Chicago Public Media, Inc.

Consolidated Financial Report
June 30, 2017 and 2016

Contents

RSM US LLP

Independent Auditor's Report

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, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Chicago Public Media, Inc. as of June 30, 2017 and 2016, 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.

RSM US LLP

Chicago, Illinois
November 17, 2017

Chicago Public Media, Inc.

Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash	**$ 6,415,135**	$ 5,232,432
Pledges receivable, net of discount	**1,066,444**	1,075,206
Grants receivable	**925,000**	1,618,334
Underwriting and other receivables, net of allowance	**1,183,351**	1,025,920
Prepaid expenses	**285,007**	286,944
Investments	**33,617,835**	31,045,987
Property and equipment, net	**13,732,215**	14,478,393
Frequency rights and other intangible assets	**1,360,513**	1,395,414
	$ 58,585,500	$ 56,158,630
Liabilities and Net Assets		
Liabilities:		
Accounts payable	**$ 380,526**	$ 754,072
Accrued expenses	**1,490,836**	1,456,875
Deferred revenue	**43,239**	166,391
Promissory note payable	**1,111,090**	1,277,758
Revenue bonds payable, net of issuance costs	**21,798,081**	21,789,409
Liability under swap agreements	**216,378**	641,810
	25,040,150	26,086,315
Net assets:		
Unrestricted	**31,786,465**	26,661,691
Temporarily restricted	**1,758,885**	3,410,624
	33,545,350	30,072,315
	$ 58,585,500	$ 56,158,630

See notes to consolidated financial statements.

Chicago Public Media, Inc.

Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Operating revenues:						
Membership contributions	**$ 11,228,276**	**$ -**	**$ 11,228,276**	$ 8,702,757	$ -	$ 8,702,757
Corporation for Public Broadcasting - Community Service Grant	**1,051,864**	**370,921**	**1,422,785**	919,171	321,778	1,240,949
Contributions and other grants	**3,082,177**	**1,001,598**	**4,083,775**	3,648,950	3,847,802	7,496,752
Program underwriting	**5,917,074**	**-**	**5,917,074**	5,310,856	-	5,310,856
In-kind services and contributions	**1,399,096**	**-**	**1,399,096**	1,002,401	-	1,002,401
Special events (net of expenses of $191,270 and $409,800, respectively)	**72,405**	**-**	**72,405**	747,366	-	747,366
Production, rental, and other revenue	**1,763,478**	**-**	**1,763,478**	806,322	-	806,322
	24,514,370	**1,372,519**	**25,886,889**	21,137,823	4,169,580	25,307,403
Net assets released from restrictions	**3,024,258**	**(3,024,258)**	**-**	2,150,676	(2,150,676)	-
	27,538,628	**(1,651,739)**	**25,886,889**	23,288,499	2,018,904	25,307,403
Operating expenses:						
Program services:						
Programming, production and public information	**13,048,424**	**-**	**13,048,424**	12,042,561	-	12,042,561
Broadcasting	**4,454,802**	**-**	**4,454,802**	4,172,609	-	4,172,609
	17,503,226	**-**	**17,503,226**	16,215,170	-	16,215,170
Supporting services:						
Management and general	**1,618,809**	**-**	**1,618,809**	1,569,907	-	1,569,907
Membership development	**2,707,593**	**-**	**2,707,593**	2,484,255	-	2,484,255
Fundraising	**3,344,146**	**-**	**3,344,146**	2,461,531	-	2,461,531
	7,670,548	**-**	**7,670,548**	6,515,693	-	6,515,693
	25,173,774	**-**	**25,173,774**	22,730,863	-	22,730,863
Increase (decrease) in net assets from operations	**2,364,854**	**(1,651,739)**	**713,115**	557,636	2,018,904	2,576,540
Other items:						
Investment return	**2,574,628**	**-**	**2,574,628**	1,882,413	-	1,882,413
Change in value of interest rate swap agreements	**425,432**	**-**	**425,432**	263,495	-	263,495
Change in value of land held for resale	**(122,241)**	**-**	**(122,241)**	-	-	-
Write-off of other intangible assets	**(34,901)**	**-**	**(34,901)**	-	-	-
Loss on disposal of assets	**(82,998)**	**-**	**(82,998)**	-	-	-
	2,759,920	**-**	**2,759,920**	2,145,908	-	2,145,908
Increase (decrease) in net assets	**5,124,774**	**(1,651,739)**	**3,473,035**	2,703,544	2,018,904	4,722,448
Net assets:						
Beginning of year	**26,661,691**	**3,410,624**	**30,072,315**	23,958,147	1,391,720	25,349,867
End of year	**$ 31,786,465**	**$ 1,758,885**	**$ 33,545,350**	$ 26,661,691	$ 3,410,624	$ 30,072,315

See notes to consolidated financial statements.

Chicago Public Media, Inc.

Consolidated Statements of Cash Flows
Year Ended June 30, 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	**$ 3,473,035**	$ 4,722,448
Adjustments to reconcile increase in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	**993,121**	1,077,708
Amortization of bond issuance costs	**8,672**	8,672
Change in value of land held for resale	**122,241**	-
Loss on disposal of assets	**82,998**	-
Write-off of other intangible assets	**34,901**	-
Net realized and unrealized gain on investments	**(2,301,818)**	(1,530,466)
Change in value of interest rate swap agreements	**(425,432)**	(263,495)
Changes in:		
Underwriting and other receivables	**(157,431)**	1,599,983
Grants receivable	**693,334**	(1,140,417)
Pledges receivable	**8,762**	389,812
Prepaid expenses	**1,937**	(64,173)
Accounts payable	**(343,953)**	(70,094)
Accrued expenses	**33,961**	(359,494)
Other liabilities	**-**	(4,181,157)
Deferred revenue	**(123,152)**	(651,766)
Net cash provided by (used in) operating activities	**2,101,176**	(462,439)
Cash flows from investing activities:		
Capital expenditures	**(481,774)**	(841,432)
Purchase of frequency rights and other intangibles	**-**	(275,000)
Purchases of investments	**(7,441,602)**	(44,850,251)
Sales of investments	**7,171,572**	44,214,891
Cash received under promissory note receivable	**-**	265,555
Net cash used in investing activities	**(751,804)**	(1,486,237)
Cash flows from financing activities:		
Principal payments on promissory note payable	**(166,668)**	(166,668)
Net cash used in financing activities	**(166,668)**	(166,668)
Increase (decrease) in cash	**1,182,703**	(2,115,344)
Cash:		
Beginning of year	**5,232,432**	7,347,776
End of year	**$ 6,415,135**	$ 5,232,432
Supplemental disclosures of cash flow information:		
Interest paid	**$ 627,629**	$ 625,626
Capital expenditures included in accounts payable at year-end	**$ 99,602**	$ 129,195

See 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, WBEZ first signed on in 1943. For most of its early years, the station only broadcast educational instruction, operating during the school year 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, Chicago Public Media, Inc. (the Organization) acquired the WBEZ license from the Board of Education as an independent community licensee and nonprofit WBEZ Alliance, Inc.

Today, Chicago Public Media serves the public interest by producing and delivering diverse, compelling content of multiple viewpoints and expression. Chicago Public Media broadcasts its service on four non-commercial FM radio stations: WBEZ 91.5 FM in Chicago, WBEQ 90.7 FM in Morris, 91.7 FM (W219CD) in Elgin, and WBEK 91.1 FM in Kankakee, Illinois; via WBEZ.org, mobile apps and podcasts; and in live events that generate conversations across communities. In addition to local programming, Chicago Public Media produces *Sounds Opinions*, and *Wait, Wait… Don't Tell Me!* (a co-production with NPR) for national distribution. In 2005, Chicago Public Media launched a new media service, Vocalo, which is broadcast on WBEW 89.5 FM in Chesterton, Indiana, and on 91.1 FM (W216CL) in Chicago; online at Vocalo.org; and syndicated on multiple stations around Chicagoland.

In April 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 our existing portfolio of public media brands.

Chicago Public Media occupies 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. In July 2011, Media Chicago, LLC (Media) was formed to invest in and develop new media and other property, to hold title property and to collect income there 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 a Section 501(c)(3) entity, which is exempt from federal income tax under Section 501(a) of the Internal Revenue Code, and is exempt from federal and state income taxes (under applicable state law) except for taxes on unrelated business income. CPR and Media are disregarded entities for tax purposes.

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 Codification™, 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, which follows U.S. GAAP and promotes consistency in financial reporting among public broadcasting entities.

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 restriction expires or is satisfied, temporarily restricted net assets are transferred to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Permanently restricted: Permanently restricted net assets are subject to the restrictions of gift instruments requiring the principal to be invested in perpetuity and that only the income may be used. 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. All significant intercompany transactions have been eliminated upon consolidation.

Revenue: Membership and other contributions are recorded as receivables and recognized as revenue when pledged. If not pledged, membership and other contributions are recognized as revenue when received in cash. 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). Revenue for program underwriting, carriage fees, production revenues and other revenue are recorded as a receivable and recognized when the programs are aired. The Organization receives a share of net revenues for two programs (which it sold in July 2015) and recognizes revenue on an annual basis when reported by the program owner. Amounts received in advance are recorded as deferred revenue.

Pledges, grants and underwriting receivables: Pledges receivable are considered due within one year, unless otherwise indicated by the donor. Provision for estimated losses on collection of unpaid pledges is maintained at a level management believes is sufficient to cover potential losses and is based on the Organization's pledge collection history. Management considers all pledges to be fully collectible at June 30, 2017 and 2016. Pledges are discounted using the treasury bill rate at the pledge date.

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 card, debit card or bank account. Revenue is recognized monthly.

Various grants for programming and general operations which have yet to be received in cash are recorded as grants 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. The allowance was $58,270 and $31,507 at June 30, 2017 and 2016, respectively.

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

Cash: 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.

Investments: Investments are presented in the 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.

Property and equipment: Land, leasehold improvements, equipment and furnishings are recorded at cost. Land held for sale is recorded at the lower of its cost or fair value less costs to sell. It is the Organization’s policy to capitalize property and equipment with a useful life longer than one year. 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 a 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 June 2012, the Organization, with the approval of the Federal Communications Commission (FCC), purchased the license of WRTE (FM) from the National Museum of Mexican Art for $300,000. In September 2013, the Organization, with the approval of the FCC, purchased the license of W219CD (FM) from Lifetalk Radio, Inc. for $52,500. In December 2015, the Organization, with the approval of the FCC, purchased the license of WKCC (FM) from Kankakee Community College for $250,000. These licenses are recorded as intangible assets on the consolidated statements of financial position.

Frequency rights and other intangible assets of $1,360,513 and $1,395,414, 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.

Interest-rate swap agreements: The Organization’s interest-rate swap agreements are reported as assets or liabilities at fair value on the statement of financial position, with the changes in in fair value recorded in the current period change in net assets. The fair value of these agreements are 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 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, short-term receivables (underwriting and other, grants, pledges and note), accounts payable and other current liabilities meeting the definition of financial instruments because their short-term maturity. The carrying amount of long-term grants and pledges receivable and debt (including liability under swap agreement) approximates fair value because the discount and interest rates (and value of the swap agreement) fluctuate with market interest rates. Long-term investments are carried at fair value.

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

Special events: The Organization hosts special events to raise contributions to support its activities. The Organization recognizes sponsorships as revenue after the event takes place and is presented in the statement of activities net of actual direct costs of the events. Special event revenue for fiscal year 2016 is primarily attributable to the WBEZ 25th Anniversary Gala Celebration.

In-kind contributions: The estimated fair value of business-related in-kind contributions (principally operating space) and professional services is recorded as revenue and expense in the period when the contributions and services are received.

Use of estimates: In preparing 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 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 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 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 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 2014.

Recent accounting pronouncements: In 2017 the Organization adopted Accounting Standards Update (ASU) 2015-3, *Interest-Imputation of Interest (Subtopic 835-30)*, which simplified the presentation of debt issuance costs. Debt issuance costs are now presented in the statements of financial position as a direct deduction from the carrying amount of the debt liability, in the same manner as debt discounts or premiums.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the Organization's June 30, 2019 financial statements.

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard will be effective for the Organization's June 30, 2020 financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard will be effective for the Organization's June 30, 2019 financial statements.

The Organization is currently evaluating the impact of the adoption of the above standards on its financial statements.

Reclassifications: Certain 2016 balances have been reclassified to conform to the current year presentation without any effect on previously reported net assets or changes in net assets.

Subsequent events: The Organization evaluated its June 30, 2017 financial statements for subsequent events through November 17, 2017, the date the financial statements were issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Note 2. 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, 2017 and 2016, consist of the following:

	2017	2016
Amounts due in:		
Less than one year	$ 638,955	$ 345,305
One to five years	447,711	745,681
	1,086,666	1,090,986
Less present value discount	(20,222)	(15,780)
	$ 1,066,444	$ 1,075,206

Pledges are discounted at rates up to 3.36 percent.

Note 3. Grants Receivable

Various grants for programming and general operations which were in effect but had yet to be received in cash are recorded as grants receivable and revenue. Grants receivable at June 30, 2017 and 2016 consist of amounts due for various purposes, as follows:

	2017	2016
General operations	$ 475,000	$ 650,000
Digital archiving (Legacy of Listening)	250,000	500,000
Curious City	150,000	-
Internship program	-	158,334
Vocalo	50,000	260,000
Sound Opinions	-	50,000
	$ 925,000	$ 1,618,334

Note 4. Investments

Investments at June 30, 2017 and 2016, consist of:

	2017	2016
Money market mutual fund	$ 102,826	$ 148,678
Zero-coupon bond	11,260,844	12,427,653
Marketable equity securities	11,097,224	9,158,498
Equity mutual funds	11,156,941	9,311,158
	$ 33,617,835	$ 31,045,987

Investment return was as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Net realized gain on investments	$ 819,518	$ 560,004
Net unrealized gain on investments	1,482,300	970,462
Total realized and unrealized gain on investments	2,301,818	1,530,466
Interest and dividend income	348,531	520,663
Investment fees	(75,721)	(84,358)
	$ 2,574,628	$ 1,966,771

Note 5. Fair Value Measurements

The Organization follows ASC Topic 820, *Fair Value Measurements and Disclosure*, which provides the framework for measuring fair value under U.S. GAAP. 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 zero-coupon bonds, 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, 2017, 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 (categorized in Level 2 of the fair value hierarchy).

The interest swap is valued using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and uses of observable market-based inputs, including interest rates. The fair value estimate is classified as Level 2.

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 highest 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.

Note 5. Fair Value Measurements (Continued)

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, 2017.

The table below presents the balances of assets and liabilities measured at fair value as of June 30, 2017 and 2016:

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Money market mutual fund	$ 102,826	$ 102,826	$ -	$ -
Zero-coupon bonds	11,260,844	11,260,844	-	-
Marketable equity securities	11,097,224	11,097,224	-	-
Equity mutual funds	11,156,941	11,156,941	-	-
Total investments	$ 33,617,835	$ 33,617,835	$ -	$ -
Interest rate swap agreements	$ (216,378)	$ -	$ (216,378)	$ -

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Money market mutual fund	$ 148,678	$ 148,678	$ -	$ -
Zero-coupon bonds	12,427,653	12,427,653	-	-
Marketable equity securities	9,158,498	9,158,498	-	-
Equity mutual funds	9,311,158	9,311,158	-	-
Total investments	$ 31,045,987	$ 31,045,987	$ -	$ -
Interest rate swap agreements	$ (641,810)	$ -	$ (641,810)	$ -

Note 6. Property and Equipment

Station property, equipment and furnishings at June 30, 2017 and 2016 consist of:

	2017	2016
Land	$ 1,042,791	$ 1,165,032
Leasehold improvements	15,693,059	15,629,986
Broadcast equipment	5,561,691	7,846,118
Office equipment	921,169	4,525,641
Furnishings	1,068,251	1,298,245
Website	1,040,684	2,336,207
Construction in progress	303,012	161,304
	25,630,657	32,962,533
Accumulated depreciation	(11,898,442)	(18,484,140)
	$ 13,732,215	$ 14,478,393

Land located in Porter County, Indiana, is the site for a radio tower. Three parcels of this land is considered by the Organization as land held for sale. In fiscal year 2017, the carrying value of this land was determined to exceed its estimated fair value, based on comparative market data, and to be impaired by $122,241. The land held for sale was valued at $639,992 and $762,233 at June 30, 2017 and 2016, respectively.

Depreciation expense amounted to $993,121 and $1,077,708 for the years ended June 30, 2017 and 2016, respectively.

Construction in progress includes capital expenditures for facility upgrades that had not been put into service at year-end. At June 30, 2017, these included a network infrastructure upgrade and a studio rebuild project.

Note 7. Line of Credit

In June 2017, the Organization increased its line of credit from $500,000 to $1,000,000 in its agreement with BMO Harris Bank, N.A., expiring on June 28, 2018. 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 2017 and 2016 fiscal years.

Note 8. Promissory Note Payable

The Organization entered into a $2,111,108 loan agreement in June 2011 with BMO Harris Bank, N.A. that was most recently amended on June 28, 2017, with $1,111,090 and $1,277,758 outstanding at June 30, 2017 and 2016, respectively. The Organization has 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 was 2.72 percent at June 30, 2017 (2016 - 1.96 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, 2021. Minimum principal payments by fiscal year are as follows:

2018	$ 166,668
2019	166,668
2020	166,668
2021	611,086
	$ 1,111,090

Interest expense on the loan amounted to $26,648 and $24,969 for fiscal years 2017 and 2016, respectively.

Note 9. Revenue Bonds

Pursuant to an agreement with the Illinois Finance Authority, in October 2005 the Organization received 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 (Piper Jaffray, Inc., or the Bank) with interest due monthly. This rate averaged approximately 0.143 percent for the year ended June 30, 2017 (2016 – 0.125 percent). The revenue bonds are shown on the statements of financial position net of issuance costs of $201,919 and $210,591 for the years ended June 30, 2017 and 2016, respectively (amortization expense was $8,672 for June 30, 2017).

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, 2021. 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.

Note 10. Interest Rate Swap Agreements

To hedge a portion of its exposure to interest rates on its 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. On June 26, 2017, the Organization entered into a forward swap instrument with an interest rate of 1.563 percent which will be effective June 28, 2018 through July 1, 2022.

The Organization obtained an additional swap agreement on October 1, 2012, with a notional amount for $11,000,000, which had a fixed interest rate of 0.845 percent through October 2, 2017. The Organization entered into a forward swap on June 26, 2017 which will be effective October 2, 2017 through July 1, 2022 with an interest rate of 1.460 percent. Interest expense (including letter of credit and remarketing fees) amounted to $627,629 and $598,090 in fiscal years 2017 and 2016, respectively.

The fair value of the swaps for 2017 and 2016 changed due to unrealized gains of $425,432 and $263,495, respectively. As of June 30, 2017 and 2016, the accumulative unrealized loss was $216,378 and $641,810, respectively, based on the amount that such an instrument could be settled with a third party as determined by the counterparty.

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 $533,252 and $562,207 for the years ended June 30, 2017 and 2016, respectively. Annual future minimum rent payments by fiscal year are as follows:

2018	$ 473,627
2019	405,227
2020	403,386
2021	404,664
2022	396,998
Thereafter	928,933
	$ 3,012,835

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 in-kind contribution revenue and rental expense of equal amounts, $1,308,393 and $970,200 for the years ended June 30, 2017 and 2016, respectively.

Note 12. Restricted Net Assets

Temporarily restricted net assets were available for the following uses:

	2017	2016
Internship program	$ 50,000	$ 158,333
Campaign pledges receivable	300,000	384,220
Digital archiving (Legacy of Listening)	250,000	500,000
Curious City	150,000	-
Enterprise Reporting	75,000	-
Sound Opinions	25,000	50,000
Vocalo	-	150,000
Time restricted	908,885	2,168,071
	$ 1,758,885	$ 3,410,624

Net assets released from donor restrictions were as follows:

	2017	2016
Community service grant	$ 366,621	$ 321,778
Springfield, Illinois reporting	135,000	135,000
Internship program	108,334	108,333
Vocalo	204,300	325,000
Capital Campaign	100,000	187,323
Digital archiving (Legacy of Listening)	265,000	300,000
Digital expansion	90,934	-
Criminal justice reporting	175,000	-
High Fidelity	-	377,228
Sound Opinions	50,000	50,000
Front and Center project	-	260,000
Curious City	75,000	50,000
Time restrictions	1,454,069	36,014
	$ 3,024,258	$ 2,150,676

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 and recorded as revenue on the consolidated statements of activities for the years ended June 30, 2017 and 2016 was as follows:

	2017	2016
Corporation for Public Broadcasting - Community Service Grant	$ 1,422,785	$ 1,240,949

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 $277,975 and $231,244 for the years ended June 30, 2017 and 2016, respectively.