Minnesota Public Radio

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Years ended June 30, 2003 and 2002

Minnesota Public Radio and Subsidiaries

(An Affiliated Organization of American Public Media Group)

Consolidated Financial Statements for the Year Ended June 30, 2003 (with Comparative Totals for the Year Ended June 30, 2002) 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, 2003 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, 2002 consolidated financial statements and, in our report dated November 1, 2002, 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 and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2003 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 29, 2003, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grants. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 29, 2003

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

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

	June 30, 2003							June 30	
	Unrestricted							Total Consolidated	
	Operating Fund	Property Fund	Designated Fund	Interfund Eliminations	Total	Temporarily Restricted	Permanently Restricted	2003	2002
SUPPORT FROM PUBLIC:									
Membership	$ 9,730	$ 3			$ 9,733	$ 10		$ 9,743	$ 9,755
Regional underwriting	3,145				3,145	2,174		5,319	4,112
National underwriting	3,820				3,820	5,323		9,143	7,369
Business general support	616	49			665	34		699	672
Foundations	205				205	131		336	2,498
Grants from endowments (Notes 9 and 10)	3,509		$ 1,588		5,097			5,097	4,959
Other grants from APM (Note 9)	28	356		$ (16)	368			368	199
Institutional sponsors	405				405			405	376
Total support from public	21,458	408	1,588	(16)	23,438	7,672		31,110	29,940
SUPPORT FROM GOVERNMENTAL AGENCIES:									
Corporation for Public Broadcasting	3,869	27			3,896	728		4,624	3,514
Other grants from governmental agencies	140	483			623	52		675	70
Total support from governmental agencies	4,009	510			4,519	780		5,299	3,584
EARNED REVENUE:									
Revenue from broadcasting activities	8,499				8,499			8,499	8,768
Royalties and licensing fees	1,696		8		1,704			1,704	1,488
Investment return, net (Notes 2 and 10)	87	156	182		425		$ (750)	(325)	(1,857)
Other	1,097	932		(64)	1,965	4		1,969	1,775
Total earned revenue	11,379	1,088	190	(64)	12,593	4	(750)	11,847	10,174
NET ASSETS RELEASED FROM RESTRICTION	7,037	624			7,661	(7,661)			
Total support and earned revenue	43,883	2,630	1,778	(80)	48,211	795	(750)	48,256	43,698
EXPENSES:									
Operations	31,173	3,458	273	(80)	34,824			34,824	32,011
Administrative	5,776	1,088			6,864			6,864	7,403
Fundraising	6,707	12			6,719			6,719	5,071
Total expenses	43,656	4,558	273	(80)	48,407			48,407	44,485
MINORITY INTEREST IN JOINT VENTURE	(45)				(45)			(45)	(48)
SUPPORT AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	182	(1,928)	1,505		(241)	795	(750)	(196)	(835)
CAPITAL CAMPAIGN REVENUE		962			962	6,060		7,022	156
CAPITAL CAMPAIGN EXPENSE		(396)			(396)			(396)	
INTERFUND TRANSFERS	(116)	781	(665)						
CHANGE IN NET ASSETS	66	(581)	840		325	6,855	(750)	6,430	(679)
NET ASSETS—Beginning of year	480	26,133	12,521		39,134	10,287	18,826	68,247	68,926
NET ASSETS—End of year	$ 546	$ 25,552	$ 13,361	$ -	$ 39,459	$ 17,142	$ 18,076	$ 74,677	$ 68,247

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2003
(with comparative totals for the year ended June 30, 2002) (In thousands)

	June 30, 2003							June 30	
	Unrestricted							Total Consolidated	
	Operating Fund	Property Fund	Designated Fund	Interfund Eliminations	Total	Temporarily Restricted	Permanently Restricted	2003	2002
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	$ 185	$ 76			$ 261	$ 1,111		$ 1,372	$ 2,171
Accounts receivable—trade, net	7,419	2			7,421	5,727		13,148	11,049
Pledges—capital campaign		533			533	125		658	62
Grants receivable	587				587	868		1,455	1,395
Prepaid expenses	386	189			575			575	552
Due from other funds	133	1,267	$ 3,871	$ (5,271)					
Total current assets	8,710	2,067	3,871	(5,271)	9,377	7,831		17,208	15,229
PROPERTY AND EQUIPMENT, net (Note 3)		25,858	163		26,021			26,021	26,825
OTHER ASSETS:									
Investments (Note 2)	100	2,353	4,948		7,401	4,890		12,291	9,538
Endowment funds held by others (Note 10)							$ 18,076	18,076	18,826
Accounts receivable—trade, net of present value discount of $60 and $5, respectively						1,711		1,711	121
Pledges—capital campaign, net of present value discount of $193 and $1, respectively	32				32	3,706		3,738	58
Grants receivable, net of present value discount of $2 and $29, respectively						104		104	790
Note issuance costs, net		127			127			127	133
Broadcast licenses and other intangibles, net (Note 4)		8,100	4,379		12,479			12,479	12,730
Other	246				246	450		696	492
Total other assets	378	10,580	9,327		20,285	10,861	18,076	49,222	42,688
Total assets	$ 9,088	$ 38,505	$ 13,361	$ (5,271)	$ 55,683	$ 18,692	$ 18,076	$ 92,451	$ 84,742
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable:									
Trade	$ 1,388	$ 18			$ 1,406			$ 1,406	$ 1,555
Affiliates (Note 9)	21				21			21	
Current portion of long-term debt (Note 5)		444			444			444	429
Accrued liabilities	1,862	6			1,868			1,868	1,530
Refundable advance (Note 7)						$ 1,550		1,550	850
Due to other funds	5,271			$ (5,271)					
Total current liabilities	8,542	468		(5,271)	3,739	1,550		5,289	4,364
OTHER LIABILITIES—									
Long-term debt, less current portion (Note 5)		12,485			12,485			12,485	12,131
Total liabilities	8,542	12,953		(5,271)	16,224	1,550		17,774	16,495
COMMITMENTS AND CONTINGENCIES (Note 7)									
NET ASSETS	546	25,552	$ 13,361		39,459	17,142	$ 18,076	74,677	68,247
Total liabilities and net assets	$ 9,088	$ 38,505	$ 13,361	$ (5,271)	$ 55,683	$ 18,692	$ 18,076	$ 92,451	$ 84,742

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2003
(with comparative totals as of June 30, 2002) (In thousands)

	Year Ended June 30, 2003			Year Ended June 30 Consolidated Total	
	Operations	Administrative	Fundraising	2003	2002
Salaries	$ 15,366	$ 1,751	$ 2,577	$ 19,694	$ 19,353
Fringe benefits	3,111	270	507	3,888	3,786
Programming	8,854	195	352	9,401	7,565
Facilities costs	2,825	1,163	709	4,697	3,592
Promotion and development	1,225	23	1,571	2,819	2,304
Publications	192		527	719	679
Management and general	812	2,729	463	4,004	4,111
Interest	143			143	85
Depreciation and amortization	2,296	733	13	3,042	3,010
Total expenses	$ 34,824	$ 6,864	$ 6,719	$ 48,407	$ 44,485

See notes to consolidated financial statements.

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

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

	2003	2002
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Change in net assets	$ 6,430	$ (679)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,042	3,010
Decrease in endowment funds held by others	750	2,208
Restricted contributions and grants	(6,844)	(47)
Loan forgiveness—City of Saint Paul	(378)	
(Increase) decrease in assets:		
Accounts and pledges receivable	(4,134)	(1,385)
Grants receivable	687	178
Prepaid expenses	(23)	(132)
Investments maintained at APM	(3,353)	(3,045)
Other	(204)	(350)
Increase (decrease) in liabilities:		
Accounts payable—trade and accrued liabilities	189	(89)
Accounts payable—affiliates	21	(39)
Refundable advance	700	850
Total adjustments	(9,547)	1,159
Net cash (used in) provided by operating activities	(3,117)	480
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Capital expenditures and business acquisitions	(1,980)	(11,041)
Purchases of investments		(2,055)
Proceeds from sales and maturities of investments	600	703
Net cash used in investing activities	(1,380)	(12,393)
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	1,175	11,825
Restricted contributions and grants	2,952	47
Principal payments on long-term debt	(429)	(263)
Net cash provided by financing activities	3,698	11,474
NET DECREASE IN CASH AND CASH EQUIVALENTS	(799)	(439)
CASH AND CASH EQUIVALENTS—Beginning of year	2,171	2,610
CASH AND CASH EQUIVALENTS—End of year	$ 1,372	$ 2,171
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION— Cash paid during the year for interest	$ 143	$ 85

See notes to consolidated financial statements.

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.

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 that 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 that 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:

	2003	**2002**
Program support and underwriting	$ 9,903,000	$ 8,122,000
Capital	7,239,000	2,165,000
	$ 17,142,000	$ 10,287,000

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

Membership	$ 5,000
Regional underwriting	2,022,000
National underwriting	2,937,000
Business general support	20,000
Foundations	1,355,000
Corporation for Public Broadcasting	639,000
Other grants from governmental agencies	370,000
Capital campaign	181,000
Other	132,000
	$ 7,661,000

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, 2003 and 2002 represent funds held by external endowments (Note 10).

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. 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 a stipulated 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.

Broadcasting Activities—The Organization recognizes revenue from two primary broadcasting activities, carriage fees and ticket sales. Carriage fees are earned for content provided to other public radio stations. Ticket revenue is generated via live events. Revenue is recognized as earned when the content is made available for use.

Royalties and Licensing Fees—The Organization recognizes revenue for royalties and licensing fees from the use of the intellectual property. Revenue is recognized as earned based on contractual agreements or when its intellectual property is made available for use.

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. Restricted cash and cash equivalents are still subject to donor-imposed restrictions.

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.

Trade Accounts receivable are presented net of allowances for doubtful accounts of $463,000 and $359,000 at June 30, 2003 and 2002, respectively, to provide for estimated bad debts.

Accounts receivable, grants receivable, and capital campaign pledges were due as follows at June 30, 2003:

	Temporarily Restricted	Unrestricted	Total
In less than one year	$ 6,720,000	$ 8,541,000	$ 15,261,000
In one to five years	4,988,000	3,000	4,991,000
In greater than five years	533,000	29,000	562,000
	$ 12,241,000	$ 8,573,000	$ 20,814,000

Accounts receivable, grants receivable, and pledges - capital campaign are recorded on the consolidated statement of activities for the year ending June 30, 2003 as follows:

Accounts receivable—trade, current	$ 13,148,000
Pledges—capital campaign, current	658,000
Grants receivable, current	1,455,000
Accounts receivable—trade, noncurrent	1,711,000
Pledges—capital campaign, noncurrent	3,738,000
Grants receivable, noncurrent	104,000
Total	$ 20,814,000

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 that approximates the effective interest method. Costs incurred to acquire broadcast licenses are amortized over a period of 40 years using the straight-line method for such assets held by not-for-profit subsidiaries of the Organization. Broadcast licenses held by 1400 Inc. are considered indefinite-lived intangibles and are tested annually for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. To date, management has determined no impairment exists. 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 that result in unrelated business income. For the years ended June 30, 2003 and 2002, MPR incurred tax expenses of $35,000 and $6,000, respectively. 1400 Inc. had minimal tax expense for the years ended June 30, 2003 and 2002.

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.

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

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

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

New Accounting Standards**—**In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which revises the accounting for purchased goodwill and intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives will no longer be amortized but will be tested for impairment annually and also in the event of an impairment indicator. SFAS No. 142 is not applicable to not-for-profit entities; therefore, only the for-profit affiliate 1400 Inc. adopted the provisions of SFAS No. 142 effective July 1, 2002 with no effect on its financial position or results of operations.

Summarized Financial Information for the Year Ended June 30, 2002**—**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, 2002, from which the summarized information was derived.

2. INVESTMENTS

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

	2003	2002
MPR Board Designated Funds	$ 6,060,000	$ 6,505,000
Variable Rate Demand Revenue Bond - Series 2002		
Proceeds/Guaranteed Investment Contract (Note 5)	800,000	1,400,000
MPR Capital Campaign	4,781,000	995,000
MPR Major Item Replacement Reserve	550,000	543,000
MPR Operating Fund	100,000	95,000
	$ 12,291,000	$ 9,538,000

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. Investment loss allocated to MPR for the years ended June 30, 2003 and 2002 was $325,000 and $1,875,000, respectively.

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. Unrestricted funds are accounted for in the MPR Board Designated Fund, and restricted funds are classified accordingly.

The proceeds from the Variable Rate Demand Revenue Bonds - Series 2002 (Note 5) 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 are intended for the construction of the Organization's new building and other broadcasting infrastructure. Unrestricted funds are accounted for in the Property Fund, and restricted funds are classified accordingly.

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:

	2003	2002
Cost:		
Land	$ 8,180,000	$ 8,391,000
Building and leasehold improvements	17,670,000	15,879,000
Equipment	28,965,000	28,581,000
	54,815,000	52,851,000
Less accumulated depreciation and amortization	(28,794,000)	(26,026,000)
	$ 26,021,000	$ 26,825,000

Total depreciation expense and amortization of leasehold improvements charged to operations was $2,786,000 and $2,487,000 for the years ended June 30, 2003 and 2002, respectively.

4. BROADCAST LICENSES AND OTHER INTANGIBLES

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

	2003	2002
Broadcast licenses	$ 14,841,000	$ 14,841,000
Other intangibles	1,156,000	1,156,000
	15,997,000	15,997,000
Less accumulated amortization	(3,518,000)	(3,267,000)
	$ 12,479,000	$ 12,730,000

Total amortization expense charged to operations was $256,000 and $523,000 for the years ended June 30, 2003 and 2002, respectively.

The estimated future amortization expense for intangible assets during the next five years is:

Years Ending June 30	
2004	$ 342,000
2005	342,000
2006	342,000
2007	342,000
2008	342,000

Broadcast license costs at 1400 Inc. are classified as indefinite lived intangible assets and are not amortized in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, as 1400 Inc. is a for-profit affiliate. The broadcast license at 1400 Inc. had a net book value of $4,379,000 at June 30, 2003 and 2002. Amortization expense for the year ended June 30, 2002 was $121,000. There was no impairment of the 1400 Inc. broadcast license costs assessed for fiscal year 2003.

5. LONG-TERM DEBT

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

	2003	2002
Variable Rate Demand Revenue Bonds - Series 2002	$ 9,655,000	$ 10,000,000
Housing and Redevelopment Authority of the City of Saint Paul Promissory Note	2,622,000	1,825,000
City of Saint Paul note payable	250,000	250,000
Saint Paul Foundation note payable	218,000	218,000
Other obligations	184,000	267,000
	12,929,000	12,560,000
Less amounts due within one year	(444,000)	(429,000)
	$ 12,485,000	$ 12,131,000

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 property and the triangle of land with its current building to create a complex to house the entire MPR headquarters staff. The 480 Cedar property 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, 2003 and 2002 was 1.05% and 1.90%, respectively, 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 three hundred sixty-sixth day following the date on 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 with, or has obtained waivers for, all letter of credit financial covenant requirements. On June 30, 2003, the Organization paid $345,000 based on the optional redemption schedule.

In conjunction with the purchase of the 480 Cedar property, 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. In 2003, MPR received an additional $1,175,000 from the City of Saint Paul. This promissory note and interest are forgivable based upon certain employment and construction commitments, and in March 2003, $378,000 of the note was forgiven. 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%. The vacant triangle of land represented the land portion of this transaction.

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's reference rate at the beginning of each calendar quarter and provided 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, 2003 are as follows:

Years Ending June 30	
2004	$ 444,000
2005	464,000
2006	385,000
2007	400,000
2008	415,000
Thereafter	10,821,000
	$ 12,929,000

6. LEASES

The Organization leases office, studio, and transmission facilities under noncancelable operating leases. Total rent expense charged to operations was $1,025,000 and $1,019,000 for the years ended June 30, 2003 and 2002, respectively.

Minimum future operating lease obligations are as follows:

Years Ending June 30	
2004	$ 745,000
2005	590,000
2006	592,000
2007	607,000
2008	576,000
Thereafter	1,476,000
	$ 4,586,000

7. COMMITMENTS AND CONTINGENCIES

During the ten-year period to June 30, 2003, MPR was awarded grants of approximately $1,495,000 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.

In conjunction with the purchase of the 480 Cedar property, MPR received commitments in the amount of $4.5 million from local foundations for its building project of which $850,000 was received at closing. These foundation commitments are contingent upon certain construction requirements. At June 30, 2003 and 2002, $1,550,000 and $850,000 in refundable advances had been received, respectively, and are reported as a refundable advance on the consolidated statement of financial position.

8. 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 Organization's contributions totaled $922,000 and $832,000 for the years ended June 30, 2003 and 2002, respectively. 1400 Inc. had no employees during these periods.

9. 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, 2003 and 2002, these charges totaled $2,095,000 and $1,992,000, respectively, and are included in administrative expenses.

For the years ended June 30, 2003 and 2002, MPR charged SCPR $308,000 and $327,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

During the years ended June 30, 2003 and 2002, MPR charged MNN $25,000 and $33,000, 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 operations expense are $323,000 and $412,000 charged under this arrangement for the years ended June 30, 2003 and 2002, respectively. The Organization had a net payable due to MMP as of June 30, 2003, of $21,000. As of June 30, 2002, the Organization had no amounts due to or from affiliated organizations.

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, 2003, royalties of $6,000 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 $71,000 and $74,000 paid to MPR for the years ended June 30, 2003 and 2002, 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 paid to MPR for the years ended June 30, 2003 and 2002, 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. APM maintains variance power over the endowment. 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 $3,896,000 and $3,800,000 for the years ended June 30, 2003 and 2002, respectively. At June 30, 2003, the market value of the Earned Endowment for MPR held by APM was $71.3 million. At August 30, 2003, the market value of the Earned Endowment for MPR held by APM was $74.6 million.

APM also makes grants to MPR from other funds outside of the earned endowment, as designated by the APM Board of Trustees, for the long-term benefit of MPR. During fiscal years 2003 and

2002, APM agreed to provide grants of $368,000 and $199,000, respectively, to MPR from these remaining funds in support of new initiatives.

10. 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 $15,907,000 and $16,360,000 at June 30, 2003 and 2002, respectively. On August 30, 2003, the fair market value of The Minnesota Public Radio Endowment Funds was $16,178,000.

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 $2,169,000 and $2,466,000 at June 30, 2003 and 2002, respectively. On August 30, 2003, the fair market value of the Trust was approximately $2,249,000.

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, 2003 and 2002 was $18,076,000 and $18,826,000, respectively. Investment loss, net includes interest income and dividends of $446,000 and $497,000 for the years ended June 30, 2003 and 2002, respectively; net loss of $152,000 and $1,546,000, respectively; and transfers to the Minnesota Foundation of $157,000 and $0, respectively, net of the annual distributions from the respective endowments of $1,201,000 and $1,159,000, respectively, which are recorded as unrestricted grants from endowments within the consolidated statement of activities.

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Minnesota Public Radio