

REPORT ON AUDIT OF CONSOLIDATED  
FINANCIAL STATEMENTS

MINNESOTA PUBLIC RADIO



Years ended June 30, 2001 and 2000



## 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, 2001 and the related consolidated statements of activities, functional expenses, and of 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, 2000 consolidated financial statements and, in our report dated October 13, 2000, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Minnesota Public Radio and subsidiaries as of June 30, 2001 and the consolidated results of their activities, functional expenses, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

October 18, 2001

**MINNESOTA PUBLIC RADIO AND SUBSIDIARIES**  
**(an affiliated organization of American Public Media Group)**

CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2001 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2000)  
(in thousands)

	Year Ended June 30, 2001					Year Ended June 30		2001 Total Consolidated	2000 Total Consolidated
	Operating Fund	Property Fund	Unrestricted Designated Fund	Interfund Eliminations	Total	Temporarily Restricted	Permanently Restricted		
<b>SUPPORT FROM PUBLIC:</b>									
Membership	\$ 8,396				\$ 8,396	\$ 10		\$ 8,406	\$ 7,584
Regional underwriting	2,205				2,205	1,857		4,062	4,356
National underwriting	4,108				4,108	891		4,999	2,531
Business general support	610	\$ 586	\$ 92	\$ 71	1,217			1,217	1,935
Foundations	480	319			799	1,591		2,390	785
Grants from endowments (Notes 10 and 11)	3,513		1,323		4,836			4,836	4,739
Other grants from APM (Note 10)	18	2,818	898		3,734			3,734	2,125
Institutional sponsors	426				426			426	384
Other support from private sources									346
<b>TOTAL SUPPORT FROM PUBLIC</b>	<b>19,756</b>	<b>3,723</b>	<b>2,313</b>	<b>71</b>	<b>25,721</b>	<b>4,349</b>		<b>30,070</b>	<b>24,585</b>
<b>SUPPORT FROM GOVERNMENTAL AGENCIES:</b>									
Corporation for Public Broadcasting	2,923				2,923	600		3,523	4,160
Other grants from governmental agencies	41				41	820		861	199
<b>TOTAL SUPPORT FROM GOVERNMENTAL AGENCIES</b>	<b>2,964</b>				<b>2,964</b>	<b>1,420</b>		<b>4,384</b>	<b>4,359</b>
<b>EARNED REVENUE:</b>									
Revenue from broadcasting activities	6,995				6,995			6,995	5,122
Royalties and licensing fees	1,644		14		1,658			1,658	1,483
Investment return, net (Note 11)	360	75	396		831	10	\$ (1,241)	(400)	1,710
Other	1,688	232		221	1,699	9		1,708	1,378
<b>TOTAL EARNED REVENUE</b>	<b>10,687</b>	<b>307</b>	<b>410</b>	<b>221</b>	<b>11,183</b>	<b>19</b>	<b>(1,241)</b>	<b>9,961</b>	<b>9,693</b>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>	<b>5,229</b>	<b>345</b>			<b>5,574</b>	<b>(5,574)</b>			
<b>TOTAL SUPPORT AND EARNED REVENUE</b>	<b>38,636</b>	<b>4,375</b>	<b>2,723</b>	<b>292</b>	<b>45,442</b>	<b>214</b>	<b>(1,241)</b>	<b>44,415</b>	<b>38,637</b>
<b>EXPENSES:</b>									
Operations	27,454	1,870	691	292	29,723			29,723	23,865
Administrative	5,675	861			6,536			6,536	4,602
Fundraising	4,861	18			4,879			4,879	4,357
<b>TOTAL EXPENSES</b>	<b>37,990</b>	<b>2,749</b>	<b>691</b>	<b>292</b>	<b>41,138</b>			<b>41,138</b>	<b>32,824</b>
<b>MINORITY INTEREST IN JOINT VENTURE</b>	<b>(39)</b>				<b>(39)</b>			<b>(39)</b>	<b>(35)</b>
<b>SUPPORT AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES</b>	<b>607</b>	<b>1,626</b>	<b>2,032</b>		<b>4,265</b>	<b>214</b>	<b>(1,241)</b>	<b>3,238</b>	<b>5,778</b>
Capital Campaign		2			2			2	144
Interfund transfers	(551)	2,572	(2,021)						
<b>CHANGE IN NET ASSETS</b>	<b>56</b>	<b>4,200</b>	<b>11</b>		<b>4,267</b>	<b>214</b>	<b>(1,241)</b>	<b>3,240</b>	<b>5,922</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>375</b>	<b>22,551</b>	<b>12,358</b>		<b>35,284</b>	<b>8,127</b>	<b>22,275</b>	<b>65,686</b>	<b>59,764</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 431</b>	<b>\$ 26,751</b>	<b>\$ 12,369</b>	<b>\$ -</b>	<b>\$ 39,551</b>	<b>\$ 8,341</b>	<b>\$ 21,034</b>	<b>\$ 68,926</b>	<b>\$ 65,686</b>

See notes to consolidated financial statements.

**MINNESOTA PUBLIC RADIO AND SUBSIDIARIES**  
**(an affiliated organization of American Public Media Group)**  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2001 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2000)  
(in thousands)

	June 30, 2001					June 30		2001 Total Consolidated	2000 Total Consolidated
	Operating Fund	Property Fund	Unrestricted Designated Fund	Interfund Eliminations	Total	Temporarily Restricted	Permanently Restricted		
<b>ASSETS</b>									
<b>CURRENT ASSETS:</b>									
Cash and cash equivalents		\$ 211	\$ 652		\$ 863	\$ 1,747		\$ 2,610	\$ 3,773
Accounts receivable - Trade	\$ 3,528	2			3,530	6,342		9,872	7,121
Accounts receivable - Affiliates									2
Accounts receivable - Other									346
Pledges - Capital Campaign						1		1	8
Grants receivable	2,363				2,363			2,363	2,690
Prepaid expenses	406		14		420			420	379
Due from other funds			2,816	\$ 2,816					
<b>TOTAL CURRENT ASSETS</b>	<b>6,297</b>	<b>213</b>	<b>3,482</b>	<b>2,816</b>	<b>7,176</b>	<b>8,090</b>		<b>15,766</b>	<b>14,319</b>
<b>PROPERTY AND EQUIPMENT, net (Note 3)</b>		<b>18,046</b>	<b>223</b>		<b>18,269</b>			<b>18,269</b>	<b>14,380</b>
<b>OTHER ASSETS:</b>									
Investments (Note 2)	90	737	4,178		5,005	136		5,141	6,812
Endowment funds held by others (Note 11)							\$ 21,034	21,034	22,275
Pledges - Capital Campaign						32		32	34
Note issuance costs, net		9			9			9	22
Broadcast licenses and other intangibles, net (Note 4)		8,744	4,500		13,244			13,244	13,891
Due from affiliates									92
Other	59				59	83		142	535
<b>TOTAL OTHER ASSETS</b>	<b>149</b>	<b>9,490</b>	<b>8,678</b>		<b>18,317</b>	<b>251</b>	<b>21,034</b>	<b>39,602</b>	<b>43,661</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,446</b>	<b>\$ 27,749</b>	<b>\$ 12,383</b>	<b>\$ 2,816</b>	<b>\$ 43,762</b>	<b>\$ 8,341</b>	<b>\$ 21,034</b>	<b>\$ 73,137</b>	<b>\$ 72,360</b>
<b>LIABILITIES AND NET ASSETS</b>									
<b>CURRENT LIABILITIES:</b>									
Accounts payable - Trade	\$ 1,869		\$ 14		\$ 1,883			\$ 1,883	\$ 1,733
Accounts payable - Affiliates	39				39			39	35
Current portion of long-term debt (Note 6)		\$ 122			122			122	1,717
Note payable (Note 5)									900
Accrued liabilities	1,291				1,291			1,291	1,281
Due to other funds	2,816			\$ 2,816					
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,015</b>	<b>122</b>	<b>14</b>	<b>2,816</b>	<b>3,335</b>			<b>3,335</b>	<b>5,666</b>
<b>OTHER LIABILITIES -</b>									
Long-term debt, less current portion (Note 6)		876			876			876	1,908
<b>TOTAL LIABILITIES</b>	<b>6,015</b>	<b>998</b>	<b>14</b>	<b>2,816</b>	<b>4,211</b>			<b>4,211</b>	<b>6,674</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>									
<b>NET ASSETS</b>	<b>431</b>	<b>26,751</b>	<b>12,369</b>		<b>39,551</b>	<b>\$ 8,341</b>	<b>\$ 21,034</b>	<b>68,926</b>	<b>65,686</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,446</b>	<b>\$ 27,749</b>	<b>\$ 12,383</b>	<b>\$ 2,816</b>	<b>\$ 43,762</b>	<b>\$ 8,341</b>	<b>\$ 21,034</b>	<b>\$ 73,137</b>	<b>\$ 72,360</b>

See notes to consolidated financial statements.

**MINNESOTA PUBLIC RADIO AND SUBSIDIARIES**  
**(an affiliated organization of American Public Media Group)**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2001 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2000)

(in thousands)

	<u>Year Ended June 30, 2001</u>			<u>Year Ended June 30</u>	
	<u>Operations</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>2001 Total Consolidated</u>	<u>2000 Total Consolidated</u>
Salaries	\$ 12,827	\$ 1,725	\$ 1,848	\$ 16,400	\$ 12,835
Fringe benefits	2,521	317	320	3,158	2,440
Programming	7,196	400	64	7,660	6,051
Facilities costs	2,666	685	41	3,395	2,616
Promotion and development	1,183	27	1,645	2,855	2,266
Publications	77		663	740	664
Management and general	1,159	2,560	277	3,996	3,291
Interest	179			179	298
Depreciation and amortization	1,915	822	18	2,755	2,363
<b>TOTAL EXPENSES</b>	<b>\$ 29,723</b>	<b>\$ 6,536</b>	<b>\$ 4,879</b>	<b>\$ 41,138</b>	<b>\$ 32,824</b>

See notes to consolidated financial statements.

**MINNESOTA PUBLIC RADIO AND SUBSIDIARIES**  
**(an affiliated organization of American Public Media Group)**

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2001 AND 2000

(in thousands)

	<u>Year Ended June 30</u>	
	<u>2001</u> <u>Total</u> <u>Consolidated</u>	<u>2000</u> <u>Total</u> <u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,240	\$ 5,922
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,755	2,363
Decrease (increase) in endowment funds held by others	1,241	(1,159)
Noncash contributions		(164)
Restricted contributions and grants	(1,807)	(1,716)
Decrease (increase) in assets:		
Accounts and pledges receivable	(2,394)	(2,326)
Grants receivable	327	(1,359)
Prepaid expenses	(41)	(100)
Investments maintained at APM	1,671	
Other	485	(73)
Increase in liabilities -		
Accounts payable and accrued liabilities	164	403
	<u>2,401</u>	<u>(4,131)</u>
Total Adjustments		
	5,641	1,791
NET CASH PROVIDED BY OPERATING ACTIVITIES		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures and business acquisitions	(5,984)	(4,187)
Purchases of investments		(47,301)
Proceeds from sales and maturities of investments		48,488
	<u>(5,984)</u>	<u>(3,000)</u>
NET CASH USED IN INVESTING ACTIVITIES		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Restricted contributions and grants	1,807	1,716
Principal payments on long-term debt	(2,627)	(1,137)
	<u>(820)</u>	<u>579</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,163)	(630)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,773</u>	<u>4,403</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,610</u>	<u>\$ 3,773</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -</b>		
Cash paid during the year for interest	\$ 179	\$ 306

See notes to consolidated financial statements.

# MINNESOTA PUBLIC RADIO AND SUBSIDIARIES

(AN AFFILIATED ORGANIZATION OF AMERICAN PUBLIC MEDIA GROUP)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2000)

### 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.

On April 11, 2000, Minnesota Public Radio purchased the assets of Marketplace Productions from the University of Southern California. Marketplace Productions, based in Los Angeles, produces the nationally distributed public radio programs, *Marketplace* (a daily business, global economy, and finance program) and *Savvy Traveler* (a weekly travel magazine). The Asset Purchase Agreement contains certain provisions related to resale obligations, obligation of first offer, obligation of consent, minimum annual budgets, minimum research and development commitments, facilities commitments, and participation in the gross proceeds from the sale of certain products. MPR utilized the purchase method of accounting for this transaction.

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 KI.BB and KI.BP.

*Summarized Financial Information for the Year Ended June 30, 2000* - 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, 2000, from which the summarized information was derived.

American Public Media Group (APM), formerly known as Minnesota Communications Group (MCG), 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 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 (The MNN Radio Networks or MNN) and publishing (Minnesota Monthly Publications or MMP) activities.

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 which the MPR Board of Trustees has set aside for a particular purpose. All property, equipment, and related debt are considered unrestricted.

*Temporarily Restricted* - Temporarily restricted funds are those funds subject to donor-imposed restrictions which will be satisfied by actions of the Organization or its respective subsidiary or passage of time. The Organization has elected to present temporarily restricted contributions whose restrictions were fulfilled in the same time period within the unrestricted net assets class.

Temporarily restricted net assets at June 30 were restricted for:

	2001	2000
Program Support and Underwriting	\$ 6,534,000	\$ 6,411,000
Capital	<u>1,807,000</u>	<u>1,716,000</u>
	<u>\$ 8,341,000</u>	<u>\$ 8,127,000</u>

*Permanently Restricted* - Permanently restricted funds are those funds subject to donor-imposed restrictions which require that the funds be maintained by the Organization or its respective

subsidiary in perpetuity. In the absence of donor specifications that income and gains on donated funds be restricted, such income and gains are reported as income of unrestricted net assets. Permanently restricted net assets at June 30, 2001 and 2000 represent funds held by external endowments (see note 11).

*Donor-Restricted Gifts* - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Such gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

*Pledges-Capital Campaign* - Outstanding pledge contributions from various corporations, foundations, and individuals were as follows at June 30:

	2001	2000
Pledges due:		
In less than one year	\$ 1,000	\$ 8,000
In one to five years	<u>32,000</u>	<u>34,000</u>
Total pledges receivable	<u>\$ 33,000</u>	<u>\$ 42,000</u>

*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, 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.

*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 Commercial Development Revenue Note are amortized over the term of the note using a method which approximates the effective interest method. Costs incurred to acquire broadcast licenses and the estimated fair market value of donated licenses are amortized over a period of 40 years using the straight-line method. Other intangibles are amortized over 15 years using the straight-line method.

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

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

*Income Tax Status* - Both MPR and FTC are organized under Chapter 317 of Minnesota Statutes as not-for-profit organizations. The Internal Revenue Service has determined that MPR is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and is not a private foundation as it qualifies under Section 509(a)(1) as an organization defined under Section 170(b)(1)(A)(vi) of the Code. The Internal Revenue Service has also determined that FTC is a tax-exempt organization under Section 501(c)(3) of the Code and is not a private foundation as it qualifies under Section 509(a)(2) of the Code. The Minnesota Department of Revenue has determined that MPR and FTC are both exempt from Minnesota income taxes under Section 290.05 Subdivision 9 of Minnesota Statutes. 1400 Inc. is organized under Chapter 302A of Minnesota Statutes and is a taxable entity.

MPR and FTC are engaged in certain activities which result in unrelated business income. For the years ended June 30, 2001 and 2000, MPR incurred tax expenses of \$10,000 and \$19,000 respectively. 1400 Inc. had minimal tax expense for the year ended June 30, 2001.

*Fair Value of Financial Instruments* - The carrying values of cash and cash equivalents, accounts receivable, notes payable, and accounts payable are reasonable estimates of their fair value due to 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.

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 that such changes could materially affect the amounts reported in the statements of net assets.

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

*Recently Issued Accounting Standards* - On July 1, 2000, the Organization adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. The accounting for changes in the fair value of derivatives depends on the intended use and designation. Management has reviewed the requirements of SFAS No. 133 and has determined that it has no freestanding or embedded derivatives.

2. INVESTMENTS

Investments consisted of the following at June 30:

	2001	2000
MPR Board Designated Fund	\$ 4,178,000	\$ 5,728,000
MPR Major Item Replacement Reserve	688,000	806,000
MPR Capital Campaigns	136,000	145,000
MPR Operating Fund	90,000	84,000
District Heating notes payable (Note 6):		
Reserve Fund – FTC	36,000	36,000
Reserve Fund – MPR	<u>13,000</u>	<u>13,000</u>
	<u>\$ 5,141,000</u>	<u>\$ 6,812,000</u>

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

MPR's Board Designated Fund was established by the MPR Board of Trustees to receive and hold such income as may be designated by the Board of Trustees to provide for the long-term financial health of the Organization and is accounted for in the Designated Fund. The interest on this 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.

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.

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

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2001	2000
Cost:		
Land	\$ 758,000	\$ 738,000
Building and leasehold improvements	14,568,000	11,636,000
Equipment	<u>26,660,000</u>	<u>23,807,000</u>
	41,986,000	36,181,000
Less accumulated depreciation and amortization	<u>(23,717,000)</u>	<u>(21,801,000)</u>
	<u>\$ 18,269,000</u>	<u>\$ 14,380,000</u>

4. BROADCAST LICENSES AND OTHER INTANGIBLES

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

	2001	2000
Broadcast licenses	\$ 15,264,000	\$ 15,264,000
Other intangibles	<u>1,159,000</u>	<u>1,300,000</u>
	16,423,000	16,564,000
Less accumulated amortization	<u>(3,179,000)</u>	<u>(2,673,000)</u>
	<u>\$ 13,244,000</u>	<u>\$ 13,891,000</u>

5. NOTE PAYABLE

On March 31, 1999, 1400 Inc. entered into a promissory note with a bank for \$900,000 due May 15, 2000. During the year ended June 30, 2000, the note was extended to December 31, 2000. Interest was based on a daily variable rate and was payable monthly. As part of the transaction in which the stock of 1400 Inc. was donated to Minnesota Public Radio, APM guaranteed this debt. On January 31, 2001 the note was extinguished as a result of an additional equity contribution from MPR's Designated Fund.

6. LONG-TERM DEBT

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

	2001	2000
Commercial Development Revenue Note of 1991	\$ -	\$ 1,600,000
City of St. Paul note payable	250,000	250,000
District Heating notes payable to the Port Authority of the City of St. Paul	172,000	209,000
St. Paul Foundation note payable	218,000	218,000
St. Paul Progress Corporation note payable	11,000	32,000
Other Obligations	<u>347,000</u>	<u>416,000</u>
	998,000	2,725,000
Less amounts due within one year	<u>(122,000)</u>	<u>(1,717,000)</u>
	<u>\$ 876,000</u>	<u>\$ 1,008,000</u>

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

The City of St. 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 note payable to the Port Authority of the City of St. Paul were used to assist in funding the costs of new heating systems in the Fitzgerald Theater and MPR buildings. Repayment of the borrowing is made monthly, with interest at 9.5%. The note requires 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 will be used to pay the remainder of the note at the time the principal balance is equal to the reserve funds.

The proceeds of the St. 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 St. Paul Progress Corporation note were used to make improvements to the Fitzgerald Theater. The note bears interest at 75% of the bank reference rate at the beginning of each calendar quarter and provides a repayment schedule of principal and interest over a period of seven years.

The aggregate amounts of long-term debt maturities at June 30, 2001 are as follows:

Years ending June 30:	
2002	\$ 122,000
2003	120,000
2004	128,000
2005	161,000
2006	-
Thereafter	<u>467,000</u>
	<u>\$ 998,000</u>

## 7. LEASES

The Organization leases office, studio, and transmission facilities under noncancelable operating leases. Total rent expense charged to operations was \$1,113,000 and \$553,000 for the years ended June 30, 2001 and 2000, respectively.

Minimum future operating lease obligations are as follows:

Years ending June 30:	
2002	\$ 811,000
2003	854,000
2004	688,000
2005	459,000
2006	478,000
Thereafter	<u>2,464,000</u>
	<u>\$ 5,754,000</u>

## 8. COMMITMENTS AND CONTINGENCIES

During the ten-year period to June 30, 2001, MPR was awarded grants of approximately \$1,279,000 from the United States Department of Commerce, National Telecommunications and Information Administration, under the Public Telecommunications Facilities Program. The terms of such grants provide for a ten-year period of federal interest, during which equipment purchased with grant funds may be repossessed under certain conditions which generally relate to a change in ownership from not-for-profit to commercial or to changes in the utilization of assets acquired with grant funds.

MPR is involved in various legal proceedings incidental to its business. Although it is difficult to predict the ultimate outcome of these cases, management believes that the resolution of such proceedings will not have a material adverse effect on the consolidated operations or the consolidated financial position of MPR.

## 9. RETIREMENT PLAN

MPR and FTC participate in APM's 403(b) tax-deferred annuity plan which provides that qualified employees may contribute to the plan through payroll deductions, which are matched 100% by the respective employer up to 7.5% of their base compensation. Participation is voluntary after two years and is required after five years of employment or age 35, whichever is later. The employers' contributions totaled \$712,000 and \$568,000 for the years ended June 30, 2001 and 2000, respectively. 1400 Inc. had no employees during these periods.

## 10. AFFILIATED ORGANIZATIONS

The Organization is charged by APM for its estimated share of various accounting services, financing charges, personnel costs, and insurance costs incurred on its behalf. For the years ended June 30, 2001 and 2000, these charges totaled \$1,923,000 and \$1,599,000, respectively, and are included in administrative expenses.

For the years ended June 30, 2001 and 2000, MPR charged SCPR \$237,000 and \$162,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

During the years ended June 30, 2001 and 2000, MPR charged Greenspring \$28,000 and \$46,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

During the years ended June 30, 2001 and 2000, MPR charged MNN \$37,000 and \$27,000, respectively, for providing various operational services. These are reflected in other earned revenue for MPR.

MMP publishes a monthly magazine containing a programming guide, which is purchased by MPR and provided to individual members of MPR. MPR pays a specified amount to MMP for each month an MPR member receives a magazine. Included in operating expenses are \$405,000 and \$373,000 charged under this arrangement for the years ended June 30, 2001 and 2000, respectively.

Under an agreement with 1400 Inc. (licensee of KLBB and KLBP), a wholly owned for-profit subsidiary of MPR, MNN provides certain programming for broadcast on KLBB and KLBP and sells advertising on those stations in exchange for the payment to 1400 Inc. of royalties based on sales. For the years ended June 30, 2001 and 2000, royalties of \$13,000 and \$25,000 were paid to 1400 Inc.

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 selling, general and administrative expenses is \$124,000 and \$93,000 paid to MPR for the years ended June 30, 2001 and 2000, 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 selling, general, and administrative expenses is \$137,000 and \$112,000 paid to MPR for the years ended June 30, 2001 and 2000, respectively.

In October 1998, the APM Board of Trustees approved setting aside \$85.6 million from the net proceeds of the sale of Rivertown Trading Company, an indirect wholly owned for-profit subsidiary, as a permanent endowment for the benefit of MPR. In April 1999, the APM Board of Trustees adopted the Investment Policy for this Earned Endowment for MPR. The Investment Policy includes a spending policy designating an annual distribution of 4.5% of the five-year average market value of the Earned Endowment's assets. Prior to the adoption of the Investment Policy and selection of investment managers, APM agreed to grant to MPR \$3.9 million, or approximately 4.5% of the Earned Endowment, for fiscal 2000. The grant to MPR was \$3.7 million for fiscal 2001. At June 30, 2001, the market value of the Earned Endowment for MPR held by APM was \$84.5 million. At August 30, 2001, the market value of the Earned Endowment for MPR held by APM was \$74.5 million.

The remaining funds available from the net proceeds were reserved for future investments, as designated by the APM Board of Trustees, all for the long-term benefit of MPR. During fiscal years 2001 and 2000, APM agreed to provide grants of \$3,754,000 and \$2,215,000, respectively, to MPR from these remaining funds in support of new initiatives.

At June 30, 2001 and 2000, the Organization had the following net amounts due from (due to) affiliated organizations:

	2001	2000
Greenspring	(\$ 39,000)	(\$ 35,000)
American Public Media Group	<u>-</u>	<u>94,000</u>
	<u>(\$ 39,000)</u>	<u>\$ 59,000</u>

## 11. PERMANENT EXTERNAL ENDOWMENTS

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

organization should recognize its rights to the assets held by the recipient organization, the charitable trust, or the identifiable pool of assets.

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

MPR is party to an agreement with Minnesota Foundation which established an irrevocable endowment fund called The Minnesota Public Radio Endowment Funds. The 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 \$18,306,000 and \$19,128,000 at June 30, 2001 and 2000, respectively. The fair market value of The Minnesota Public Radio Endowment Funds was \$16,685,000 at August 30, 2001.

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 \$2,728,000 and \$3,148,000 at June 30, 2001 and 2000, respectively. The fair market value of the Trust was approximately \$2,500,000 at August 30, 2001.

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, 2001 and 2000 was \$21,034,000 and \$22,275,000, respectively. Investment return, net includes interest income and dividends of \$690,000 and \$719,000 for the years ended June 30, 2001 and 2000, respectively; net loss of \$928,000 and appreciation of \$1,402,000, respectively; and transfers to the Minnesota Foundation of \$91,000 and \$33,000, respectively, net of the annual distributions from the respective endowments of \$1,094,000 and \$962,000, respectively, which are recorded as unrestricted grants received from endowments within the consolidated statement of activities.

## 12. SUBSEQUENT EVENTS

On October 17, 2001 MPR entered into an agreement to purchase the building located at 480 Cedar Street (the "480 Cedar Building") from the Public Housing Agency of Saint Paul for \$7.9 million. MPR may exercise its rights under the purchase agreement on or before April 20, 2002. Concurrent with this agreement, MPR entered into a Memorandum of Intent with the Housing and Redevelopment Authority of the City of Saint Paul, which provides that the City of Saint Paul will transfer to MPR the vacant triangle of land to the west of its current downtown facility, vacate the street between MPR's building and the 480 Cedar Building, and provide \$3.3 million in the form of a forgivable loan in support of the acquisition and the building project.

MPR's intention is to join the 480 Cedar Building and the triangle of land with its current building to create a complex to house the entire MPR headquarters staff. The Memorandum of Intent is subject to adoption of a Development Agreement and other contingencies. MPR also received commitments in the amount of \$4.5 million from local foundations for this project.