

# REPORT ON AUDIT OF FINANCIAL STATEMENTS

Years Ended June 30, 2006 and 2005



**SOUTHERN CALIFORNIA  
PUBLIC RADIO**

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
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, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information was derived from the Organization's June 30, 2005, financial statements, and, in our report dated November 30, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006, 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 operating and property fund information presented in the statements of activities and financial position for 2006 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 2006 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2006 financial statements taken as a whole.

*Deloitte & Touche LLP*

October 26, 2006

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

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)**  
**(In thousands)**

	<u>Year Ended June 30, 2006</u>				<u>Year Ended June 30</u>	
	<u>Unrestricted</u>			<u>Temporarily Restricted</u>	<u>Total</u>	
	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Total</u>		<u>2006</u>	<u>2005</u>
<b>SUPPORT FROM PUBLIC:</b>						
Individual gifts and membership	\$ 4,543	\$ 75	\$ 4,618	\$ 246	\$ 4,864	\$ 4,526
Underwriting	714		714	3,148	3,862	4,049
Underwriting released from restriction	3,291		3,291	(3,291)		
Business general support	71		71		71	115
Foundations	57		57	410	467	1,115
Foundations released from restriction	720		720	(720)		
Total support from public	<u>9,396</u>	<u>75</u>	<u>9,471</u>	<u>(207)</u>	<u>9,264</u>	<u>9,805</u>
<b>SUPPORT FROM GOVERNMENTAL AGENCIES:</b>						
Corporation for Public Broadcasting ("CPB")				777	777	517
CPB released from restriction	777		777	(777)		
Grants from other governmental agencies						4
Total support from governmental agencies	<u>777</u>	<u>-</u>	<u>777</u>	<u>-</u>	<u>777</u>	<u>521</u>
<b>EARNED REVENUE:</b>						
Revenue from broadcasting activities	4		4		4	3
Investment return	16	119	135		135	23
Other earned revenue	57	150	207		207	146
Total earned revenue	<u>77</u>	<u>269</u>	<u>346</u>	<u>-</u>	<u>346</u>	<u>172</u>
<b>TOTAL SUPPORT AND EARNED REVENUE</b>	<u>10,250</u>	<u>344</u>	<u>10,594</u>	<u>(207)</u>	<u>10,387</u>	<u>10,498</u>
<b>EXPENSES:</b>						
Operations	6,704	161	6,865		6,865	5,496
Administrative	1,122	4	1,126		1,126	1,057
Fundraising	2,733	10	2,743		2,743	2,810
Total expenses	<u>10,559</u>	<u>175</u>	<u>10,734</u>	<u>-</u>	<u>10,734</u>	<u>9,363</u>
<b>SUPPORT AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES</b>	<u>(309)</u>	<u>169</u>	<u>(140)</u>	<u>(207)</u>	<u>(347)</u>	<u>1,135</u>
<b>CAPITAL CAMPAIGN REVENUE</b>		<u>19</u>	<u>19</u>	<u>1,186</u>	<u>1,205</u>	<u>3,404</u>
<b>CAPITAL CAMPAIGN REVENUE RELEASED FROM RESTRICTION</b>		<u>1,229</u>	<u>1,229</u>	<u>(1,229)</u>		
<b>CAPITAL CAMPAIGN AND RELATED EXPENSES</b>		<u>(747)</u>	<u>(747)</u>		<u>(747)</u>	<u>(203)</u>
<b>INTERFUND TRANSFER</b>	<u>(132)</u>	<u>132</u>				
<b>CHANGE IN NET ASSETS</b>	<u>(441)</u>	<u>802</u>	<u>361</u>	<u>(250)</u>	<u>111</u>	<u>4,336</u>
<b>NET ASSETS—Beginning of year</b>	<u>994</u>	<u>1,495</u>	<u>2,489</u>	<u>3,906</u>	<u>6,395</u>	<u>2,059</u>
<b>NET ASSETS—End of year</b>	<u>\$ 553</u>	<u>\$2,297</u>	<u>\$ 2,850</u>	<u>\$ 3,656</u>	<u>\$ 6,506</u>	<u>\$ 6,395</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, 2006**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)**  
**(In thousands)**

	<u>Year Ended June 30, 2006</u>			<u>Year Ended June 30</u>	
	<u>Operations</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>2005</u>
EXPENSES:					
Personnel (less fringe benefits)	\$ 2,938	\$ 597	\$ 1,168	\$ 4,703	\$ 4,187
Fringe benefits	605	127	233	965	818
Programming—content	983	2	17	1,002	919
Other production	298		7	305	166
Space costs	173	24	67	264	244
Utilities	79	10	27	116	91
Repairs and maintenance	25	1		26	37
Other occupancy	1	45	3	49	53
Membership development			356	356	373
Promotion and development	1,344		656	2,000	1,641
Travel and training	44	28	24	96	97
Management and general	67	202	70	339	353
Depreciation	158	4	9	171	118
Financial		86	106	192	166
Payments to PACCD (Note 9)	<u>150</u>	<u>      </u>	<u>      </u>	<u>150</u>	<u>100</u>
<b>TOTAL</b>	<u><b>\$ 6,865</b></u>	<u><b>\$ 1,126</b></u>	<u><b>\$ 2,743</b></u>	<u><b>\$ 10,734</b></u>	<u><b>\$ 9,363</b></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, 2006**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2005)**  
**(In thousands)**

	June 30, 2006					June 30, 2005 Total
	Unrestricted			Temporarily Restricted	Total	
	Operating Fund	Property Fund	Total			
<b>ASSETS</b>						
CURRENT ASSETS:						
Cash and cash equivalents	\$ -	\$ 43	\$ 43	\$ -	\$ 43	\$ 19
Cash and cash equivalents due from parent	55		55	360	415	1,935
Accounts receivable:						
Trade—net	1,380	7	1,387	1,072	2,459	1,984
Capital campaign				152	152	1,028
Grants	52		52	89	141	387
Prepaid expenses	203		203		203	147
Inventory	99		99		99	
Due from (to) other funds	75	(75)				
Total current assets	<u>1,864</u>	<u>(25)</u>	<u>1,839</u>	<u>1,673</u>	<u>3,512</u>	<u>5,500</u>
NET PROPERTY AND EQUIPMENT (Note 3)		<u>6,755</u>	<u>6,755</u>		<u>6,755</u>	<u>6,301</u>
ACCOUNTS RECEIVABLE—Other, net of present value discount of \$1 and \$0				<u>424</u>	<u>424</u>	
OTHER ASSETS:						
Investments (Note 2)	50	446	496	1,550	2,046	436
Investments limited to use (Note 2)		2,000	2,000		2,000	
Other	68	129	197	9	206	474
Total other assets	<u>118</u>	<u>2,575</u>	<u>2,693</u>	<u>1,559</u>	<u>4,252</u>	<u>910</u>
<b>TOTAL</b>	<u>\$1,982</u>	<u>\$9,305</u>	<u>\$11,287</u>	<u>\$3,656</u>	<u>\$14,943</u>	<u>\$12,711</u>
<b>LIABILITIES AND NET ASSETS</b>						
CURRENT LIABILITIES:						
Accounts payable—trade	\$ 595	\$ -	\$ 595	\$ -	\$ 595	\$ 250
Current portion of loan from APMG (Note 4)	100		100		100	100
Accrued liabilities	419	8	427		427	551
Total current liabilities	<u>1,114</u>	<u>8</u>	<u>1,122</u>	<u>-</u>	<u>1,122</u>	<u>901</u>
OTHER LIABILITIES:						
Loan from APMG (Note 4)	315		315		315	415
Long-term debt (Note 5)		7,000	7,000		7,000	5,000
Total other liabilities	<u>315</u>	<u>7,000</u>	<u>7,315</u>	<u>-</u>	<u>7,315</u>	<u>5,415</u>
Total liabilities	<u>1,429</u>	<u>7,008</u>	<u>8,437</u>		<u>8,437</u>	<u>6,316</u>
COMMITMENTS AND CONTINGENCIES (Note 7)						
NET ASSETS	<u>553</u>	<u>2,297</u>	<u>2,850</u>	<u>3,656</u>	<u>6,506</u>	<u>6,395</u>
<b>TOTAL</b>	<u>\$1,982</u>	<u>\$9,305</u>	<u>\$11,287</u>	<u>\$3,656</u>	<u>\$14,943</u>	<u>\$12,711</u>

See notes to financial statements.

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

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2005)**  
**(In thousands)**

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 111	\$ 4,336
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	176	118
Restricted contributions and grants	(50)	(2,141)
Increase (decrease) in:		
Accounts receivable:		
Trade—net	(475)	(93)
Grants	246	(344)
Prepaid expenses, inventory, and other assets	242	71
Increase in liabilities—accounts payable and accrued liabilities	202	260
Net cash provided to (from) parent	<u>209</u>	<u>(368)</u>
Total adjustments	<u>550</u>	<u>(2,497)</u>
Net cash provided by operating activities	<u>661</u>	<u>1,839</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(606)	(6,187)
Purchase of investments	(2,675)	(1,691)
Sale of investments	<u>376</u>	<u>          </u>
Net cash used in investing activities	<u>(2,905)</u>	<u>(7,878)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on loan from APMG	(100)	(100)
Contributions for restricted net assets	502	1,158
Debt issuance costs	(134)	
Proceeds from issuance of debt	7,000	5,000
Principal payments on debt	<u>(5,000)</u>	<u>          </u>
Net cash provided by financing activities	<u>2,268</u>	<u>6,058</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>24</u>	<u>19</u>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>19</u>	<u>          </u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$ 43</u>	<u>\$ 19</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES—Additions to net property and equipment funded through accounts payable—trade</b>	<u>\$ 19</u>	<u>\$ -</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION—Cash paid during the year for interest</b>	<u>\$ 211</u>	<u>\$ 80</u>

See notes to financial statements.

# **SOUTHERN CALIFORNIA PUBLIC RADIO**

## **(An Affiliated Organization of American Public Media Group)**

### **NOTES TO FINANCIAL STATEMENTS**

#### **AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

#### **(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)**

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## **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|American Public Media (“MPR|APM”). APMG’s primary purpose is to provide financial and management support services to SCPR, MPR|APM, 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|APM 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, and revenue sharing obligations to PACCD to support a digital training academy. APMG guaranteed to provide financial support to SCPR for a minimum of 10 years, in the form of loans, sufficient to assure that SCPR is capable of meeting certain operating expense levels. Effective January 1, 2006, the parties agreed to an extension of the Agreement through December 31, 2025. The term automatically extends for successive periods of five years each thereafter, unless either party gives written notice at least 12 months prior to the end of the then-current term or extension. Also as part of this transaction, APMG and its affiliates agreed to provide programming, development, technical, human resources, and accounting services to SCPR. SCPR operates an Internet website at [www.scpr.org](http://www.scpr.org) where it provides a stream of its radio programming, archived audio programming, text, and interaction.

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 property and 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 property, plant, and 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, 2006 and 2005, were restricted for:

	<b>2006</b>	<b>2005</b>
Program support and underwriting	\$ 1,478,000	\$ 1,678,000
Capital	<u>2,178,000</u>	<u>2,228,000</u>
	<u>\$3,656,000</u>	<u>\$3,906,000</u>

Temporarily restricted funds released from donor-imposed restrictions for the years ended June 30, 2006 and 2005, consist of the following:

	<b>2006</b>	<b>2005</b>
Underwriting	\$ 3,291,000	\$ 2,564,000
Foundations	720,000	436,000
Corporation for public broadcasting revenue	777,000	576,000
Capital campaign revenue	<u>1,229,000</u>	<u>1,189,000</u>
	<u>\$6,017,000</u>	<u>\$4,765,000</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, 2006 and 2005.

**Summarized Financial Information for the Year Ended June 30, 2005**—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 (“GAAP”). Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2005, from which the summarized information was derived.

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

**Revenue Recognition:**

*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. Temporarily restricted support whose restrictions are fulfilled in the same time period are presented within unrestricted net assets.

*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.

*Capital Campaign and Related Expenses*—Capital campaign and related expenses include fundraising and administrative costs directly attributable to the capital campaign and debt servicing costs directly attributable to the capital project.

*Cash and Cash Equivalents*—Cash and cash equivalents represent cash on hand and cash invested in short-term instruments with original maturities of three months or less that are to be used to meet SCPR's current needs.

*Cash and Cash Equivalents Due from Parent*—Cash and cash equivalents due from parent represent cash on hand and cash invested in short-term instruments with original maturities of three months or less that are held by APMG within a pooled cash account on behalf of SCPR. The funds held by APMG represent actual funds on hand at APMG and are available to SCPR at any time. Temporarily restricted cash and cash equivalents are still subject to donor-imposed restrictions.

**Accounts Receivable:**

*Trade Accounts Receivable*—Allowances for doubtful accounts of \$172,000 and \$256,000 at June 30, 2006 and 2005, respectively, have been recorded to provide for estimated bad debts.

*Capital Campaign Receivable, Grants and Other Receivable*—Unconditional promises to make charitable contributions, the cash from which may 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 at the time of the contribution (5.125% at June 30, 2006).

Trade, capital campaign, grants and other receivable at June 30, 2006, were due as follows:

	<b>Temporarily Restricted</b>	<b>Unrestricted</b>	<b>Total</b>
In less than one year	\$ 1,313,000	\$ 1,439,000	\$ 2,752,000
In one to five years	423,000		423,000
In greater than five years	1,000		1,000
	<u>\$ 1,737,000</u>	<u>\$ 1,439,000</u>	<u>\$ 3,176,000</u>

**Net Property, Plant, and Equipment**—Net property, plant, and equipment are recorded at cost, and depreciation is computed on the straight-line method over the estimated useful lives of the related assets as follows:

Building and leasehold improvements	40 years
Equipment	3–20 years

**Inventory**—Inventories are stated at the lower of cost or market.

**Other Assets**—Other assets include barter assets and capitalized bond issue costs. Barter assets are recorded at fair market value and expensed as used. Bond issue costs are recorded at historical cost and expensed over the life of the bonds using the effective interest method.

**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. SCPR is engaged in certain activities that result in unrelated business income. For the years ended June 30, 2006 and 2005, SCPR incurred tax expense of \$0 and \$1,000, respectively.

**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 as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and determined that it has no freestanding or embedded derivatives.

**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 that no impairment exists.

**Use of Estimates**—Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. 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. The financial statements include a change in presentation from cash and cash equivalents due from parent to cash and cash equivalents of \$19.

## 2. INVESTMENTS

Investments and investments limited to use, at June 30, 2006 and 2005, consisted of the following:

	2006	2005
Investments at market:		
SCPR Project Bonds Construction Fund	\$2,000,000	\$ -
SCPR Capital Campaign	1,836,000	
Investments held at APMG	60,000	436,000
Investments at cost—		
Investment in Gather Inc.	<u>150,000</u>	<u>          </u>
	<u>\$4,046,000</u>	<u>\$ 436,000</u>

Types of investments held at June 30, 2006 and 2005, were as follows:

	2006	2005
Cash equivalents/money market	\$3,896,000	\$ 436,000
Gather Inc.	<u>150,000</u>	<u>          </u>
	<u>\$4,046,000</u>	<u>\$ 436,000</u>

Investments at market are carried at fair value based on quoted market prices and are invested in cash equivalents and money market accounts and are recorded as long-term assets as SCPR intends to utilize these for future construction projects. Investments at cost are carried at cost as SCPR holds less than 20% of the equity and does not have significant influence. Cost basis investments are reviewed annually for impairment. There were no impairment charges during the years ended June 30, 2006 and 2005.

Net investment return for the years ended June 30, 2006 and 2005, consisted of the following:

	2006	2005
Interest income	\$ 136,000	\$ 27,000
Realized losses—net	(1,000)	(5,000)
Unrealized gains	<u>          </u>	<u>1,000</u>
	<u>\$ 135,000</u>	<u>\$ 23,000</u>

The return from investments is comprised primarily of interest income from the capital campaign money market account and the Project Bonds Construction Fund. The investment return from funds held by APMG is the allocated portion due to SCPR based on the average investment balances.

The California Infrastructure and Economic Development Bank issued \$7,000,000 of Variable Rate Demand Revenue Bonds (SCPR Project Bonds)—Series 2005 to finance the acquisition, construction, improvement, and remodeling of the capital facilities at 474 South Raymond Avenue (also see Notes 3 and 5). The proceeds from the SCPR Project Bonds are held in trust at Wells Fargo Bank in a construction fund. The proceeds remaining at June 30, 2006, were \$2,000,000 and will be used for the purposes noted above.

Funds from the SCPR Capital Campaign are intended for the general purposes of the Organization, including the construction of the Organization's building and other broadcasting infrastructure. Unrestricted funds are accounted for in the Property Fund, and restricted funds are classified accordingly.

In December 2005, SCPR invested \$150,000 in Gather Inc, a social networking website devoted to creating an online community of public radio listeners.

SCPR has \$60,000 in a pooled investment account at APMG. The funds held by APMG represent actual funds on hand and are available to SCPR at any time. Investment return is allocated to SCPR on a monthly basis based upon the average investment balances.

### 3. NET PROPERTY AND EQUIPMENT

Net property and equipment at June 30, 2006 and 2005, consisted of the following:

	2006	2005
Cost:		
Land	\$4,734,000	\$4,734,000
Building and leasehold improvements	1,201,000	1,202,000
Equipment	686,000	618,000
Construction-in-progress	<u>495,000</u>	<u>                    </u>
Total cost	7,116,000	6,554,000
Less accumulated depreciation and amortization	<u>(361,000)</u>	<u>(253,000)</u>
	<u>\$6,755,000</u>	<u>\$6,301,000</u>

Total depreciation expense and amortization of leasehold improvements charged to operations in the Property Fund was \$171,000 and \$118,000 for the years ended June 30, 2006 and 2005, respectively.

**Acquisition**—During 2005, SCPR purchased a new building. The property was purchased to support SCPR's ambitious 10-year mission-driven growth plan of expanding its civic journalism to better serve the diverse communities of Southern California as well as meeting current content production needs. On January 13, 2005, SCPR purchased the land and building comprising 474 South Raymond Avenue in Pasadena, California, for approximately \$5,740,000. The land and building is within location parameters defined in the PACCD Agreement. The building is being depreciated on a straight-line method over a 40-year useful life. The purchase price of \$5,740,000, along with approximately \$195,000 of related acquisition costs, were allocated to the land and building based on their relative fair values as follows:

Land	\$4,734,000
Building	1,202,000

**Construction-in-Progress**—Construction-in-progress at June 30, 2006, represents costs incurred in connection with remodeling and building projects. At June 30, 2006, building expansion and remodeling projects having an estimated final cost of \$10,184,000 are currently in progress. Total interest capitalized on construction during the years ended June 30, 2006 and 2005, was \$0 for both years as interest income on the bond construction funds exceed interest expense on the projects.

#### 4. AMOUNTS PAYABLE TO APMG

In January 2000, a loan was entered into between APMG and SCPR to provide long-term financing of up to \$1,000,000. The loan bears no stated interest rate and no monthly principal payments were required. Prior to February 5, 2004, SCPR was required to make a payment on the loan only in the event they achieved an operating surplus, as defined by APMG, at the end of a fiscal year. 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, 2006 and 2005, the amount outstanding was \$415,000 and \$515,000, respectively.

Annual principal payments due on the loan from APMG at June 30, 2006, are as follows:

<b>Years Ending June 30</b>	
2007	\$ 100,000
2008	100,000
2009	150,000
2010	<u>65,000</u>
	415,000
Less amounts due within one year	<u>100,000</u>
	<u>\$ 315,000</u>

In fiscal 2001, APMG established a line of credit for SCPR's general operating needs. This line was originally set at \$700,000 and increased to \$1,000,000 in February 2004. Until June 30, 2004, the line bore no stated interest rate. As of July 1, 2004, this line bears interest at the federal funds rate. The rate was 5.25% at June 30, 2006, and 3.25% at June 30, 2005. The line of credit expires on June 30, 2007. The line is classified as short-term, as it is expected to be repaid within one year. The amount of the line outstanding at both June 30, 2006 and 2005, was \$0.

#### 5. LONG-TERM DEBT

The California Infrastructure and Economic Development Bank issued \$7,000,000 of Variable Rate Demand Revenue Bonds (Southern California Public Radio Project)—Series 2005 to finance the acquisition, construction, improvement, and remodeling of the capital facilities at 474 South Raymond Avenue, purchased on January 13, 2005, for \$5,740,000. The Southern California Public Radio Project Bonds were issued on September 8, 2005, and will mature on September 1, 2025. The bond proceeds were used to pay off the \$5,000,000 variable interest rate, short-term loan from Allied Irish Bank, New York. The remaining proceeds from the bonds were transferred to the trustee (Wells Fargo Bank), who was required by the indenture to deposit the proceeds in the SCPR Project Bonds Construction Fund (see Note 2). Interest on the bonds is payable monthly and principal payments are paid based on the maturity schedule below.

SCPR has the option to call for the redemption and prepayment of the outstanding bonds in full or in part as per the redemption schedule. Repayment of the Southern California Public Radio Project Bonds is further secured by an irrevocable letter of credit issued by Allied Irish Bank, New York. The letter of credit on the date of issue was for \$7,086,302. The letter of credit expires on September 8, 2009. The Bonds are also secured by a guarantee provided to the trustee (Wells Fargo Bank) by APMG. Interest on the bonds is based on a daily remarketing process however, the rate is not to exceed 10%. The rate was 3.99% on June 30, 2006.

The aggregate amount of the long-term debt maturities based upon the stated terms of the debt at June 30, 2006, is as follows:

<b>Years Ending June 30</b>	
2007	\$ -
2008	
2009	290,000
2010	300,000
2011	315,000
Thereafter	<u>6,095,000</u>
	<u>\$ 7,000,000</u>

## **6. LEASES**

The Organization leases studio facilities, transmission facilities, and office space under noncancelable operating lease agreements that expire at varying dates. Total rent expense for all operating leases was \$259,000 and \$244,000 for the years ended June 30, 2006 and 2005, respectively.

Minimum future payments required under noncancelable operating leases as of June 30, 2006, are as follows:

<b>Years Ending June 30</b>	
2007	\$ 179,000
2008	180,000
2009	186,000
2010	192,000
2011	101,000
Thereafter	<u>1,043,000</u>
	<u>\$ 1,881,000</u>

## **7. 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.

## **8. RETIREMENT PLAN**

SCPR participates in APMG's 403(b) tax deferred retirement 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 \$152,000 and \$137,000 for the years ended June 30, 2006 and 2005, respectively.

## **9. 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, 2006 and 2005, these charges totaled \$77,000 and \$71,000, respectively, and are included in administrative expenses.

During the years ended June 30, 2006 and 2005, SCPR was charged \$245,000 and \$303,000, respectively, for various operational services provided by MPR|APM. These charges are reflected in fund raising and operations expenses.

SCPR is charged by PACCD for various facilities costs. For the years ended June 30, 2006 and 2005, these charges totaled \$128,000 and \$126,000, respectively, and are included in space costs.

SCPR pays 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, 2006 and 2005, these charges totaled \$150,000 and \$100,000, respectively.

\* \* \* \* \*

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**SOUTHERN CALIFORNIA  
PUBLIC RADIO**