12,978,723
	<u>\$ 27,426,617</u>	<u>\$ 23,578,167</u>

Investment return was as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Net realized gain on investments	\$ 815,050	\$ 96,340
Net unrealized gain on investments	2,303,243	590,831
Total realized and unrealized gain on investments	3,118,293	687,171
Interest and dividend income	498,289	516,853
	<u>\$ 3,616,582</u>	<u>\$ 1,204,024</u>

Note 6. Fair Value Measurements

The Organization follows ASC Topic, *Fair Value Measurements and Disclosure*, which provides the framework for measuring fair value under general accepted accounting principles. This Topic applies to all financial instruments that are being measured and reported on a fair value basis. As defined in the Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income, and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used on the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 assets primarily include equities, money market funds, U.S. Government securities and mutual funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities. Level 2 assets include corporate notes, Government-sponsored enterprises and interest rate swaps.

Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended June 30, 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent with techniques used in the previous year.

Mutual funds are valued at the net asset value of shares held by the Organization at year-end.

The fair value of fixed income securities is estimated using recently executed transactions, market price quotations (where observable) or bond spreads. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond spreads and recovery rates based on collateral values as key inputs. Fixed income securities are generally categorized in Level 2 of the fair value hierarchy.

The Organization's valuation of the interest-rate swap agreement is based on widely-accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the interest-rate swap agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses observable market-based inputs, including LIBOR rate curves. The fair value estimates are classified as Level 2.

Chicago Public Media, Inc.

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Organization assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Organization's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no such transfers for the year ended June 30, 2014.

The table below presents the balances of assets and liabilities measured at fair value as of June 30, 2014 and 2013:

	June 30, 2014			
	Total	Level 1	Level 2	Level 3
Zero-coupon bonds	\$ 4,420,291	\$ 4,420,291	\$ -	\$ -
Fixed income securities				
U.S. Government bonds	1,240,249	310,401	929,848	-
Corporate and other taxable bonds	3,865,690	-	3,865,690	-
Equity mutual funds				
U.S. Equity	8,781,926	8,781,926	-	-
U.S. Equity Funds	1,988,324	1,988,324	-	-
International Equity	3,434,225	3,434,225	-	-
Alternatives - High Volatility	1,443,564	1,443,564	-	-
Alternatives - Low Volatility	1,030,604	1,030,604	-	-
REIT	329,296	329,296	-	-
Commodities	318,513	318,513	-	-
	26,852,682	\$ 22,057,144	\$ 4,795,538	\$ -
Cash equivalents	573,935			
Total investments	<u>\$ 27,426,617</u>			
Interest rate swap	\$ (1,006,712)	\$ -	\$ (1,006,712)	\$ -

Chicago Public Media, Inc.

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Zero-coupon bonds	\$ 4,077,266	\$ 4,077,266	\$ -	\$ -
Fixed income securities				
U.S. Government bonds	1,280,981	319,949	961,032	-
Corporate and other taxable bonds	5,168,387	-	5,168,387	-
Equity mutual funds				
U.S. Equity	7,047,643	7,047,643	-	-
U.S. Equity Funds	1,660,183	1,660,183	-	-
International Equity	2,311,501	2,311,501	-	-
Alternatives - High Volatility	1,366,169	1,366,169	-	-
REIT	302,368	302,368	-	-
Commodities	290,859	290,859	-	-
	<u>23,505,357</u>	<u>\$ 17,375,938</u>	<u>\$ 6,129,419</u>	<u>\$ -</u>
Cash equivalents	72,810			
Total investments	<u>\$ 23,578,167</u>			
Interest rate swap	<u>\$ (1,047,131)</u>	<u>\$ -</u>	<u>\$ (1,047,131)</u>	<u>\$ -</u>

Note 7. Property and Equipment

Station property, equipment and furnishings at June 30, 2014 and 2013 consisted of:

	2014	2013
Land	\$ 1,165,032	\$ 1,165,032
Leasehold improvements	15,913,808	15,884,780
Broadcast equipment	7,919,919	7,667,164
Office equipment	4,673,987	4,494,917
Furnishings	1,342,147	1,338,491
Website	1,625,214	1,590,214
	<u>32,640,107</u>	<u>32,140,598</u>
Accumulated depreciation and amortization	<u>(16,889,524)</u>	<u>(15,669,934)</u>
	<u>\$ 15,750,583</u>	<u>\$ 16,470,664</u>

As of June 30, 2014, assets not yet placed into service totaling \$234,005 and \$36,922 are included in the balances for Broadcast Equipment and Office Equipment, respectively. These amounts have been purchased or accrued, but have not yet begun to be depreciated. They are expected to be placed into service and depreciated in fiscal year 2015. The balance for such items at June 30, 2013 was \$130,737 and \$36,922 for Broadcast equipment and Office Equipment, respectively.

As of June 30, 2014 and 2013, the Organization had land held for sale totaling \$762,233 included in the land balance.

Depreciation charged to expense amounted to \$1,219,590 and \$1,180,565 for the years ended June 30, 2014 and 2013, respectively.

Chicago Public Media, Inc.

Notes to Consolidated Financial Statements

Note 8. Line of Credit

The Organization has a \$500,000 revolving line-of-credit agreement with BMO Harris Bank, N.A. expiring on June 28, 2015. The Organization has the option of selecting the interest rate at LIBOR plus 1.5 percent or the prime rate plus 1 percent. The Organization did not have any borrowings on the line of credit during the fiscal years ended 2014 and 2013.

Note 9. Promissory Note

Chicago Public Media, Inc. and CPR have an unsecured \$2,500,000 loan agreement with BMO Harris Bank, N.A., with \$1,611,094 outstanding at June 30, 2014. Chicago Public Media, Inc. and CPR have the option of selecting the interest rate at reserve adjusted LIBOR plus 1.5 percent or the prime rate plus 1 percent. The interest rate at June 30, 2014 was 1.655 percent (2013 – 1.695 percent), which is calculated at reserve adjusted LIBOR plus 1.5 percent. Payments of principal and interest on the loan are due monthly, with a final balloon payment due on or before June 28, 2018.

Interest expense on the loans amounted to \$28,558 and \$22,783 for fiscal years 2014 and 2013, respectively.

Note 10. Revenue Bonds

Pursuant to an agreement with the Illinois Finance Authority, the Organization received in October 2005 the proceeds from the issuance of \$22,000,000 of variable rate demand revenue bonds, Series 2005, which proceeds were to finance the expansion, construction, renovation and equipping of their public radio facilities and to repay the outstanding principal amount of \$7,600,000 of a 1994 bond issuance.

The Series 2005 bonds have a stated maturity in 2040. However, the bonds are subject to redemption or mandatory tender prior to maturity under terms stated in the Indenture. The bonds bear interest at a rate determined weekly by the remarketing agent (BMO Harris Bank, N.A.; “the Bank”) with interest due monthly. This rate averaged approximately 0.81 percent for the year ended June 30, 2014 (2013 – 0.89 percent). Subject to certain conditions specified in the Indenture, the interest rate on the Series 2005 bonds may be converted to a fixed rate.

The Series 2005 bonds are secured by a transferable irrevocable direct-pay letter of credit issued by the Bank with a maturity date of June 28, 2018. The Organization also has a reimbursement agreement with the Bank. The Organization is required to comply with certain financial covenants which are monitored on both a semiannual and annual basis.

To hedge a portion of its exposure to interest rates on the bonds, the Organization has two interest rate swap agreements with the Bank. The notional amount of the 2011 swap agreement is for \$11,000,000, and has a fixed interest rate of 3.04 percent through June 28, 2018. The Organization obtained an additional swap agreement on October 1, 2012, with a notional amount for \$11,000,000, and has a fixed interest rate of 0.85 percent through October 2, 2017. Interest expense (including letter of credit and remarketing fees) amounted to \$583,656 and \$576,898 in fiscal years 2014 and 2013, respectively.

The fair value of the swaps is \$1,006,712 and \$1,047,131 at June 30, 2014 and 2013, respectively, and is recorded as a liability on the consolidated statements of financial position. For the years ended June 30, 2014 and 2013, the Organization recorded gains in the amount of \$40,419 and \$332,057, respectively, for the change in the fair value of the swap agreement, as reflected on the consolidated statements of activities.

Chicago Public Media, Inc.

Notes to Consolidated Financial Statements

Note 11. Lease Obligations

The Organization is obligated under noncancelable operating leases for certain spaces and transmission facilities through 2025. The leases generally provide for base rent which is subject to adjustment for a proportionate share of any increases in the Consumer Price Index, operating expenses and real estate taxes.

Total rent expense under these leases (excluding the Navy Pier rental, see below), was \$574,745 and \$445,805 for the years ended June 30, 2014 and 2013, respectively. Annual future minimum rent payments by fiscal year are as follows:

2015	\$	573,202
2016		562,654
2017		396,226
2018		388,274
2019		380,277
Thereafter		2,120,775
	\$	<u>4,421,408</u>

The Organization occupies its primary operating space under a long-term lease with Navy Pier, Inc., pursuant to which the Organization rents three-dimensional air space above Festival Hall on Navy Pier in Chicago, as well as certain supplemental space. The lease expiration date is in 2095.

In lieu of cash rent under the lease, the Organization is obligated to provide certain specified broadcast acknowledgments and promotional services (Base Rent) each day which will identify that the Organization is broadcasting from Navy Pier and will promote events and activities occurring at Navy Pier. In the event the Organization is unable or fails to render these forms of Base Rent, the Base Rent required to be paid under the lease will be the fair market rental value of the premises, which shall be determined in accordance with procedures set forth in the lease. The Organization is not responsible under the lease for any share of the costs of repairing or maintaining the common areas of Navy Pier. Management has determined the fair value of this lease to be, and has recorded rental expense of, \$970,200 for the years ended June 30, 2014 and 2013.

Note 12. Restricted Net Assets

Temporarily restricted net assets were available for the following uses:

	2014	2013
Springfield, Illinois reporting	\$ 104,729	\$ 126,770
Internship program	215,606	32,269
Front and Center project	138,369	142,877
Vocalo	205,000	65,000
Campaign pledges receivable	608,107	970,164
General operating grant	334,775	372,539
Community reporting	-	50,000
Community issues - at risk youth	-	100,000
High Fidelity	813,853	625,852
Other	-	115,168
	<u>\$ 2,420,439</u>	<u>\$ 2,600,639</u>

Chicago Public Media, Inc.**Notes to Consolidated Financial Statements****Note 12. Restricted Net Assets (Continued)**

Program restrictions were satisfied as follows:

	2014	2013
Digital radio conversion	\$ -	\$ 39,444
Springfield, Illinois reporting	157,040	117,309
Internship program	66,665	16,667
Front and Center project	195,368	197,930
Vocalo	125,000	125,000
Capital Campaign Installments Due	386,630	550,013
General operating grant	312,539	351,940
Community reporting	50,000	-
Community issues - at risk youth	100,000	100,000
High Fidelity	625,852	540,725
Other	140,595	355,019
	<u>\$ 2,159,689</u>	<u>\$ 2,394,047</u>

Contributions restricted for specific programs or purposes are monitored by management to ensure funds are being expended in accordance with donor requests.

Note 13. Corporation for Public Broadcasting Grants

Each year, the Organization receives a Community Service Grant from the Corporation for Public Broadcasting (CPB). This amount represents the Organization's share of an annual appropriation made by Congress for public broadcasting. The CPB Community Service Grant received by the Organization for the years ended June 30, 2014 and 2013 was as follows:

	2014	2013
Corporation for Public Broadcasting - Community Service Grant	<u>\$ 1,312,478</u>	<u>\$ 1,360,426</u>

Note 14. Employee Benefit Plan

The Organization maintains The Chicago Public Media, Inc. Tax-Deferred Annuity Plan (Plan), which is exempt from income taxes under Internal Revenue Code Section 403(b), for the benefit of eligible employees. The Organization matches 100 percent of employee contributions up to 4 percent of the employee's compensation. Employees can participate in the Plan immediately, but they must have one year of service and be at least 21 years of age before they are eligible to receive matching contributions. Participants in the Plan are immediately vested in both their contributions and the matching contributions.

Matching contributions totaled \$319,549 and \$239,541 for the years ended June 30, 2014 and 2013, respectively.

Note 15. Subsequent Event

The Organization has evaluated subsequent events for potential recognition and/or disclosure through November 26, 2014, the date the consolidated financial statements were available to be issued.