

KPCC89.3FM

SOUTHERN CALIFORNIA PUBLIC RADIO

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

Years ended June 30, 2003 and 2002

*Southern California
Public Radio*

*Financial Statements for the Year Ended
June 30, 2003 (with Comparative Totals for
the Year Ended June 30, 2002) and
Independent Auditors' Report*



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 (the "Organization"), an affiliated organization of American Public Media Group, as of June 30, 2003 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of the Organization. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Organization's June 30, 2002 financial statements and, in our report dated November 1, 2002, we expressed an unqualified opinion on those financial statements.

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 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, 2003 and the results of its activities, functional expenses, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 29, 2003

SOUTHERN CALIFORNIA PUBLIC RADIO
(An Affiliated Organization of American Public Media Group)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(with comparative totals for the year ended June 30, 2002) (In thousands)

	Year Ended June 30, 2003				Year Ended June 30	
	Unrestricted			Temporarily Restricted	Total	
	Operating Fund	Property Fund	Total		2003	2002
SUPPORT FROM PUBLIC:						
Membership	\$ 3,001	\$ 17	\$ 3,018		\$ 3,018	\$ 2,881
Underwriting	1,791		1,791	\$ 650	2,441	862
Business general support	21	84	105	128	233	48
Foundations	<u>97</u>	<u> </u>	<u>97</u>	<u> </u>	<u>97</u>	<u>1,632</u>
Total support from public	4,910	101	5,011	778	5,789	5,423
SUPPORT FROM GOVERNMENTAL AGENCIES:						
Corporation for Public Broadcasting	352		352		352	188
Other grants from governmental agencies	<u> </u>	<u>4</u>	<u>4</u>		<u>4</u>	<u>13</u>
Total support from governmental agencies	352	4	356		356	201
EARNED REVENUE:						
Revenue from broadcasting activities	292		292		292	216
Investment return, net	7		7		7	
Other	<u>59</u>	<u> </u>	<u>59</u>	<u> </u>	<u>59</u>	<u>20</u>
Total earned revenue	358		358		358	236
NET ASSETS RELEASED FROM RESTRICTION	<u>1,364</u>	<u> </u>	<u>1,364</u>	<u>(1,364)</u>	<u> </u>	<u> </u>
TOTAL SUPPORT AND EARNED REVENUE	6,984	105	7,089	(586)	6,503	5,860
EXPENSES:						
Operations	3,620	37	3,657		3,657	2,940
Administrative	738		738		738	772
Fundraising	<u>1,775</u>	<u> </u>	<u>1,775</u>	<u> </u>	<u>1,775</u>	<u>1,208</u>
Total expenses	6,133	37	6,170		6,170	4,920
INTERFUND TRANSFER	<u>(167)</u>	<u>167</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CHANGE IN NET ASSETS	684	235	919	(586)	333	940
NET (DEFICIT) ASSETS—						
Beginning of the year	<u>(675)</u>	<u>(25)</u>	<u>(700)</u>	<u>1,932</u>	<u>1,232</u>	<u>292</u>
NET ASSETS—						
End of year	<u>\$ 9</u>	<u>\$ 210</u>	<u>\$ 219</u>	<u>\$ 1,346</u>	<u>\$ 1,565</u>	<u>\$ 1,232</u>

See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO
(An Affiliated Organization of American Public Media Group)

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2003
(with comparative totals as of June 30, 2002) (In thousands)

	Year Ended June 30, 2003				Year Ended June 30	
	Unrestricted			Temporarily Restricted	Total	
	Operating Fund	Property Fund	Total		2003	2002
ASSETS						
CURRENT ASSETS:						
Cash				\$ 390	\$ 390	\$ 1,261
Accounts receivable:						
Trade, net	\$ 911		\$ 911	571	1,482	765
Other	77		77	312	389	413
Prepaid expenses	<u>125</u>		<u>125</u>		<u>125</u>	<u>87</u>
Total current assets	1,113		1,113	1,273	2,386	2,526
EQUIPMENT, net (Note 2)		\$ 210	210		210	102
ACCOUNTS RECEIVABLE						
Other, net of present value discount of \$2 and \$12				73	73	213
OTHER ASSETS	<u>131</u>		<u>131</u>		<u>131</u>	
Total assets	<u>\$ 1,244</u>	<u>\$ 210</u>	<u>\$ 1,454</u>	<u>\$ 1,346</u>	<u>\$ 2,800</u>	<u>\$ 2,841</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable—trade	\$ 210		\$ 210		\$ 210	\$ 159
Line of credit from APM (Note 4)	89		89		89	354
Accrued liabilities	<u>196</u>		<u>196</u>		<u>196</u>	<u>192</u>
Total current liabilities	495		495		495	705
OTHER LIABILITIES—						
Loan from APM (Note 3)	<u>740</u>		<u>740</u>		<u>740</u>	<u>904</u>
Total liabilities	1,235		1,235		1,235	1,609
COMMITMENTS AND CONTINGENCIES (Note 6)						
NET ASSETS	<u>9</u>	<u>\$ 210</u>	<u>219</u>	<u>\$ 1,346</u>	<u>1,565</u>	<u>1,232</u>
Total liabilities and net assets	<u>\$ 1,244</u>	<u>\$ 210</u>	<u>\$ 1,454</u>	<u>\$ 1,346</u>	<u>\$ 2,800</u>	<u>\$ 2,841</u>

See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO
 (An Affiliated Organization of American Public Media Group)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2003
 (with comparative totals for the year ended June 30, 2002) (In thousands)

	<u>Year Ended June 30, 2003</u>			<u>Year Ended June 30</u>	
	<u>Operations</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u> <u>2003</u>	<u>2002</u>
Salaries	\$ 1,537	\$ 410	\$ 808	\$ 2,755	\$ 2,373
Fringe benefits	298	67	90	455	439
Programming	843	66	75	984	930
Facilities costs	530	34	12	576	281
Promotion and development	178	5	633	816	406
Management and general	59	156	157	372	293
Depreciation	37			37	23
Digital Training Academy	<u>175</u>	<u> </u>	<u> </u>	<u>175</u>	<u>175</u>
Total expenses	<u>\$ 3,657</u>	<u>\$ 738</u>	<u>\$ 1,775</u>	<u>\$ 6,170</u>	<u>\$ 4,920</u>

See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO
(An Affiliated Organization of American Public Media Group)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002 (In thousands)

	2003	2002
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 333	\$ 940
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	37	23
(Increase) decrease in assets:		
Accounts receivable:		
Trade, net	(717)	(331)
Other	164	29
Prepaid expenses and other assets	(169)	(7)
Increase in liabilities—		
Accounts payable and accrued liabilities	<u>55</u>	<u>51</u>
Total adjustments	<u>(630)</u>	<u>(235)</u>
Net cash (used in) provided by operating activities	(297)	705
CASH FLOWS USED IN INVESTING ACTIVITY—		
Capital expenditures	(145)	(31)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES:		
Note payable to parent support organization	(164)	118
Line of credit from parent support organization	<u>(265)</u>	<u> </u>
Net cash (used in) provided by financing activities	<u>(429)</u>	<u>118</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(871)	792
CASH—Beginning of year	<u>1,261</u>	<u>469</u>
CASH—End of year	<u>\$ 390</u>	<u>\$ 1,261</u>

See notes to financial statements.

SOUTHERN CALIFORNIA PUBLIC RADIO
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(with comparative totals for the year ended June 30, 2002)

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 located in Pasadena, California. SCPR’s mission is to strengthen the civic and cultural bonds that unite Southern California’s diverse communities by providing the highest quality news and information service through radio and interactive media.

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

SCPR is party to 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. KPCC 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 \$172,000 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. APM 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 termination. Also as part of this transaction, APM and its affiliates agreed to provide programming, development, technical, human resources, and accounting services to SCPR.

The Organization maintains the following 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 APM and its affiliates in providing services. 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 that 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.

Temporarily restricted net assets at June 30 were restricted for:

	2003	2002
Program support and underwriting	\$ 1,321,000	\$ 1,877,000
Capital	<u>25,000</u>	<u>55,000</u>
	<u>\$ 1,346,000</u>	<u>\$ 1,932,000</u>

Temporarily restricted funds released from donor-imposed restrictions for the year ended June 30, 2003 consist of the following:

Foundations revenue	\$ 1,076,000
Business general support	198,000
Earned revenue from broadcasting activities	<u>90,000</u>
	<u>\$ 1,364,000</u>

Permanently Restricted—Permanently restricted funds are those funds subject to donor-imposed restrictions that require the funds to 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 years ended June 30, 2003 and 2002.

Support from Public and Governmental Agencies—Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The 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—Cash represents cash on hand, the majority of which is held by APM on behalf of SCPR and available to SCPR at any time. The use of such cash is still subject to donor-imposed restrictions.

Accounts Receivable—

Trade Accounts Receivable—Allowances for doubtful accounts of \$201,000 and \$84,000 at June 30, 2003 and 2002, respectively, have been recorded to provide for estimated bad debts.

Other Accounts Receivable—Unconditional promises to make charitable contributions, the cash from which is expected to be received over more than one year, are recorded by SCPR at their present value using a discount rate equivalent to treasury yields of similar maturity (1.21% at June 30, 2003).

Trade and other accounts receivable were due as follow at June 30, 2003:

	Temporarily Restricted	Unrestricted	Total
In less than one year	\$ 883,000	\$ 988,000	\$ 1,871,000
In one to five years	<u>73,000</u>	<u> </u>	<u>73,000</u>
	<u>\$ 956,000</u>	<u>\$ 988,000</u>	<u>\$ 1,944,000</u>

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.

Derivative Instruments and Hedging Activities—Management has reviewed the requirements of Statement of Financial Accounting Standards (“SFAS”) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and has determined that the Organization has no freestanding or embedded derivatives. All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases and sales. The Organization’s policy is not to use freestanding derivatives and not to enter into contracts with terms that cannot be designated as normal purchases or sales.

Basis of Accounting—The financial statements of the Organization are prepared on the accrual basis of accounting.

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.

Recently Issued Accounting Standards—In August 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. SCPR adopted the provisions of SFAS No. 144 effective July 1, 2002 with no effect on its financial position or results of operations.

Reclassifications—Certain prior year amounts have been reclassified to conform to the current year’s presentation. These reclassifications had no effect on net assets previously reported.

Summarized Financial Information for the Year Ended June 30, 2002—The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2002, from which the summarized information was derived.

2. EQUIPMENT

Equipment consisted of the following at June 30:

	2003	2002
Cost—		
Equipment	\$ 285,000	\$ 140,000
Less accumulated depreciation	<u>(75,000)</u>	<u>(38,000)</u>
	<u>\$ 210,000</u>	<u>\$ 102,000</u>

Total depreciation expense charged to operations was \$37,000 and \$23,000 for the years ended June 30, 2003 and 2002, respectively.

3. NOTE PAYABLE

In January 2000, a note was entered into between APM and SCPR to provide up to \$1.0 million in support. The note bears no stated interest rate, and no monthly principal payments are required. Principal repayment terms are provided in the guarantee between APM and SCPR. It is the intent of the guarantee that once SCPR is capable of repaying the loans from APM, it will complete such repayments over a five-year or longer period. Currently, SCPR is only required to make a payment on the loan in the event they achieve an operating surplus, as defined by APM, at the end of a fiscal year. SCPR repaid a portion of the loan during fiscal 2003 given SCPR projected an operating surplus at the end of fiscal 2003. Given a principle payment was already made in fiscal 2003, there are no amounts currently due in fiscal 2004 as it is not known whether or not an operating surplus will exist at the end of fiscal 2004. At June 30, 2003 and 2002, the amount outstanding was \$740,000 and \$904,000, respectively. On October 23, 2002, an APM board resolution approved the long-term status of the note.

4. LINE OF CREDIT

In fiscal 2001, APM established a line of credit of \$500,000 for SCPR’s general operating needs. This line was increased to \$700,000 in September 2001, \$1,100,000 in November 2001, and reduced to \$750,000 in June of 2003. The line bears no stated interest rate and has no scheduled

monthly principal payments. The line is classified as short term, as it is expected to be repaid within one year. The amount of the line outstanding at June 30, 2003 and 2002 was \$89,000 and \$354,000, respectively.

5. LEASES

The Organization leases office, studio, and transmission facilities under noncancelable operating leases. Total rent expense charged to operations was \$216,000 and \$211,000 for the years ended June 30, 2003 and 2002, respectively.

Minimum future operating lease obligations are as follows:

Years ending June 30:	
2004	\$ 258,000
2005	244,000
2006	221,000
2007	128,000
2008	132,000
Thereafter	<u>398,000</u>
	<u>\$ 1,381,000</u>

6. 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.

7. RETIREMENT PLAN

SCPR participates in APM'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 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 Organization's contributions totaled \$61,000 and \$48,000 for the years ended June 30, 2003 and 2002, respectively.

8. AFFILIATED ORGANIZATIONS

SCPR is charged by APM for its estimated share of various accounting services, personnel costs, and insurance costs incurred on its behalf. For the years ended June 30, 2003 and 2002, these charges totaled \$60,000, and are included in administrative expenses.

During the years ended June 30, 2003 and 2002, SCPR was charged \$308,000 and \$327,000, respectively, 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 years ended June 30, 2003 and 2002, these charges totaled \$99,000 and \$109,000, respectively, and are included in programming, facilities, publications, and administrative expenses.

For each of four years beginning July 1, 2000, SCPR is charged \$175,000 per year, payable quarterly, by PACCD for use of the license, the proceeds of which are intended to support a digital training academy operated by PACCD. For each of the years ended June 30, 2003 and 2002, these charges totaled \$175,000.

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SOUTHERN CALIFORNIA PUBLIC RADIO