

KPCC89.3FM

SOUTHERN CALIFORNIA PUBLIC RADIO

**report on audit of
financial
statements**

years ended June 30, 2004 and 2003

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, 2004 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, 2003 financial statements and, in our report dated October 29, 2003, 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, 2004 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional fund information presented in the statement of activities, statement of financial position, and statement of functional expenses for 2004 is presented for the purpose of additional analysis of the basic financial statements rather than to present the results of operations of the individual funds, and is not a required part of the basic financial statements. This additional fund information is the responsibility of the Organization's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2004 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2004 financial statements taken as a whole.



November 16, 2004

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

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

(With comparative totals for the year ended June 30, 2003) (In thousands)

	Year Ended June 30, 2004				Year Ended June 30	
	Unrestricted			Temporarily Restricted	Total	
	Operating Fund	Property Fund	Total		2004	2003
SUPPORT FROM PUBLIC:						
Membership	\$ 3,804	\$ -	\$ 3,804	\$ -	\$ 3,804	\$ 3,018
Underwriting	2,810		2,810	966	3,776	2,441
Underwriting released from restriction	650		650	(650)		
Business general support	86		86	13	99	97
Foundations	5	25	30	7	37	233
Foundations released from restriction	586		586	(586)		
Total support from public	7,941	25	7,966	(250)	7,716	5,789
SUPPORT FROM GOVERNMENTAL AGENCIES:						
Corporation for Public Broadcasting	478		478	75	553	352
Other grants from governmental agencies						4
Total support from governmental agencies	478		478	75	553	356
EARNED REVENUE:						
Revenue from broadcasting activities	188		188		188	292
Investment return—net						7
Other	54		54		54	59
Total earned revenue	242		242		242	358
TOTAL SUPPORT AND EARNED REVENUE	8,661	25	8,686	(175)	8,511	6,503
EXPENSES:						
Operations	4,520	46	4,566		4,566	3,657
Administrative	979	13	992		992	738
Fundraising	2,457	2	2,459		2,459	1,775
Total expenses	7,956	61	8,017		8,017	6,170
INTERFUND TRANSFER	(58)	58				
CHANGE IN NET ASSETS	647	22	669	(175)	494	333
NET ASSETS—Beginning of the year	9	210	219	1,346	1,565	1,232
NET ASSETS—End of year	\$ 656	\$ 232	\$ 888	\$ 1,171	\$ 2,059	\$ 1,565

See notes to financial statements.

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2004

(With comparative totals as of June 30, 2003) (In thousands)

	June 30, 2004				June 30	
	Unrestricted			Temporarily Restricted	Total	
	Operating Fund	Property Fund	Total		2004	2003
ASSETS						
CURRENT ASSETS:						
Cash	\$ 158	\$ -	\$ 158	\$ 98	\$ 256	\$ 390
Accounts receivable:						
Trade—net	1,270		1,270	621	1,891	1,331
Grants	43		43	45	88	385
Prepaid expenses	<u>153</u>		<u>153</u>		<u>153</u>	<u>125</u>
Total current assets	1,624		1,624	764	2,388	2,231
EQUIPMENT—Net (Note 2)		232	232		232	210
ACCOUNTS RECEIVABLE—						
Other, net of present value discount of \$0 and \$2						73
OTHER ASSETS:						
Investments	56		56		56	
Other	<u>132</u>		<u>132</u>	<u>407</u>	<u>539</u>	<u>286</u>
TOTAL	<u>\$ 1,812</u>	<u>\$ 232</u>	<u>\$ 2,044</u>	<u>\$ 1,171</u>	<u>\$ 3,215</u>	<u>\$ 2,800</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable—trade	\$ 229	\$ -	\$ 229	\$ -	\$ 229	\$ 210
Line of credit from APMG (Note 4)						89
Current portion of loan from APMG (Note 3)	100		100		100	
Accrued liabilities	<u>312</u>		<u>312</u>		<u>312</u>	<u>196</u>
Total current liabilities	641		641		641	495
OTHER LIABILITIES—						
Loan from APMG (Note 3)	<u>515</u>		<u>515</u>		<u>515</u>	<u>740</u>
Total liabilities	1,156		1,156		1,156	1,235
COMMITMENTS AND CONTINGENCIES (Note 6)						
NET ASSETS	<u>656</u>	<u>232</u>	<u>888</u>	<u>1,171</u>	<u>2,059</u>	<u>1,565</u>
TOTAL	<u>\$ 1,812</u>	<u>\$ 232</u>	<u>\$ 2,044</u>	<u>\$ 1,171</u>	<u>\$ 3,215</u>	<u>\$ 2,800</u>

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2004

(With comparative totals for the year ended June 30, 2003) (In thousands)

	<u>Year Ended June 30, 2004</u>			<u>Year Ended June 30</u>	
	<u>Operations</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	
				<u>2004</u>	<u>2003</u>
Salaries	\$ 1,882	\$ 577	\$ 966	\$ 3,425	\$ 2,755
Fringe benefits	415	94	159	668	455
Programming—content	914		90	1,004	930
Other production	204			204	306
Space costs	157	17	52	226	216
Utilities	55	8	31	94	59
Repairs and maintenance	22			22	17
Other occupancy		40	5	45	32
Membership development			388	388	406
Promotion and development	637		537	1,174	409
Travel and training	28	22	27	77	80
Management and general	31	145	129	305	166
Depreciation	46	13	2	61	37
Financial		76	73	149	127
Digital training academy	<u>175</u>	<u> </u>	<u> </u>	<u>175</u>	<u>175</u>
TOTAL EXPENSES	<u>\$ 4,566</u>	<u>\$ 992</u>	<u>\$ 2,459</u>	<u>\$ 8,017</u>	<u>\$ 6,170</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003 (In thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 494</u>	<u>\$ 333</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	61	37
Restricted contributions and grants	(63)	
(Increase) decrease in assets:		
Accounts receivable:		
Trade—net	(560)	(566)
Grants and other	415	168
Prepaid expenses and other assets	(337)	(324)
Increase in liabilities—		
Accounts payable and accrued liabilities	<u>135</u>	<u>55</u>
Total adjustments	<u>(349)</u>	<u>(630)</u>
Net cash provided by (used in) operating activities	<u>145</u>	<u>(297)</u>
CASH FLOWS USED IN INVESTING ACTIVITY—		
Capital expenditures	<u>(83)</u>	<u>(145)</u>
Total cash used in investing activities	<u>(83)</u>	<u>(145)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Note payable to parent support organization	(125)	(164)
Line of credit from parent support organization	(89)	(265)
Restricted contributions and grants	<u>18</u>	<u> </u>
Net cash used in financing activities	<u>(196)</u>	<u>(429)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(134)	(871)
CASH—Beginning of year	<u>390</u>	<u>1,261</u>
CASH—End of year	<u>\$ 256</u>	<u>\$ 390</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

(With comparative totals for the year ended June 30, 2003)

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 (“APMG”) is the not-for-profit parent support organization of SCPR and of Minnesota Public Radio (“MPR”). APMG’s primary purpose is to provide financial and management support services to SCPR, MPR, and other affiliates. APMG 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. APMG 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 given PACCD notice at least six months prior to the effective date of termination. No notice has been given. 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, APMG 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 APMG 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:

	2004	2003
Program support and underwriting	\$ 1,083,500	\$ 1,321,000
Capital	<u>87,500</u>	<u>25,000</u>
	<u>\$ 1,171,000</u>	<u>\$ 1,346,000</u>

Temporarily restricted funds released from donor-imposed restrictions for the year ended June 30, 2004 consist of the following:

Foundation revenue	\$ 586,000
Underwriting	<u>650,000</u>
	<u>\$ 1,236,000</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, 2004 and 2003.

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 APMG on behalf of SCPR and available to SCPR at any time. The use of such cash is still subject to donor-imposed restrictions for temporarily restricted contributions.

Accounts Receivable—

Trade Accounts Receivable—Allowances for doubtful accounts of \$281,000 and \$201,000 at June 30, 2004 and 2003, 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). There are no outstanding pledges at the end of 2004

Trade and other accounts receivable were due as follow at June 30, 2004:

	Temporarily Restricted	Unrestricted	Total
In less than one year	<u>\$ 666,000</u>	<u>\$ 1,313,000</u>	<u>\$ 1,979,000</u>
	<u>\$ 666,000</u>	<u>\$ 1,313,000</u>	<u>\$ 1,979,000</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.

Revenue Recognition—

Broadcasting Activities—The Organization recognizes revenue from ticket sales. Ticket revenue is generated via live events. Revenue is recognized as earned when the content is made available for use.

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.

Impairment of Long-Lived Assets—Management periodically reviews the carrying value of long-lived assets for potential impairment by comparing the carrying value of these assets to the estimated undiscounted future cash flows expected to result from the use of these assets. Should the sum of the related, expected future net cash flows be less than the carrying value, an impairment loss would be recognized. To date, management has determined no impairment exists.

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.

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, 2003—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, 2003, from which the summarized information was derived.

2. EQUIPMENT

Equipment consisted of the following at June 30:

	2004	2003
Cost—Equipment	\$ 368,000	\$ 285,000
Less accumulated depreciation	<u>(136,000)</u>	<u>(75,000)</u>
	<u>\$ 232,000</u>	<u>\$ 210,000</u>

Total depreciation expense charged to operations in the property fund was \$61,000 and \$37,000 for the years ended June 30, 2004 and 2003, respectively.

3. NOTE PAYABLE

In January 2000, a note was entered into between APMG and SCPR to provide a long-term loan of up to \$1.0 million. The note bears no stated interest rate, and no monthly principal payments were required. Principal repayment terms were provided in the guarantee between APMG and SCPR. Prior to February 5, 2004, SCPR was only required to make a payment on the loan in the event they achieve an operating surplus, as defined by APMG, at the end of a fiscal year. SCPR repaid a portion of the loan during fiscal 2003 based on SCPR’s operating surplus at the end of fiscal year 2003. Given a principal payment was already made in fiscal 2003 and it was not known whether an operating surplus would exist at the end of fiscal 2004, the entire loan amount was classified as long term at June 30, 2003. On February 5, 2004, an APMG board resolution approved a fixed repayment schedule for the note payable which began with a payment of \$125,000 in 2004. At June 30, 2004 and 2003, the amount outstanding was \$615,000 and \$740,000, respectively.

Annual principal payments due on notes payable are as follows:

**Years Ending
June 30**

2005	\$ 100,000
2006	100,000
2007	100,000
2008	100,000
2009	150,000
Thereafter	<u>65,000</u>
	<u>\$ 615,000</u>

4. LINE OF CREDIT

In fiscal 2001, APMG established a line of credit for SCPR's general operating needs. This line was set at \$700,000 and increased to \$1,000,000 in February 2004. Until June 30, 2004 the line bore no stated interest rate. During July 2004, this line was extended through June 30, 2005, but now bears interest at the federal funds rate. 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, 2004 and 2003 was \$0 and \$89,000, respectively.

5. LEASES

The Organization leases office, studio, and transmission facilities under noncancelable operating leases. Total rent expense charged to operations was \$226,000 and \$216,000 for the years ended June 30, 2004 and 2003, respectively.

Minimum future operating lease obligations are as follows:

**Years Ending
June 30**

2005	\$ 251,000
2006	227,000
2007	133,000
2008	132,000
2009	137,000
Thereafter	<u>262,000</u>
	<u>\$ 1,142,000</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 APMG'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 \$109,000 and \$61,000 for the years ended June 30, 2004 and 2003, respectively.

8. AFFILIATED ORGANIZATIONS

SCPR is charged by APMG for its estimated share of various accounting services, personnel costs, and insurance costs incurred on its behalf. For the years ended June 30, 2004 and 2003, these charges totaled \$70,000 and \$60,000, respectively, and are included in administrative expenses.

During the years ended June 30, 2004 and 2003, SCPR was charged \$359,000 and \$308,000, 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, 2004 and 2003, these charges totaled \$108,000 and \$99,000, respectively, and are included in space costs.

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, 2004 and 2003, these charges totaled \$175,000.

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KPCC89.3FM
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