

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southern California Public Radio
Pasadena, California

We have audited the accompanying statement of financial position of Southern California Public Radio, an affiliated organization of Minnesota Communications Group, as of June 30, 2000, and the related statements of activities, functional expenses and of cash flows from the period of inception, September 9, 1999 to June 30, 2000. These financial statements are the responsibility of the management of Southern California Public Radio. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Southern California Public Radio as of June 30, 2000, and the results of its activities, functional expenses and cash flows from the period of inception, September 9, 1999 to June 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

October 13, 2000

SOUTHERN CALIFORNIA PUBLIC RADIO
(an affiliated organization of Minnesota Communications Group)

STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2000

June 30, 2000

	Unrestricted Funds			Total
	Operating Fund	Property Fund	Interfund Eliminations	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$32,313			\$32,313
Accounts receivable - Trade	163,192			163,192
Prepaid expenses	56,425			56,425
Due from other funds	45,930		\$45,930	
TOTAL CURRENT ASSETS	297,860		45,930	251,930
EQUIPMENT, net (Note 2)		\$43,815		43,815
TOTAL ASSETS	\$297,860	\$43,815	\$45,930	\$295,745
LIABILITIES AND NET DEFICIT				
CURRENT LIABILITIES:				
Accounts payable - Trade	\$129,924			\$129,924
Accrued liabilities	30,520			30,520
Due to other funds		\$45,930	\$45,930	
TOTAL CURRENT LIABILITIES	160,444	45,930	45,930	160,444

OTHER LIABILITIES:				
Loan from MCG (Note 3)	427,946			427,946
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TOTAL LIABILITIES	588,390	45,930	45,930	588,390
COMMITMENTS AND CONTINGENCIES (Note 5)				
NET DEFICIT	(290,530)	(2,115)		(292,645)
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TOTAL LIABILITIES AND NET DEFICIT	\$297,860	\$43,815	\$45,930	\$295,745
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See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO
(an affiliated organization of Minnesota Communications Group)

STATEMENT OF ACTIVITIES
PERIOD ENDED JUNE 30, 2000

Period Ended June 30, 2000

	Unrestricted		Total
	Operating Fund	Property Fund	
SUPPORT FROM PUBLIC:			
Membership	\$422,402		\$422,402
Underwriting	186,334		186,334
Foundations	103,340		103,340
Business general support	13,931		13,931
TOTAL SUPPORT FROM PUBLIC	726,007		726,007
SUPPORT FROM GOVERNMENTAL AGENCIES:			
Corporation for Public Broadcasting	153,564		153,564
EARNED REVENUE:			
Revenue from broadcasting activities	42,370		42,370
Royalties and licensing fees	1,920		1,920
Other	1,790		1,790
TOTAL EARNED REVENUE	46,080		46,080
TOTAL SUPPORT AND EARNED REVENUE	925,651		925,651
EXPENSES:			
Operations	750,689	\$2,115	752,804
Administrative	298,026		298,026

Fundraising	<u>339,587</u>		339,587
TOTAL EXPENSES	<u>1,388,302</u>	2,115	<u>1,390,417</u>
EXCESS OF EXPENSES OVER SUPPORT AND EARNED REVENUE	(462,650)	(2,115)	(464,765)
INITIAL CAPITAL CONTRIBUTION FROM PACCD (Note 1)	<u>172,121</u>		<u>172,121</u>
CHANGE IN NET ASSETS	<u>(290,530)</u>	(2,115)	<u>(292,645)</u>
NET DEFICIT AT END OF PERIOD	<u>(\$290,530)</u>	<u>(\$2,115)</u>	<u>(\$292,645)</u>

See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO**(an affiliated organization of Minnesota Communications Group)****STATEMENT OF FUNCTIONAL EXPENSES****PERIOD ENDED JUNE 30, 2000****Period Ended June 30, 2000**

	Operating Fund				Property Fund Operations	Total Expenses
	Operations	Administrative	Fundraising	Total		
Salaries	\$361,305	\$129,771	\$133,795	\$624,871		\$624,871
Fringe benefits	86,755	23,213	31,441	141,409		141,409
Programming	172,016	53,826	25,991	251,834		251,834
Facilities costs	71,714	4,919	717	77,350		77,350
Promotion and development	230	4,270	61,289	65,789		65,789
Management and general	58,668	82,027	86,354	227,049		227,049
Depreciation and amortization					\$2,115	2,115
Total Expenses	\$750,689	\$298,026	\$339,587	\$1,388,302	\$2,115	\$1,390,417

See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO
(an affiliated organization of Minnesota Communications Group)

STATEMENT OF CASH FLOWS
PERIOD ENDED JUNE 30, 2000

	Period Ended June 30, 2000 Total
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	(\$292,645)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Initial capital contribution from PACCD	(172,121)
Depreciation and amortization	2,115
Increase in assets:	
Accounts receivable - Trade	(154,347)
Prepaid expenses	(56,424)
Increase in liabilities:	
Accounts payable and accrued liabilities	<u>160,444</u>
 Total Adjustments	 <u>(220,333)</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u>(512,978)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES -	
Capital expenditures	(45,930)
Initial cash contribution from PACCD	<u>163,276</u>
 TOTAL CASH PROVIDED BY INVESTING ACTIVITIES	 117,346
 CASH FLOWS FROM FINANCING ACTIVITIES -	
Note payable to parent support organization	<u>427,946</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 32,314
 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	 <u>0</u>
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	 <u><u>\$32,314</u></u>

See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO

(AN AFFILIATED ORGANIZATION OF MINNESOTA COMMUNICATIONS GROUP)

NOTES TO FINANCIAL STATEMENTS

PERIOD ENDED JUNE 30, 2000

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business - Southern California Public Radio (the Organization or SCPR) is a not-for-profit corporation, was incorporated on September 9, 1999, and is located in Pasadena, California. SCPR's mission is to enrich the mind and nourish the spirit through radio, related technology, and services. SCPR seeks to produce and to acquire radio programming of community value and to combine these programs into the highest quality radio service for Southern California.

Minnesota Communications Group (MCG) is the not-for-profit parent support organization of SCPR and of Minnesota Public Radio (MPR). MCG's primary purpose is to provide financial and management support services to SCPR, MPR, and other affiliates. MCG has the ability to elect or approve the election of the SCPR Board of Trustees and of a majority of the MPR Board of Trustees.

In December 1999, the Organization entered into a Public Service Operating Agreement (the Agreement) with Pasadena Area Community College District (PACCD) for the operation of public radio station KPCC (89.3 FM), whose city of license is Pasadena, California and that provides a radio broadcast signal to a significant portion of Southern California. Pursuant to the Agreement, effective January 1, 2000, SCPR assumed responsibility for the operation of KPCC, while PACCD remained the licensee of the station. As part of this transaction, PACCD contributed capital of \$172,121 in exchange for promises in the Agreement made by SCPR relating to the operation of the station, including certain minimum operating requirements, minimum budget requirements, revenue sharing obligations, and contributions to PACCD to support a digital training academy. MCG guaranteed to provide financial support to SCPR for a minimum of ten years, in the form of loans, sufficient to assure that SCPR is capable of meeting certain operating expense levels. SCPR may terminate the Agreement on or after January 1, 2005, provided that SCPR has provided PACCD notice at least six months prior to the effective date of termination. PACCD may terminate the Agreement on or after January 1, 2015, provided that PACCD notifies SCPR at least five years prior to the effective date of the termination. Also as part of this transaction, MCG and MPR agreed to provide programming, development, technical, human resources, and accounting services to SCPR.

The Organization maintains the following unrestricted funds:

Operating Fund - To account for general purpose contributions, grants, and other revenues and to account for expenses associated with the operations of the Organization.

Property Fund - To acquire and account for all equipment owned by the Organization.

Basis of Financial Statement Presentation - The Organization is charged for certain estimated costs incurred by MCG and MPR. These charges may not necessarily be indicative of the actual costs that would have been incurred had the Organization operated independently.

Net assets, revenues, and gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - Unrestricted funds are those funds over which the SCPR Board of Trustees has discretionary control. All equipment and debt are considered unrestricted.

Temporarily Restricted - Temporarily restricted funds are those funds subject to donor-imposed restrictions which will be satisfied by actions of the Organization or passage of time. The Organization has elected to present temporarily restricted contributions, whose restrictions are fulfilled in the same time period, within the unrestricted net assets class. There were no temporarily restricted net assets for the period ended June 30, 2000.

Permanently Restricted - Permanently restricted funds are those funds subject to donor-imposed restrictions. The restriction requires that the funds be maintained by the Organization in perpetuity. In the absence of donor specifications that income and gains on donated funds be restricted, such income and gains are reported as income of unrestricted net assets. There were no permanently restricted net assets for the period ended June 30, 2000.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Such gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Cash and Cash Equivalents - Cash and cash equivalents represent cash on hand held by MCG on behalf of SCPR and are available to SCPR at any time.

Depreciation and Amortization - The cost of equipment is depreciated over the estimated useful lives (five to twenty years) of the related assets using the straight line method.

Barter Transactions - The Organization records revenue and expense for barter transactions based on the estimated fair value of goods and services exchanged.

Income Tax Status - SCPR is organized under Chapter 317 of Minnesota Statutes as a not-for-profit organization. The Internal Revenue Service has determined that SCPR is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and is not a private foundation as it qualifies under Section 509(a)(1) as an organization defined under Section 170(b)(1)(A)(vi) of the Code. The State of California Franchise Tax Board has determined that SCPR is exempt from California franchise or income taxes under Section 2370(1)(d) of the California Code and the Minnesota Department of Revenue has determined that SCPR is exempt from Minnesota income taxes under Section 290.05 Subdivision 9 of Minnesota Statutes.

Fair Value of Financial Instruments - The carrying values of cash and cash equivalents, accounts receivable, and accounts payable are reasonable estimates of their fair value due to the short-term nature and terms of these financial instruments.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

2. EQUIPMENT

Equipment consisted of the following at June 30, 2000:

Cost:	
Equipment	\$ 45,930
Less accumulated depreciation	<u>(2,115)</u>
	<u>\$ 43,815</u>

3. NOTE PAYABLE

In January 2000, a note was entered into between MCG and SCPR. The note bears no stated interest rate and no monthly principal payments are required. Principal repayment terms are provided in the guarantee between MCG and SCPR. It is the intent of the guarantee that once SCPR is capable of repaying the loans from MCG, it will complete such repayments over a five-year or longer period. At June 30, 2000, the amount outstanding was \$427,946.

4. LEASES

The Organization leases office, studio, and transmission facilities under non-cancelable operating leases. Total rent expense charged to operations was \$49,189 for the period ended June 30, 2000.

Minimum future operating lease obligations are as follows:

Years ending June 30:	
2001	\$ 24,780
2002	24,780
2003	24,780
2004	24,780
2005	<u>12,390</u>
	<u>\$ 111,510</u>

5. COMMITMENTS AND CONTINGENCIES

SCPR is involved in various legal proceedings incidental to its business. Although it is difficult to predict the ultimate outcome of these cases, management believes that the resolution of such proceedings will not have a material adverse effect on the operations or the financial position of SCPR.

6. RETIREMENT PLAN

SCPR participates in MCG's 403(b) tax deferred annuity plan which provides that qualified employees may contribute to the plan through payroll deductions, which are matched 100% by the respective employer up to 7.5% of their base compensation. Participation is voluntary after two years and is required after five years of employment or age 35, whichever is later. The employers' contributions totaled \$6,239 for the period ended June 30, 2000.

7. AFFILIATED ORGANIZATIONS

SCPR is charged by MCG for its estimated share of various accounting services, personnel costs, and insurance costs incurred on its behalf. For the period ended June 30, 2000, these charges totaled \$41,650 and are included in administrative expenses.

During the period ended June 30, 2000, SCPR was charged \$162,336 for various operational services provided by MPR. These charges are reflected in fundraising and operations expenses.

SCPR is charged by PACCD for various overhead costs such as space, postage, and telephone. For the period ended June 30, 2000, these charges totaled \$64,452 and are reflected in programming, facilities, publications, and administrative expenses.

For each of the four years beginning July 1, 2000, SCPR is charged \$175,000, per year, payable quarterly by PACCD for use of the license. No such amount was charged by SCPR for the period ended June 30, 2000.

8. INTERFUND TRANSFERS

Interfund transfer for the period ended June 30, 2000 consisted of transfers from the SCPR Property Fund to the SCPR Operating Fund for capital acquisitions and from the SCPR Operating Fund to the SCPR Property Fund for capital financing in the amounts of \$45,930.