



**MINNESOTA
PUBLIC RADIO**

**REPORT ON AUDIT OF CONSOLIDATED
FINANCIAL STATEMENTS**

Years ended June 30, 2002 and 2001

**MINNESOTA PUBLIC RADIO AND
SUBSIDIARIES**

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

**Consolidated Financial Statements for the
Year Ended June 30, 2002 (with Comparative
Totals for the Year Ended June 30, 2001) and
Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Minnesota Public Radio
Saint Paul, Minnesota

We have audited the accompanying consolidated statement of financial position of Minnesota Public Radio (the Organization) and subsidiaries, an affiliated organization of American Public Media Group, as of June 30, 2002 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of Minnesota Public Radio and subsidiaries. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's June 30, 2001 consolidated financial statements and, in our report dated October 18, 2001, we expressed an unqualified opinion on those consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Minnesota Public Radio and subsidiaries as of June 30, 2002 and the consolidated results of their 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

November 1, 2002

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES
(An Affiliated Organization of American Public Media Group)

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002 (with comparative totals for the year ended June 30, 2001) (in thousands)

	June 30, 2002							June 30	
	Unrestricted					Temporarily Restricted	Permanently Restricted	Total Consolidated	
	Operating Fund	Property Fund	Designated Fund	Interfund Eliminations	Total			2002	2001
SUPPORT FROM PUBLIC:									
Membership	\$ 9,755				\$ 9,755			\$ 9,755	\$ 8,406
Regional underwriting	2,091				2,091	\$ 2,021		4,112	4,062
National underwriting	4,429				4,429	2,940		7,369	4,999
Business general support	643	\$ 133		\$ 133	643	29		672	1,217
Foundations	421	250			671	1,827		2,498	2,390
Grants from endowments (Notes 10 and 11)	3,597		\$ 1,362		4,959			4,959	4,836
Other grants from APM (Note 10)		199			199			199	3,734
Institutional sponsors	<u>376</u>				<u>376</u>			<u>376</u>	<u>426</u>
Total support from public	21,312	582	1,362	133	23,123	6,817		29,940	30,070
SUPPORT FROM GOVERNMENTAL AGENCIES:									
Corporation for Public Broadcasting	3,238				3,238	276		3,514	3,523
Other grants from governmental agencies	<u>59</u>				<u>59</u>	<u>11</u>		<u>70</u>	<u>861</u>
Total support from governmental agencies	3,297				3,297	287		3,584	4,384
EARNED REVENUE:									
Revenue from broadcasting activities	8,768				8,768			8,768	6,995
Royalties and licensing fees	1,487		1		1,488			1,488	1,658
Investment return, net (Note 11)	264	37	50		351		\$ (2,208)	(1,857)	(400)
Other	<u>1,283</u>	<u>429</u>		<u>64</u>	<u>1,648</u>	<u>127</u>		<u>1,775</u>	<u>1,708</u>
Total earned revenue	11,802	466	51	64	12,255	127	(2,208)	10,174	9,961
NET ASSETS RELEASED FROM RESTRICTION									
Total support and earned revenue	<u>4,651</u>	<u>681</u>			<u>5,332</u>	<u>(5,332)</u>			
	41,062	1,729	1,413	197	44,007	1,899	(2,208)	43,698	44,415
EXPENSES:									
Operations	29,348	2,443	417	197	32,011			32,011	29,723
Administrative	6,717	686			7,403			7,403	6,536
Fundraising	<u>4,845</u>	<u>226</u>			<u>5,071</u>			<u>5,071</u>	<u>4,879</u>
Total expenses	40,910	3,355	417	197	44,485			44,485	41,138
MINORITY INTEREST IN JOINT VENTURE	(48)				(48)			(48)	(39)
SUPPORT AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	104	(1,626)	996		(526)	1,899	(2,208)	(835)	3,238
CAPITAL CAMPAIGN		109			109	47		156	2
INTERFUND TRANSFERS	(55)	899	(844)						
CHANGE IN NET ASSETS	49	(618)	152		(417)	1,946	(2,208)	(679)	3,240
NET ASSETS AT BEGINNING OF YEAR	<u>431</u>	<u>26,751</u>	<u>12,369</u>		<u>39,551</u>	<u>8,341</u>	<u>21,034</u>	<u>68,926</u>	<u>65,686</u>
NET ASSETS AT END OF YEAR	<u>\$ 480</u>	<u>\$ 26,133</u>	<u>\$ 12,521</u>	<u>\$ -</u>	<u>\$ 39,134</u>	<u>\$ 10,287</u>	<u>\$ 18,826</u>	<u>\$ 68,247</u>	<u>\$ 68,926</u>

See notes to consolidated financial statements.

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES
(An Affiliated Organization of American Public Media Group)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2002 (with comparative totals as of June 30, 2001) (in thousands)

	June 30, 2002							June 30	
	Unrestricted					Temporarily Restricted	Permanently Restricted	Total Consolidated	
	Operating Fund	Property Fund	Designated Fund	Interfund Eliminations	Total			2002	2001
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 321	\$ 95			\$ 416	\$ 1,755		\$ 2,171	\$ 2,610
Accounts receivable - trade	6,074	6			6,080	4,969		11,049	9,872
Pledges - capital campaign		37			37	25		62	1
Grants receivable	611				611	784		1,395	2,363
Prepaid expenses	552				552			552	420
Due from other funds		<u>1,393</u>	<u>\$ 2,939</u>	<u>\$ 4,332</u>					
Total current assets	7,558	1,531	2,939	4,332	7,696	7,533		15,229	15,266
PROPERTY AND EQUIPMENT, net (Note 3)		26,632	193		26,825			26,825	18,269
OTHER ASSETS:									
Investments (Note 2)	95	2,088	5,013		7,196	2,342		9,538	5,141
Endowment funds held by others (Note 11)							\$ 18,826	18,826	21,034
Accounts receivable - trade, net of present value discount of \$5						121		121	
Pledges - capital campaign, net of present value discount of \$1 in 2002	32				32	26		58	32
Grants receivable, net of present value discount of \$29						790		790	
Note issuance costs, net		133			133			133	9
Broadcast licenses and other intangibles, net (Note 4)		8,349	4,381		12,730			12,730	13,244
Other	<u>167</u>				<u>167</u>	<u>325</u>		<u>492</u>	<u>142</u>
Total other assets	294	10,570	9,394		20,258	3,604	18,826	42,688	39,602
Total assets	<u>\$ 7,852</u>	<u>\$ 38,733</u>	<u>\$ 12,526</u>	<u>\$ 4,332</u>	<u>\$ 54,779</u>	<u>\$ 11,137</u>	<u>\$ 18,826</u>	<u>\$ 84,742</u>	<u>\$ 73,137</u>
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable:									
Trade	\$ 1,516	\$ 34	\$ 5		\$ 1,555			\$ 1,555	\$ 1,883
Affiliates									39
Current portion of long-term debt (Note 6)		429			429			429	122
Accrued liabilities	1,524	6			1,530			1,530	1,291
Refundable advance						\$ 850		850	
Due to other funds	<u>4,332</u>			<u>\$ 4,332</u>					
Total current liabilities	7,372	469	5	4,332	3,514	850		4,364	3,335
OTHER LIABILITIES -									
Long-term debt, less current portion (Note 6)		<u>12,131</u>			<u>12,131</u>			<u>12,131</u>	<u>876</u>
Total liabilities	7,372	12,600	5	4,332	15,645	850		16,495	4,211
COMMITMENTS AND CONTINGENCIES (Note 8)									
NET ASSETS	<u>480</u>	<u>26,133</u>	<u>12,521</u>		<u>39,134</u>	<u>10,287</u>	<u>\$ 18,826</u>	<u>68,247</u>	<u>68,926</u>
Total liabilities and net assets	<u>\$ 7,852</u>	<u>\$ 38,733</u>	<u>\$ 12,526</u>	<u>\$ 4,332</u>	<u>\$ 54,779</u>	<u>\$ 11,137</u>	<u>\$ 18,826</u>	<u>\$ 84,742</u>	<u>\$ 73,137</u>

See notes to consolidated financial statements.

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES
(An Affiliated Organization of American Public Media Group)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2002 (with comparative totals as of June 30, 2001) (in thousands)

	<u>Year Ended June 30, 2002</u>			<u>Year Ended June 30</u>	
	Operations	Administrative	Fundraising	Consolidated Total 2002	2001
Salaries	\$ 14,742	\$ 2,426	\$ 2,185	\$ 19,353	\$ 16,400
Fringe benefits	2,949	438	399	3,786	3,158
Programming	7,230	235	100	7,565	7,660
Facilities costs	2,799	758	35	3,592	3,395
Promotion and development	689	326	1,289	2,304	2,855
Publications	74		605	679	740
Management and general	1,134	2,534	443	4,111	3,996
Interest	85			85	179
Depreciation and amortization	<u>2,309</u>	<u>686</u>	<u>15</u>	<u>3,010</u>	<u>2,755</u>
Total expenses	<u>\$ 32,011</u>	<u>\$ 7,403</u>	<u>\$ 5,071</u>	<u>\$ 44,485</u>	<u>\$ 41,138</u>

See notes to consolidated financial statements.

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES
(An Affiliated Organization of American Public Media Group)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001 (in thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (679)	\$ 3,240
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,010	2,755
Decrease in endowment funds held by others	2,208	1,241
Restricted contributions and grants	(47)	
(Increase) decrease in assets:		
Accounts and pledges receivable	(1,385)	(2,394)
Grants receivable	178	327
Prepaid expenses	(132)	(41)
Investments maintained at APM	(3,045)	1,671
Other	(350)	485
(Decrease) increase in liabilities:		
Accounts payable - trade and accrued liabilities	(89)	164
Accounts payable - affiliates	(39)	
Refundable advance	850	
Total adjustments	<u>1,159</u>	<u>4,208</u>
Net cash provided by operating activities	480	7,448
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Capital expenditures and business acquisitions	(11,041)	(5,984)
Purchases of investments	(2,055)	
Proceeds from sales and maturities of investments	<u>703</u>	
Net cash used in investing activities	(12,393)	(5,984)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Note issuance costs	(135)	
Borrowings on short-term loan	6,325	
Principal payments on short-term loan	(6,325)	
Borrowings on long-term debt	11,825	
Restricted contributions and grants	47	
Principal payments on long-term debt	<u>(263)</u>	<u>(2,627)</u>
Net cash provided by (used in) financing activities	<u>11,474</u>	<u>(2,627)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(439)	(1,163)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,610</u>	<u>3,773</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,171</u>	<u>\$ 2,610</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION –		
Cash paid during the year for interest	<u>\$ 85</u>	<u>\$ 179</u>

See notes to consolidated financial statements.

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES

(An Affiliated Organization of American Public Media Group)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002 (with comparative totals for the year ended June 30, 2001)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business - Minnesota Public Radio (the Organization or MPR) is a not-for-profit corporation whose mission is to enrich the mind and nourish the spirit through radio, related technology, and services.

MPR is the parent organization of The Fitzgerald Theater Company (FTC), a not-for-profit corporation whose purpose is to operate the Fitzgerald Theater in Saint Paul, Minnesota. MPR has the ability to elect the FTC Board of Trustees.

MPR is the parent organization of and owns all the stock of 1400 Inc., a for-profit affiliate, which owns and operates commercial radio stations KLBB and KLBP.

American Public Media Group (APM) is the not-for-profit parent support organization of MPR and of Southern California Public Radio (SCPR). APM's primary purpose is to provide financial and management support services to MPR, FTC, and SCPR. APM has the ability to elect, or to approve the election of, a majority of the MPR Board of Trustees and all of the SCPR Board of Trustees. APM also owns all of the stock of Greenspring Company (Greenspring), a for-profit holding company. Greenspring has two wholly owned, for-profit subsidiaries, which engage principally in commercial radio and news network activities (The MNN Radio Networks or MNN) and publishing activities (Minnesota Monthly Publications or MMP).

The Organization and its not-for-profit subsidiary each maintain 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 and subsidiaries, respectively.

Property Fund - To acquire and account for all land, buildings, building improvements, equipment, and certain broadcast licenses and other intangibles owned by the Organization and its subsidiaries.

Designated Fund - To account for funds intended to assure the long-term financial health of the Organization and its not-for-profit subsidiaries. The MPR Designated Fund also receives grants and bequests related to MPR's Planned Giving efforts, disburses funds related to such grants and bequests, and receives grants from sources designated from time to time by the MPR Board of Trustees. Cash balances in the Designated Fund - Unrestricted are available to the Operating Fund to provide for cash flow needs.

Basis of Financial Statement Presentation - These consolidated financial statements include the accounts of the Organization, FTC, and 1400 Inc. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Summarized Financial Information for the Year Ended June 30, 2001 - The consolidated 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 consolidated financial statements for the year ended June 30, 2001, from which the summarized information was derived.

The Organization and its subsidiaries are charged and reimbursed for certain estimated costs incurred and benefits accrued by APM. In addition, the Organization receives royalties from a Greenspring subsidiary, MNN, based on sales of certain advertising and receives a payment from a Greenspring subsidiary, MMP, based upon net proceeds for a trade show that MMP operates on MPR's behalf. The above charges, reimbursements, and receipts may not necessarily be indicative of the actual costs that would have been incurred, nor of the actual benefits that would have been accrued, had the Organization and its subsidiaries operated independently.

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

Unrestricted - Unrestricted funds are those funds over which the MPR Board of Trustees has discretionary control. Designated amounts represent those revenues which the MPR Board of Trustees has set aside for a particular purpose. All property, equipment, and related 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 its respective subsidiary or passage of time. The Organization has elected to present temporarily restricted contributions whose restrictions were fulfilled in the same time period within the unrestricted net assets class.

Temporarily restricted net assets at June 30 were restricted for:

	2002	2001
Program Support and Underwriting	\$ 8,122,000	\$ 6,534,000
Capital	<u>2,165,000</u>	<u>1,807,000</u>
	<u>\$ 10,287,000</u>	<u>\$ 8,341,000</u>

Permanently Restricted - Permanently restricted funds are those funds subject to donor-imposed restrictions which require that the funds be maintained by the Organization or its respective subsidiary 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. Permanently restricted net assets at June 30, 2002 and 2001 represent funds held by external endowments (Note 11).

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 consolidated statement of activities as net assets released from restriction.

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, the majority of which are held by APM on behalf of MPR. The funds held by APM represent actual funds on hand at APM and are available to MPR at any time.

Accounts Receivable, Grants Receivable, and Pledges - Capital Campaign - Unconditional promises to make charitable contributions, the cash from which is expected to be received over more than one year, are recorded by MPR at their present value using a discount rate equivalent to treasury yields of similar maturity (2.88% at June 30, 2002).

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. The original cost and capital improvements of the buildings are depreciated, using the straight-line method, over an estimated useful life of 31.5 to 40 years. Leasehold improvements are amortized over the shorter of the term of the related lease or the estimated useful life of the asset. Costs incurred in connection with the issuance of the Variable Rate Demand Revenue Bond - Series 2002 are amortized over the term of the note using a method which approximates the effective interest method. Costs incurred to acquire broadcast licenses and the estimated fair market value of donated licenses are amortized over a period of 40 years using the straight-line method. Other intangibles are amortized over 15 years using the straight-line method.

Long-Term Assets - Management periodically reviews the carrying value of long-term assets based upon undiscounted future cash flows expected to result from the use of those assets. Should the sum of the expected future cash flows be less than the carrying value, an impairment loss would be recognized. To date, management has determined no impairment exists.

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

Income Tax Status - Both MPR and FTC are organized under Chapter 317 of Minnesota Statutes as not-for-profit organizations. The Internal Revenue Service has determined that MPR 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 Internal Revenue Service has also determined that FTC is a tax-exempt organization under Section 501(c)(3) of the Code and is not a private foundation as it qualifies under Section 509(a)(2) of the Code. The Minnesota Department of Revenue has determined that MPR and FTC are both exempt from Minnesota income taxes under Section 290.05 Subdivision 9 of Minnesota Statutes. 1400 Inc. is organized under Chapter 302A of Minnesota Statutes and is a taxable entity.

MPR and FTC are engaged in certain activities which result in unrelated business income. For the years ended June 30, 2002 and 2001, MPR incurred tax expenses of \$6,000 and \$10,000, respectively. 1400 Inc. had minimal tax expense for the years ended June 30, 2002 and 2001.

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

carried at fair value. The fair value of long-term debt approximates its carrying value based on current rates for debt with similar remaining maturities offered to similar not-for-profit organizations.

The Organization invests in various securities including U.S. Government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets.

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 - On July 1, 2000, the Organization adopted 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*. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. The accounting for changes in the fair value of derivatives depends on the intended use and designation. Management has reviewed the requirements of SFAS No. 133 and has determined that it has no freestanding or embedded derivatives.

2. INVESTMENTS

Investments, recorded at market value, consisted of the following at June 30:

	2002	2001
MPR Board Designated Funds	\$ 6,505,000	\$ 4,178,000
Variable Rate Demand Revenue Bond - Series 2002		
Proceeds (Note 6)	1,400,000	
MPR Capital Campaign	995,000	136,000
MPR Major Item Replacement Reserve	543,000	688,000
MPR Operating Fund	95,000	90,000
District heating notes payable (Note 6):		
Reserve fund - FTC		36,000
Reserve fund - MPR		13,000
	<u>\$ 9,538,000</u>	<u>\$ 5,141,000</u>

Investments consist primarily of money market accounts, short-term certificates of deposit, commercial paper, and treasury bills, which are held at APM and are available to MPR at any time.

MPR's Board Designated Fund was established by the MPR Board of Trustees to receive and hold such income as may be designated by the Board of Trustees to provide for the long-term financial health of the Organization and is accounted for in the Designated Fund. The interest on MPR's Board Designated Fund is available for use in operations. The principal of this fund is available for the purpose for which this fund was established, upon the approval of the MPR Board of Trustees. Cash balances in this fund are available for cash flow needs.

The proceeds from the Variable Rate Demand Revenue Bonds - Series 2002 (Note 6) are held in trust in a Construction Fund and are available to MPR upon submitting qualified expenses to the trustee related to the construction of its facilities in Saint Paul. The Construction Fund is invested in a Guaranteed Investment Contract that earns a fixed rate of interest of 2.8%.

Funds from the MPR Capital Campaigns, which are intended for the purchase of equipment, are accounted for in the Property Fund.

MPR's Major Item Replacement Reserve, which is accounted for in the Property Fund, was established by the MPR Board of Trustees for the purpose of replacing existing equipment or facilities. These funds may be spent only upon approval of the MPR Board of Trustees.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2002	2001
Cost:		
Land	\$ 8,391,000	\$ 758,000
Building and leasehold improvements	15,879,000	14,568,000
Equipment	<u>28,581,000</u>	<u>26,660,000</u>
	52,851,000	41,986,000
Less accumulated depreciation and amortization	<u>(26,026,000)</u>	<u>(23,717,000)</u>
	<u>\$ 26,825,000</u>	<u>\$ 18,269,000</u>

4. BROADCAST LICENSES AND OTHER INTANGIBLES

Broadcast licenses and other intangibles consisted of the following at June 30:

	2002	2001
Broadcast licenses	\$ 15,264,000	\$ 15,264,000
Other intangibles	<u>1,156,000</u>	<u>1,159,000</u>
	16,420,000	16,423,000
Less accumulated amortization	<u>(3,690,000)</u>	<u>(3,179,000)</u>
	<u>\$ 12,730,000</u>	<u>\$ 13,244,000</u>

5. NOTE PAYABLE

On March 31, 1999, 1400 Inc. entered into a promissory note with a bank for \$900,000 due May 15, 2000. During the year ended June 30, 2000, the note was extended to December 31, 2000. Interest was based on a daily variable rate and was payable monthly. As part of the

transaction in which the stock of 1400 Inc. was donated to Minnesota Public Radio, APM guaranteed this debt. On January 31, 2001 the note was extinguished as a result of an additional equity contribution from MPR's Designated Fund.

6. LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2002	2001
Variable Rate Demand Revenue Bonds - Series 2002 Housing and Redevelopment Authority of the City of Saint Paul Promissory Note	\$ 10,000,000	
City of Saint Paul note payable	1,825,000	
District heating notes payable to the Port Authority of the City of Saint Paul	250,000	\$ 250,000
Saint Paul Foundation note payable		172,000
Saint Paul Progress Corporation note payable	218,000	218,000
Other obligations	<u>267,000</u>	<u>347,000</u>
	12,560,000	998,000
Less amounts due within one year	<u>(429,000)</u>	<u>(122,000)</u>
	<u>\$ 12,131,000</u>	<u>\$ 876,000</u>

The Housing and Redevelopment Authority of the City of Saint Paul, Minnesota Variable Rate Demand Revenue Bonds (Minnesota Public Radio Project) - Series 2002 were issued to finance the purchase of land and building located at 480 Cedar Street (480 Cedar) from the Public Housing Agency of Saint Paul. Concurrent with the purchase of the 480 Cedar property, MPR acquired the vacant triangle of land, adjacent and to the west of MPR's downtown Saint Paul facility, from the City of Saint Paul. MPR's intention is to join the 480 Cedar building and the triangle of land with its current building to create a complex to house the entire MPR headquarters staff. The 480 Cedar land and building was purchased on March 13, 2002 for \$7.9 million. This transaction was financed by a \$6,325,000 short-term loan from Allied Irish Bank that bore interest at LIBOR plus 60 basis points. This short-term loan was paid-off on May 23, 2002 as part of the closing on the Variable Rate Demand Revenue Bonds - Series 2002. The remaining proceeds from the bonds were invested in a Guaranteed Investment Contract (see Note 2). The bonds were issued May 1, 2002 and will mature May 1, 2022. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. However, an optional annual early redemption is available upon the request of MPR. The bonds bear interest at a variable rate that at June 30, 2002 was 1.9% plus a letter of credit fee of 60 basis points and a remarketing fee of 9 basis points. The letter of credit on the date of issuance was \$10,123,288. The terms of the letter of credit are such that if the bonds were tendered for purchase, the amount drawn is to be paid to the bank on the earlier of the remarketing of the bonds purchased with the draw on the letter of credit or the sixtieth day following the date on which the draw was paid by the bank. Subsequent to year end, the bank has agreed to amend the letter of credit such that if the bonds were tendered for purchase, the amount drawn is to be paid to the bank on the earlier of the remarketing of the bonds purchased with the draw on the letter of credit or the three hundred sixty-sixth day following the date in which the draw was paid by the bank. The letter of credit also requires the Organization to exercise its option to prepay the bonds, in part, and direct the trustee to redeem the bonds, in part, so that at no time will the aggregate outstanding principal amount of the bond exceed amounts defined within the letter of credit agreement. As such, the classification of the bonds on the

statement of financial position and the long-term debt maturities schedule is based on this requirement. The Organization is in compliance, or has obtained waivers, for all letter of credit financial covenant requirements.

In conjunction with the purchase of 480 Cedar land and building, MPR entered into a \$3,550,000 15-year promissory note with the Housing and Redevelopment Authority of the City of Saint Paul of which \$1,575,000 in cash and \$250,000 in land was received at the closing of the purchase. The remaining proceeds from the promissory note will be received in various increments through 2004. The promissory note bears an interest rate of 6.5%. This promissory note and interest is forgivable based upon certain employment and construction commitments. The vacant triangle of land represented the land portion of this transaction.

A Commercial Development Revenue Note of 1991 was issued to finance MPR's acquisition of the 99.5 FM broadcast license and certain additional assets. The note bore interest at rates of 6.2% to 6.9% and provided a repayment schedule which, including interest, was essentially level over a ten-year repayment period. Interest on the note was payable semiannually on June 1 and December 1, and annual principal payments were due June 1. The note was secured by a letter of credit from a bank and a mortgage and security interest in various properties and assets of MPR, including the MPR building and the assets purchased in connection with the acquisition of the 99.5 FM broadcast license. The note was paid in full when the last scheduled payment was made on June 1, 2001.

The City of Saint Paul note was used to assist in funding the Fitzgerald Theater renovation project and is secured by a mortgage on the Fitzgerald Theater building. Repayment of the borrowings, with interest at 3%, is contingent upon the sale or conveyance of the Fitzgerald Theater.

The proceeds of the District Heating notes payable to the Port Authority of the City of Saint Paul were used to assist in funding the costs of new heating systems in the Fitzgerald Theater and MPR buildings. Repayment of the borrowing was made monthly, with interest at 9.5%. The note required that certain reserve funds be maintained. Interest on the reserve funds held by the Port Authority in turn partially offset the monthly payments. The reserve funds were used in part to retire the note in May 2002.

The proceeds of the Saint Paul Foundation note were used to fund the additional operating costs of the heating systems until operating savings are realized or until the maximum disbursement amount of \$218,000 was realized. At the point operating savings begin to be realized, interest at 6% will begin to accrue and repayments in the amount of 75% of operating savings will be due annually, credited first to interest and then to principal. Interest has not been accrued to date as savings have not been realized.

The proceeds of the Saint Paul Progress Corporation note were used to make improvements to the Fitzgerald Theater. The note bore interest at 75% of the bank reference rate at the beginning of each calendar quarter and provides a repayment schedule of principal and interest over a period of seven years. The note was paid in full when the last scheduled payment was made in December 2001.

The aggregate amounts of long-term debt maturities based upon the stated terms of the debt at June 30, 2002 are as follows:

Years ending June 30:	
2003	\$ 429,000
2004	444,000
2005	464,000
2006	385,000
2007	400,000
Thereafter	<u>10,438,000</u>
	<u>\$ 12,560,000</u>

7. LEASES

The Organization leases office, studio, and transmission facilities under noncancelable operating leases. Total rent expense charged to operations was \$1,019,000 and \$1,113,000 for the years ended June 30, 2002 and 2001, respectively.

Minimum future operating lease obligations are as follows:

Years ending June 30:	
2003	\$ 740,000
2004	629,000
2005	590,000
2006	592,000
2007	607,000
Thereafter	<u>2,051,000</u>
	<u>\$ 5,209,000</u>

8. COMMITMENTS AND CONTINGENCIES

During the ten-year period to June 30, 2002, MPR was awarded grants of approximately \$1,017,000 from the United States Department of Commerce, National Telecommunications and Information Administration, under the Public Telecommunications Facilities Program. The terms of such grants provide for a ten-year period of federal interest, during which equipment purchased with grant funds may be repossessed under certain conditions which generally relate to a change in ownership from not-for-profit to commercial or to changes in the utilization of assets acquired with grant funds.

MPR 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 consolidated operations or the consolidated financial position of MPR.

In conjunction with the purchase of 480 Cedar land and building, MPR received commitments in the amount of \$4.5 million from local foundations for this project of which \$850,000 was received at closing. These foundation commitments are contingent upon certain construction requirements. The \$850,000 received is reported as a refundable advance on the consolidated statement of financial position.

9. RETIREMENT PLAN

MPR and FTC participate 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 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 \$832,000 and \$712,000 for the years ended June 30, 2002 and 2001, respectively. 1400 Inc. had no employees during these periods.

10. AFFILIATED ORGANIZATIONS

The Organization is charged by APM for its estimated share of various accounting services, financing charges, personnel costs, and insurance costs incurred on its behalf. For the years ended June 30, 2002 and 2001, these charges totaled \$1,992,000 and \$1,923,000, respectively, and are included in administrative expenses.

For the years ended June 30, 2002 and 2001, MPR charged SCPR \$327,000 and \$237,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

During the year ended June 30, 2001, MPR charged Greenspring \$28,000 for providing various operational services. As Greenspring provided such services internally in fiscal 2002, there were no similar charges for the year ended June 30, 2002.

During the years ended June 30, 2002 and 2001, MPR charged MNN \$33,000 and \$37,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

MMP publishes a monthly magazine containing a programming guide, which is purchased by MPR and provided to individual members of MPR. MPR pays a specified amount to MMP for each month an MPR member receives a magazine. Included in operating expenses are \$412,000 and \$405,000 charged under this arrangement for the years ended June 30, 2002 and 2001, respectively.

Under an agreement with 1400 Inc. (licensee of KLBB and KLBP), a wholly owned for-profit subsidiary of MPR, MNN provides certain programming for broadcast on KLBB and KLBP and sells advertising on those stations in exchange for the payment to 1400 Inc. of royalties based on sales. For the year ended June 30, 2001, royalties of \$13,000 were paid to 1400 Inc. As sales did not meet the required minimum levels, there were no royalties paid to 1400 Inc. for the year ended June 30, 2002.

Under agreements with MPR, MNN provides certain programming for broadcast on WMNN (a station owned by MPR), sells advertising on that station, and utilizes certain intellectual property of MPR in the operation of its regional radio networks, all in exchange for the payment of royalties to MPR based on sales of certain advertising. Included in royalties and licensing fees revenue is \$74,000 and \$124,000 paid to MPR for the years ended June 30, 2002 and 2001, respectively.

Under an agreement with MPR, MMP operates a trade show on MPR's behalf and makes payments to MPR based upon the net proceeds of the trade show. Included in royalties and licensing fees

revenue is \$200,000 and \$137,000 paid to MPR for the years ended June 30, 2002 and 2001, respectively.

In October 1998, the APM Board of Trustees approved setting aside \$85.6 million from the net proceeds of the sale of Rivertown Trading Company, an indirect wholly owned for-profit subsidiary, as a permanent endowment for the benefit of MPR. In April 1999, the APM Board of Trustees adopted the Investment Policy for this Earned Endowment for MPR. The Investment Policy includes a spending policy designating an annual distribution of 4.5% of the five-year average market value of the Earned Endowment's assets. The grant to MPR was \$3.8 million and \$3.7 million for the years ended June 30, 2002 and 2001, respectively. At June 30, 2002, the market value of the Earned Endowment for MPR held by APM was \$75.7 million. At August 30, 2002, the market value of the Earned Endowment for MPR held by APM was \$71.3 million.

The remaining funds available from the net proceeds were reserved for future investments, as designated by the APM Board of Trustees, all for the long-term benefit of MPR. During fiscal years 2002 and 2001, APM agreed to provide grants of \$199,000 and \$3,734,000, respectively, to MPR from these remaining funds in support of new initiatives.

At June 30, 2002, the Organization had no amounts due from or due to affiliated organizations. At June 30, 2001, the Organization had \$39,000 due to Greenspring.

11. PERMANENT EXTERNAL ENDOWMENTS

MPR has adopted SFAS No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, which requires that if a not-for-profit organization transfers assets to a recipient organization and is the specified beneficiary, or if a not-for-profit organization has an unconditional right to receive all or a portion of the specified cash flows from a charitable trust or other identifiable pool of assets, then the not-for-profit organization should recognize its rights to the assets held by the recipient organization, the charitable trust, or the identifiable pool of assets.

The effect of the adoption of SFAS No. 136 is to recognize MPR's beneficial interest in The Minnesota Public Radio Endowment Funds held by Minnesota Foundation and MPR's beneficial interest in the Oakleaf Endowment Trust for Minnesota Public Radio held by Oakleaf Foundation, as follows:

MPR is party to an agreement with Minnesota Foundation which established an irrevocable endowment fund called The Minnesota Public Radio Endowment Funds (the Fund). The agreement with Minnesota Foundation requires a minimum annual distribution to MPR of 6% of the sixteen-quarter moving average market value of the Fund's assets. Gifts to the Fund are irrevocable; however, the Fund could revert to MPR in the event Minnesota Foundation liquidates. The Fund is managed at the discretion of Minnesota Foundation, except that MPR may direct Minnesota Foundation to replace any investment manager if the Fund does not produce a reasonable return. The fair market value of The Minnesota Public Radio Endowment Funds was \$16,360,000 and \$18,306,000 at June 30, 2002 and 2001, respectively. On August 30, 2002, the fair market value of The Minnesota Public Radio Endowment Funds was \$15,213,000.

The Oakleaf Endowment Trust for Minnesota Public Radio (the Trust) was established by private donors on June 30, 1997 to maintain and enhance the quality of MPR. An annual distribution is made to MPR based on a formula specified in the Trust which is intended to assure that payments

to MPR from all of its permanent endowments do not exceed their earnings above inflation, but which may not be less than 1% of the fair market value of the Trust as of the end of the preceding year. Okabena Company manages the assets of the Trust. The fair market value of the Trust was \$2,466,000 and \$2,728,000 at June 30, 2002 and 2001, respectively. On August 30, 2002, the fair market value of the Trust was approximately \$2,358,000.

Investments are recorded at market value as supplied by the respective trustee of the endowment and consist primarily of pooled investment funds and income and equity securities.

The aggregate amount recognized in the consolidated statement of financial position for MPR's beneficial interest in The Minnesota Public Radio Endowment Funds and the Oakleaf Endowment Trust for Minnesota Public Radio as of June 30, 2002 and 2001 was \$18,826,000 and \$21,034,000, respectively. Investment return, net includes interest income and dividends of \$497,000 and \$690,000 for the years ended June 30, 2002 and 2001, respectively; net loss of \$1,514,000 and \$928,000, respectively; and transfers to the Minnesota Foundation of \$0 and \$91,000, respectively, net of the annual distributions from the respective endowments of \$1,191,000 and \$1,094,000, respectively, which are recorded as unrestricted grants received from endowments within the consolidated statement of activities.



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