report on audit of consolidated financial statements

years ended June 30, 2004 and 2003

Deloitte.

Deloitte & Touche LLP
400 One Financial Plaza
120 South Sixth Street
Minneapolis, MN 55402-1844
USA

Tel: +1 612 397 4000
Fax: +1 612 397 4450
www.deloitte.com

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 and subsidiaries (the "Organization"), an affiliated organization of American Public Media Group, as of June 30, 2004 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 the Organization. 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, 2003 consolidated financial statements and, in our report dated October 29, 2003, 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 the Organization as of June 30, 2004 and the consolidated 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 consolidated financial statements taken as a whole. The additional consolidating information presented in the consolidated statement of activities, consolidated statement of financial position, and consolidated statement of functional expenses for 2004 is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the results of operations of the individual funds, and is not a required part of the basic consolidated financial statements. This additional consolidating information is the responsibility of the Organization's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2004 consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2004 consolidated financial statements taken as a whole.

November 24, 2004

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES

(National Programming Distributed Under the Name American Public Media and an Affiliated Organization of American Public Media Group)

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004
(With comparative totals for the year ended June 30, 2003) (In thousands)

	June 30, 2004							Total Consolidated	
	Unrestricted							June 30	
	Operating Fund	Property Fund	Designated Fund	Interfund Eliminations	Total	Temporarily Restricted	Permanently Restricted	2004	2003
SUPPORT FROM PUBLIC:									
Membership	$ 10,576	$ 2	$ -	$ -	$ 10,578	$ 2	$ -	$ 10,580	$ 9,743
Regional underwriting	3,974				3,974	1,935		5,909	5,319
Regional underwriting released from restriction	2,175				2,175	(2,175)			
National underwriting	1,066				1,066	3,698		4,764	9,143
National underwriting released from restriction	5,484				5,484	(5,484)			
Business general support	657				657	55		712	699
Business general support released from restriction	43	551			594	(594)			
Foundations	194				194	599		793	336
Foundations released from restriction	1,166	12			1,178	(1,178)			
Grants from endowments (Notes 9 and 10)	4,002		945		4,947			4,947	5,097
Other grants from APMG (Note 9)	301	251			552			552	368
Institutional sponsors	413				413			413	405
Total support from public	30,051	816	945		31,812	(3,142)		28,670	31,110
SUPPORT FROM GOVERNMENTAL AGENCIES:									
Corporation for Public Broadcasting	4,502	135			4,637	2,329		6,966	4,624
Corporation for Public Broadcasting released from restriction	668	56			724	(724)			
Other grants from governmental agencies	225	120			345	195		540	675
Other grants from governmental agencies released from restriction	49				49	(49)			
Total support from governmental agencies	5,444	311			5,755	1,751		7,506	5,299
EARNED REVENUE:									
Revenue from broadcasting activities	11,212			(35)	11,177			11,177	8,499
Royalties and licensing fees	1,640		12		1,652			1,652	1,704
Investment return—net (Notes 2 and 10)	26	50	26		102		2,304	2,406	(325)
Other	1,274	631		(64)	1,841			1,841	1,969
Total earned revenue	14,152	681	38	(99)	14,772		2,304	17,076	11,847
Total support and earned revenue	49,647	1,808	983	(99)	52,339	(1,391)	2,304	53,252	48,256
EXPENSES:									
Operations	36,471	3,293	234	(99)	39,899			39,899	34,824
Administrative	7,895	846			8,741			8,741	6,864
Fundraising	5,293	163			5,456			5,456	6,719
Total expenses	49,659	4,302	234	(99)	54,096			54,096	48,407
MINORITY INTEREST IN JOINT VENTURE	(11)				(11)			(11)	(45)
SUPPORT AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(23)	(2,494)	749		(1,768)	(1,391)	2,304	(855)	(196)
CAPITAL CAMPAIGN (LOSS) REVENUE		(25)			(25)	8,987		8,962	7,022
CAPITAL CAMPAIGN RELEASED FROM RESTRICTION		3,129			3,129	(3,129)			
CAPITAL CAMPAIGN EXPENSE		(583)			(583)			(583)	(396)
GAIN ON SALE OF ASSETS (Note 11)	100	5,566			5,666			5,666	
CONTRIBUTION TO APMG ENDOWMENTS		(6,447)			(6,447)			(6,447)	
INTERFUND TRANSFERS	(33)	692	(659)						
CHANGE IN NET ASSETS	44	(162)	90		(28)	4,467	2,304	6,743	6,430
NET ASSETS—Beginning of year	546	25,552	13,361		39,459	17,142	18,076	74,677	68,247
NET ASSETS—End of year	$ 590	$ 25,390	$ 13,451	$ -	$ 39,431	$ 21,609	$ 20,380	$ 81,420	$ 74,677

See notes to consolidated financial statements.

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES

(National Programming Distributed Under the Name American Public Media and an Affiliated Organization of American Public Media Group)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004
(With comparative totals as of June 30, 2003) (In thousands)

	June 30, 2004							Total Consolidated	
	Unrestricted							June 30	
ASSETS	Operating Fund	Property Fund	Designated Fund	Interfund Eliminations	Total	Temporarily Restricted	Permanently Restricted	2004	2003
CURRENT ASSETS:									
Cash and cash equivalents	$ 260	$ 1,537	$ -	$ -	$ 1,797	$ 1,244	$ -	$ 3,041	$ 1,372
Accounts receivable—trade, net	6,208				6,208	4,122		10,330	13,148
Pledges—capital campaign		161			161	4,705		4,866	658
Grants receivable	1,006				1,006	2,280		3,286	1,455
Prepaid expenses	496				496			496	575
Due from other funds		63	3,061	(3,124)					
Total current assets	7,970	1,761	3,061	(3,124)	9,668	12,351		22,019	17,208
PROPERTY AND EQUIPMENT—Net (Note 3)		26,869	138		27,007			27,007	26,021
OTHER ASSETS:									
Investments (Note 2)	98	647	5,876		6,621	6,193		12,814	12,291
Endowment funds held by others (Note 10)							20,380	20,380	18,076
Accounts receivable—trade, net of present value discount of $41 and $60, respectively						771		771	1,711
Pledges—capital campaign, net of present value of discount of $287 and $193, respectively	31				31	3,620		3,651	3,738
Grants receivable, net of present value discount of $9 and $2, respectively						241		241	104
Note issuance costs—net		120			120			120	127
Broadcast licenses and other intangibles—net (Note 4)		7,683	4,380		12,063			12,063	12,479
Other	303	1,702			2,005	333		2,338	696
Total other assets	432	10,152	10,256		20,840	11,158	20,380	52,378	49,222
TOTAL	$ 8,402	$ 38,782	$ 13,455	$ (3,124)	$ 57,515	$ 23,509	$ 20,380	$ 101,404	$ 92,451
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable:									
Trade	$ 2,510	$ -	$ 4	$ -	$ 2,514	$ -	$ -	$ 2,514	$ 1,406
Affiliates (Note 9)									21
Current portion of long-term debt (Note 5)		634			634			634	444
Accrued liabilities	2,121	52			2,173			2,173	1,868
Deferred revenue	57				57			57	
Refundable advance (Note 7)						1,900		1,900	1,550
Due to other funds	3,124			(3,124)					
Total current liabilities	7,812	686	4	(3,124)	5,378	1,900		7,278	5,289
OTHER LIABILITIES (Note 5)		12,706			12,706			12,706	12,485
Total liabilities	7,812	13,392	4	(3,124)	18,084	1,900		19,984	17,774
COMMITMENTS AND CONTINGENCIES (Note 7)									
NET ASSETS	590	25,390	13,451		39,431	21,609	20,380	81,420	74,677
TOTAL	$ 8,402	$ 38,782	$ 13,455	$ (3,124)	$ 57,515	$ 23,509	$ 20,380	$ 101,404	$ 92,451

See notes to consolidated financial statements.

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES

(National Programming Distributed Under the Name American Public Media and an Affiliated Organization of American Public Media Group)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2004
(With comparative totals for the year ended June 30, 2003) (In thousands)

	Year Ended June 30, 2004			Consolidated Total Year Ended June 30	
	Operations	Administrative	Fundraising	2004	2003
Personnel (less fringe benefits)	$ 16,824	$ 3,190	$ 1,987	$ 22,001	$ 19,800
Fringe benefits	3,486	561	410	4,457	3,916
Programming—content	7,476	102	49	7,627	6,609
Programming—other	3,571	283	51	3,905	2,841
Space costs	866	289		1,155	1,093
Utilities	1,227	69	29	1,325	1,314
Repairs and maintenance	1,386		45	1,431	1,308
Insurance	12	318		330	286
Facilities	122	33		155	222
Membership development	5	7	1,021	1,033	1,059
Promotion and development	1,258	133	1,184	2,575	2,483
Administrative travel and training	385	141	59	585	745
Other administrative expenses	785	599	442	1,826	1,122
Depreciation	2,040	768	13	2,821	2,783
Licensing	267			267	264
Financial	189	2,248	166	2,603	2,562
Total expenses	$ 39,899	$ 8,741	$ 5,456	$ 54,096	$ 48,407

See notes to consolidated financial statements.

MINNESOTA PUBLIC RADIO AND SUBSIDIARIES
(National Programming Distributed Under the Name American Public Media and an Affiliated Organization of American Public Media Group)

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

	2004	2003
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Change in net assets	$ 6,743	$ 6,430
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,168	3,042
Gain on sale of assets	(5,668)	
(Decrease) increase in endowment funds held by others	(2,304)	750
Restricted contributions and grants	(6,884)	(6,844)
Loan forgiveness—City of Saint Paul	(157)	(145)
Decrease (increase) in assets:		
Accounts and pledges receivable	3,758	(4,134)
Grants receivable	(1,968)	687
Prepaid expenses	79	(23)
Investments maintained at APMG	(523)	(3,353)
Other	(1,642)	(204)
Increase (decrease) in liabilities:		
Accounts payable—trade and accrued liabilities	1,703	(44)
Accounts payable—affiliates	(21)	21
Refundable advance	350	700
Total adjustments	(10,109)	(9,547)
Net cash used in operating activities	(3,366)	(3,117)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and business acquisitions	(4,688)	(1,980)
Proceeds from sale of assets	6,625	
Proceeds from sales and maturities of investments		600
Net cash provided by (used in) investing activities	1,937	(1,380)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on long-term debt	425	1,175
Restricted contributions and grants	2,763	2,952
Principal payments on long-term debt	(90)	(429)
Net cash provided by financing activities	3,098	3,698
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,669	(799)
CASH AND CASH EQUIVALENTS—Beginning of year	1,372	2,171
CASH AND CASH EQUIVALENTS—End of year	$ 3,041	$ 1,372
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—		
Cash paid during the year for interest	$ 170	$ 143

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.

As of July 1, 2004, MPR began to operate its national program production and distribution activities under the name "American Public Media."

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 commercial radio stations KLBB and KLBP.

American Public Media Group ("APMG") is the not-for-profit parent support organization of MPR and of Southern California Public Radio ("SCPR"). APMG's primary purpose is to provide financial and management support services to MPR, FTC, and SCPR. APMG 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. APMG 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 activities ("The KLBB Company" or "KLBB," formerly known as "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 APMG. 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 unrestricted net assets.

Temporarily restricted net assets at June 30 were restricted for:

	2004	2003
Program support and underwriting	$ 7,486,000	$ 9,903,000
Capital	14,123,000	7,239,000
	$ 21,609,000	$ 17,142,000

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

Regional underwriting	$ 2,175,000
National underwriting	5,484,000
Business general support	594,000
Foundations	1,178,000
Corporation for Public Broadcasting	724,000
Other grants from governmental agencies	49,000
Capital campaign	3,129,000
	$ 13,333,000

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, 2004 and 2003 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 APMG on behalf of MPR. The funds held by APMG represent actual funds on hand at APMG 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 of 2.70% at June 30, 2004.

Trade accounts receivable are presented net of allowances for doubtful accounts of $669,000 and $463,000 at June 30, 2004 and 2003, respectively, to provide for estimated bad debts.

Accounts receivable, grants receivable, and capital campaign pledges were due as follows at June 30, 2004:

	Temporarily Restricted	Unrestricted	Total
In less than one year	$ 11,107,000	$ 7,375,000	$ 18,482,000
In one to five years	3,807,000	31,000	3,838,000
In greater than five years	825,000		825,000
	$ 15,739,000	$ 7,406,000	$ 23,145,000

Accounts receivable, grants receivable, and pledges—capital campaign are recorded on the consolidated statement of financial position for the year ended June 30, 2004 as follows:

Accounts receivable—trade, current	$ 10,330,000
Pledges—capital campaign, current	4,866,000
Grants receivable, current	3,286,000
Accounts receivable—trade, noncurrent	771,000
Pledges—capital campaign, noncurrent	3,651,000
Grants receivable, noncurrent	241,000
Total	$ 23,145,000

***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 Bonds - 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.

***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, 2004 and 2003, MPR incurred tax expenses of $65,000 and $35,000, respectively. 1400 Inc. had minimal tax expense for the years ended June 30, 2004 and 2003.

***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.

***Impairment of 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.

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

***Recently Issued Accounting Standards*—**In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, which addresses the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. This statement is effective for MPR in fiscal year 2005. MPR is currently evaluating the impact of this statement, but does not anticipate that its adoption will have a material effect on its financial position or results of operations.

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

***Summarized Financial Information for the Year Ended June 30, 2003*—**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, 2003, from which the summarized information was derived.

2. INVESTMENTS

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

	2004	2003
MPR Board Designated Fund	$ 6,650,000	$ 6,060,000
Variable Rate Demand Revenue Bonds—Series 2002		
Proceeds/Guaranteed Investment Contract (Note 5)		800,000
MPR Capital Campaigns	4,775,000	4,781,000
MPR Major Item Replacement Reserve	1,291,000	550,000
MPR Operating Fund	98,000	100,000
	$ 12,814,000	$ 12,291,000

Investments consist primarily of money market accounts, short-term certificates of deposit, commercial paper, and treasury bills, which are held at APMG and are available to MPR at any time. Investment return is allocated to MPR on a monthly basis based upon the average investment balances. Investment return for the years ended June 30, 2004 and 2003 was $102,000 and $425,000, 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) were held in trust in a Construction Fund and were available to MPR upon submitting qualified expenses to the trustee related to the construction of its facilities in Saint Paul. The Construction Fund was invested in a Guaranteed Investment Contract that earned a fixed rate of interest of 2.8%.

Funds from the MPR Capital Campaigns are intended for the general purposes of the Organization, including 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:

	2004	2003
Cost:		
Land	$ 8,760,000	$ 8,180,000
Building and leasehold improvements	18,692,000	17,670,000
Equipment	29,742,000	28,965,000
	57,194,000	54,815,000
Less accumulated depreciation and amortization	30,187,000	28,794,000
	$ 27,007,000	$ 26,021,000

Total depreciation expense and amortization of leasehold improvements charged to operations in the Property Fund was $2,821,000 and $2,783,000 for the years ended June 30, 2004 and 2003, respectively.

4. BROADCAST LICENSES AND OTHER INTANGIBLES

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

	2004	2003
Broadcast licenses	$ 14,732,000	$ 14,841,000
Other intangibles	1,156,000	1,156,000
	15,888,000	15,997,000
Less accumulated amortization	3,825,000	3,518,000
	$ 12,063,000	$ 12,479,000

Total amortization expense charged to operations was $340,000 and $256,000 for the years ended June 30, 2004 and 2003, respectively.

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

Year Ending June 30	
2005	$ 334,000
2006	334,000
2007	334,000
2008	334,000
2009	334,000

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, 2004 and 2003. There was no impairment of the 1400 Inc. broadcast license costs assessed for fiscal year 2004.

5. LONG-TERM DEBT

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

	2004	2003
Variable Rate Demand Revenue Bonds—Series 2002	$ 9,655,000	$ 9,655,000
Housing and Redevelopment Authority of the City of Saint Paul Promissory Note	3,123,000	2,622,000
City of Saint Paul note payable	250,000	250,000
Saint Paul Foundation note payable	218,000	218,000
Other obligations	94,000	184,000
	13,340,000	12,929,000
Less amounts due within one year	634,000	444,000
	$ 12,706,000	$ 12,485,000

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 480 Cedar, 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 480 Cedar and the triangle of land with its current building to create a complex to house the entire MPR headquarters staff. 480 Cedar was purchased on March 13, 2002 for $7,900,000. This transaction was financed by a $6,325,000 short-term loan from Allied Irish Bank. 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, 2004 and 2003 was 1.13% and 1.05%, 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 bonds 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 are based on this requirement. At June 30, 2004, the Organization is in compliance with all letter of credit financial covenant requirements, except for the covenant to deliver to the bank within 120 days of the end of the fiscal year the annual audited

financial statements. The Organization received a waiver from U.S. Bancorp dated October 28, 2004 for the noncompliance of this covenant. On June 30, 2004 and 2003, the Organization paid $0 and $345,000, respectively, based on the optional redemption schedule.

In conjunction with the purchase of 480 Cedar, MPR entered into a forgivable $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 were received at the closing of the purchase. The remaining cash proceeds from the promissory note were received in various increments through 2004. Each year, up to $378,000 of accrued interest and principal on this note can be forgiven provided that MPR meets certain employment and construction commitments. The full potential amount was given in 2004 and 2003. 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 Saint Paul Foundation note were used to fund the additional operating costs of the district heating systems installed in the MPR building and Fitzgerald Theater until operating savings are realized or until the maximum disbursement amount of $218,000 was realized. When 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 aggregate amounts of long-term debt maturities based upon the stated terms of the debt at June 30, 2004 are as follows:

Year Ending June 30	
2005	$ 634,000
2006	565,000
2007	592,000
2008	619,000
2009	648,000
Thereafter	10,282,000
	$ 13,340,000

6. LEASES

The Organization leases office, studio, and transmission facilities under noncancelable operating leases. Total rent expense charged to operations was $1,085,000 and $1,025,000 for the years ended June 30, 2004 and 2003, respectively.

Minimum future operating lease obligations are as follows:

Years Ending June 30	
2005	$ 1,057,000
2006	864,000
2007	886,000
2008	849,000
2009	586,000
Thereafter	950,000
	$ 5,192,000

7. COMMITMENTS AND CONTINGENCIES

During the ten-year period to June 30, 2004, MPR was awarded grants of approximately $1,350,000 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 that 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 480 Cedar, MPR received commitments in the amount of $4,500,000 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, 2004 and 2003, $1,900,000 and $1,550,000 in refundable advances had been received, respectively, and will be reported as a refundable advance on the consolidated statement of financial position.

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 operations or the financial position of MPR.

8. RETIREMENT PLAN

MPR and FTC participate in APMG's 403(b) tax-deferred annuity plan, which provides that qualified employees may contribute to the plan through payroll deductions that 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 $1,044,000 and $922,000 for the years ended June 30, 2004 and 2003, respectively. 1400 Inc. had no employees during these periods.

9. AFFILIATED ORGANIZATIONS

The Organization is charged by APMG 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, 2004 and 2003, these charges totaled $2,143,000 and $2,095,000, respectively, and are included in administrative expenses.

For the years ended June 30, 2004 and 2003, MPR charged SCPR $359,000 and $308,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

During the years ended June 30, 2004 and 2003, MPR charged MNN $17,000 and $25,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

MMP publishes a monthly magazine containing a programming guide that 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 $382,000 and $323,000 charged under this arrangement for the years ended June 30, 2004 and 2003, respectively.

As of June 30, 2004, the Organization had no amounts due to or from affiliated organizations. The Organization had a net payable due to MMP as of June 30, 2003 of $21,000.

Under an agreement with 1400 Inc. (licensee of KLBB and KLBP), a wholly owned for-profit subsidiary of MPR, The KLBB Company (formerly known as 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. Royalties of $12,000 and $6,000 were paid to 1400 Inc. for the years ended June 30, 2004 and 2003, respectively.

Under agreements with MPR, MNN provided certain programming for broadcast on WMNN (a station previously owned by MPR), sold advertising on that station, and utilized 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 $13,000 and $71,000 paid to MPR for the years ended June 30, 2004 and 2003, respectively. This license agreement was terminated upon the sale of the WMNN assets in fiscal year 2004.

Under an agreement with MPR, MMP operates a consumer show on MPR's behalf and pays MPR based upon the net proceeds of the show. Included in royalties and licensing fees revenue is $310,000 and $200,000 paid to MPR for the years ended June 30, 2004 and 2003, respectively.

In October 1998, the APMG 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. APMG maintains variance power over the endowment. In April 1999, the APMG 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 distribution is then granted to MPR. The grant to MPR was $3,800,000 and $3,896,000 for the years ended June 30, 2004 and 2003, respectively.

At June 30, 2004, the market value of the earned endowment for MPR held by APMG was $87,541,000, and at August 31, 2004, the market value was $85,610,000.

APMG also makes grants to MPR from other funds outside of the earned endowment, as designated by the APMG Board of Trustees, for the long-term benefit of MPR. During fiscal years 2004 and 2003, APMG agreed to provide grants of $552,000 and $368,000, 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.

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 $17,926,000 and $15,907,000 at June 30, 2004 and 2003, respectively. On August 31, 2004, the fair market value of The Minnesota Public Radio Endowment Funds was $17,271,000.

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 $2,454,000 and $2,169,000 at June 30, 2004 and 2003, respectively. On August 31, 2004, the fair market value of the Trust was approximately $2,400,000.

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, 2004 and 2003 was $20,380,000 and $18,076,000, respectively. Investment return, net includes interest income and dividends of $373,000 and $446,000 for the years ended June 30, 2004 and 2003, respectively; net gain (loss) of $2,577,000 and ($152,000) respectively; and transfers to the Minnesota Foundation of $501,000 and $157,000, respectively, net of the annual distributions from the respective endowments of $1,147,000 and $1,201,000, respectively, which are recorded as unrestricted grants from endowments within the consolidated statement of activities.

11. GAIN ON SALE OF ASSETS

On January 16, 2004, MPR sold commercial radio station WMNN (1330 AM), Minneapolis, Minnesota to Advance Acquisition Inc. for $6,750,000 subject to Federal Communications Commission ("FCC") approval. The FCC approved the sale, which subsequently closed on May 14, 2004. MNN had operated WMNN (1330 AM) under a local management agreement with MPR. MNN paid royalties to MPR of $13,000 in fiscal year 2004 and $71,000 in fiscal year 2003 under this local management agreement. The net proceeds of the sale of $6,447,000 were transferred to APMG for investment in the APMG earned endowment for the benefit of MPR.

On March 1, 2004, MNN sold most of its assets to Saga Communications Corporation for $3,250,000. The MNN name and other items of intellectual property were owned and licensed by MPR to MNN. MPR received $100,000 from MNN for the sale of this intellectual property.

12. SUBSEQUENT EVENT

On August 27, 2004, MPR agreed to purchase two noncommercial educational radio broadcast stations, WCAL (FM), Northfield, Minnesota and KMSE (FM), Rochester, Minnesota, from St. Olaf College for $10.5 million. Upon authorization by the FCC on November 15, 2004 the purchase was closed on November 19, 2004.

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45 E. Seventh St.
St. Paul, MN 55101
www.mpr.org