

McGladrey & Pullen

Certified Public Accountants

**Southern California Public Radio
(An Affiliated Organization of
American Public Media Group)**

Financial Report
June 30, 2008

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Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Southern California Public Radio

We have audited the accompanying statement of financial position of Southern California Public Radio as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Southern California Public Radio's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Organization's 2007 financial statements, which were audited by other auditors, whose report, dated October 23, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Southern California Public Radio as of June 30, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional Operating Fund, Property Fund and interfund eliminations information presented in the statement of activities and statement of financial position for 2008 is presented for the purpose of additional analysis of the basic financial statements, rather than to present the results of operations of the individual funds, and is not a required part of the basic financial statements. This additional 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 2008 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2008 financial statements taken as a whole.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
October 29, 2008

Southern California Public Radio
(An Affiliated Organization of American Public Media Group)

Statements of Activities
Year Ended June 30, 2008, With Comparative Totals for the Year Ended June 30, 2007
(In Thousands)

	Year Ended June 30, 2008						Year Ended
	Unrestricted			Temporarily	Permanently	Total	June 30, 2007
	Operating Fund	Property Fund	Total	Restricted	Restricted		Total
Support from public:							
Individual gifts and membership	\$ 5,471	\$ -	\$ 5,471	\$ 167	\$ 26	\$ 5,664	\$ 5,142
Individual gifts and membership released from restriction	208	-	208	(208)	-	-	-
Underwriting	-	-	-	5,545	-	5,545	4,834
Underwriting released from restriction	5,332	-	5,332	(5,332)	-	-	-
Business general support	196	-	196	-	-	196	187
Foundations	15	-	15	393	-	408	1,496
Foundations released from restriction	1,014	-	1,014	(1,014)	-	-	-
Other public support	4	-	4	-	-	4	-
Total support from public	12,240	-	12,240	(449)	26	11,817	11,659
Support from governmental sources:							
Corporation for Public Broadcasting (CPB)	-	-	-	1,101	-	1,101	1,046
CPB released from restriction	695	84	779	(779)	-	-	-
Total support from governmental sources	695	84	779	322	-	1,101	1,046
Earned revenue:							
Revenue from broadcasting activities	88	-	88	-	-	88	2
Investment return (Note 3)	19	419	438	-	(1)	437	236
Other earned revenue	111	-	111	-	-	111	97
Total earned revenue	218	419	637	-	(1)	636	335
Total support and earned revenue	13,153	503	13,656	(127)	25	13,554	13,040
Expenses:							
Operations	7,820	199	8,019	-	-	8,019	6,599
Administrative	1,513	5	1,518	-	-	1,518	1,361
Fundraising	3,403	13	3,416	-	-	3,416	3,782
Total expenses	12,736	217	12,953	-	-	12,953	11,742
Support and revenue (less than) in excess of expenses	417	286	703	(127)	25	601	1,298
Capital campaign:							
Public support	-	-	-	8,246	-	8,246	2,444
Revenue released from restriction	-	1,799	1,799	(1,799)	-	-	-
Campaign and related expenses	-	(931)	(931)	-	-	(931)	(907)
Interfund transfer	(195)	195	-	-	-	-	-
Change in net assets	222	1,349	1,571	6,320	25	7,916	2,835
Net assets, beginning of year	269	3,112	3,381	5,878	82	9,341	6,506
Net assets, end of year	\$ 491	\$ 4,461	\$ 4,952	\$ 12,198	\$ 107	\$ 17,257	\$ 9,341

See Notes to Financial Statements.

Southern California Public Radio
(An Affiliated Organization of American Public Media Group)

Statements of Functional Expenses

Year Ended June 30, 2008, With Comparative Totals for the Year Ended June 30, 2007

(In Thousands)

	Year Ended June 30, 2008				Year Ended
	Operations	Administrative	Fundraising	Total	June 30, 2007
Expenses:					Total
Personnel (less fringe benefits)	\$ 3,565	\$ 712	\$ 1,447	\$ 5,724	\$ 5,417
Fringe benefits	683	124	243	1,050	969
Programming — content	1,145	-	-	1,145	1,052
Other production	485	-	-	485	371
Space costs	214	31	71	316	301
Utilities	113	17	20	150	166
Repairs and maintenance	30	1	1	32	19
Other occupancy	-	44	6	50	52
Membership development	-	-	689	689	522
Promotion and development	1,301	26	779	2,106	1,689
Travel and training	47	32	14	93	109
Management and general	60	181	24	265	286
Depreciation	166	5	13	184	188
Financial and other	-	345	109	454	399
Payments to PACCD and UR (Note 11)	210	-	-	210	202
Total	\$ 8,019	\$ 1,518	\$ 3,416	\$ 12,953	\$ 11,742

See Notes to Financial Statements.

Southern California Public Radio
(An Affiliated Organization of American Public Media Group)

Statements of Financial Position
June 30, 2008, With Comparative Totals as of June 30, 2007
(In Thousands)

Assets	June 30, 2008							June 30, 2007 Total
	Unrestricted				Temporarily Restricted	Permanently Restricted	Total	
	Operating Fund	Property Fund	Interfund Eliminations	Total				
Current Assets								
Cash and cash equivalents	\$ -	\$ 11	\$ -	\$ 11	\$ -	\$ -	\$ 11	\$ 3
Accounts receivable:								
Trade, net	1,660	-	-	1,660	1,106	-	2,766	2,639
Capital campaign	-	-	-	-	1,678	-	1,678	991
Grants	22	-	-	22	84	-	106	656
Prepaid expenses	253	-	-	253	-	-	253	248
Inventory	128	-	-	128	-	-	128	110
Interfund asset/liability	-	279	(279)	-	-	-	-	-
Other	-	-	-	-	398	-	398	228
Total current assets	2,063	290	(279)	2,074	3,266	-	5,340	4,875
Net Property and Equipment (Note 4)	-	7,884	-	7,884	-	-	7,884	7,180
Accounts Receivable, trade, net of present value discount (Note 2)	2	-	-	2	34	-	36	83
Pledges Receivable, capital campaign, net of present value discount (Note 2)	-	-	-	-	1,462	-	1,462	234
Other Assets								
Investments (Note 3)	3	3,053	-	3,056	6,749	-	9,805	2,484
Interest in investment pool (Note 3)	-	163	-	163	687	-	850	970
Investments limited to use (Note 3)	-	7,804	-	7,804	-	-	7,804	2,099
Endowment fund held by others	-	-	-	-	-	107	107	82
Other	-	267	-	267	-	-	267	152
Total other assets	3	11,287	-	11,290	7,436	107	18,833	5,787
Total assets	\$ 2,068	\$ 19,461	\$ (279)	\$ 21,250	\$ 12,198	\$ 107	\$ 33,555	\$ 18,159

Liabilities and Net Assets	June 30, 2008							June 30, 2007 Total
	Unrestricted				Temporarily Restricted	Permanently Restricted	Total	
	Operating Fund	Property Fund	Interfund Eliminations	Total				
Current Liabilities:								
Accounts payable, trade	\$ 282	\$ -	\$ -	\$ 282	\$ -	\$ -	282	\$ 436
Line of credit from APMG (Note 5)	101	-	-	101	-	-	101	537
Current portion of loan from APMG (Note 5)	150	-	-	150	-	-	150	100
Accrued liabilities	700	-	-	700	-	-	700	516
Deferred revenue	-	-	-	-	-	-	-	14
Interfund asset/liability	279	-	(279)	-	-	-	-	-
Total current liabilities	1,512	-	(279)	1,233	-	-	1,233	1,603
Other Liabilities								
Loan from APMG (Note 5)	65	-	-	65	-	-	65	215
Long-term obligations (Note 6)	-	15,000	-	15,000	-	-	15,000	7,000
Total other liabilities	65	15,000	-	15,065	-	-	15,065	7,215
Total liabilities	1,577	15,000	(279)	16,298	-	-	16,298	8,818
Commitments and Contingencies (Notes 4, 5, 7, 8 and 12)								
Net Assets	491	4,461	-	4,952	12,198	107	17,257	9,341
Total	\$ 2,068	\$ 19,461	\$ (279)	\$ 21,250	\$ 12,198	\$ 107	\$ 33,555	\$ 18,159

See Notes to Financial Statements.

Southern California Public Radio
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Statements of Cash Flows

Year Ended June 30, 2008, With Comparative Totals for the Year Ended June 30, 2007

(In Thousands)

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ 7,916	\$ 2,835
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	197	195
Contributions and grants restricted for capital projects	(7,219)	(1,040)
Increase in endowment funds held by others	(25)	(82)
Unrealized gain on investments	(1)	(9)
Decrease (increase) in:		
Accounts receivable:		
Trade, net	(80)	(259)
Grants	550	(515)
Prepaid expenses, inventory and other assets	(163)	(237)
Increase (decrease) in accounts payable and accrued liabilities	30	(128)
Net cash provided by parent	-	415
Total adjustments	(6,711)	(1,660)
Net cash provided by operating activities	1,205	1,175
Cash Flows From Investing Activities		
Purchase of equipment	(888)	(541)
Purchase of investments	(17,049)	(1,693)
Sales of investments	4,024	1,097
Change in interest in investment pool, net	120	(902)
Net cash used in investing activities	(13,793)	(2,039)
Cash Flows From Financing Activities		
Payment on loan from APMG	(100)	(100)
Contributions received for restricted capital projects	5,290	387
Net payments on line of credit from APMG	(436)	537
Net payments on debt issuance costs	(158)	-
Proceeds from issuance of debt	8,000	-
Net cash provided by financing activities	12,596	824
Net (decrease) increase in cash and cash equivalents	8	(40)
Cash and Cash Equivalents, beginning of year	3	43
Cash and Cash Equivalents, end of year	<u>\$ 11</u>	<u>\$ 3</u>
Supplemental Disclosures of Cash Flows Information		
Cash paid during the year for interest	<u>\$ 313</u>	<u>\$ 247</u>

See Notes to Financial Statements.

Southern California Public Radio
(An Affiliated Organization of American Public Media Group)

Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 1. Nature of Business and Organization

Nature of business: Southern California Public Radio (the Organization or SCPR) is a not-for-profit corporation located in Pasadena, California. SCPR's mission is to strengthen the civic and cultural bonds that unite Southern California's diverse communities by providing the highest-quality news and information service through radio and interactive media.

American Public Media Group (APMG) is the not-for-profit parent support organization of SCPR, of Minnesota Public Radio | American Public Media (MPR|APM) and of Classical South Florida (CSF). APMG's primary purpose is to provide financial and management support services to SCPR, MPR|APM, and other affiliates. APMG has the ability to elect, or to approve the election of, the SCPR Board of Trustees, a majority of the MPR|APM Board of Trustees, and the CSF Board of Trustees.

SCPR is party to a Public Service Operating Agreement (the PACCD Agreement) with Pasadena Area Community College District (PACCD) for the operation of public radio station KPCC (89.3 FM), whose city of license is Pasadena, California. KPCC provides a radio broadcast signal to a significant portion of Southern California. Pursuant to the PACCD Agreement, SCPR assumed responsibility for the operation of KPCC, while PACCD remained the licensee of the station. As part of this transaction, PACCD contributed capital of \$172,000 in exchange for promises in the PACCD Agreement made by SCPR relating to the operation of the station, including certain minimum operating requirements, minimum budget requirements, and revenue-sharing obligations to PACCD. As part of this transaction, APMG guaranteed to provide financial support to SCPR for a minimum of 10 years, in the form of loans, sufficient to assure that SCPR is capable of meeting certain operating expense levels. SCPR believes they are in compliance with the PACCD Agreement as of June 30, 2008. The PACCD Agreement is effective through December 31, 2025, and then automatically extends for successive periods of five years each thereafter, unless either party gives written notice at least 12 months prior to the end of the then-current term or extension. Also as part of this transaction, APMG and its affiliates agreed to provide programming, development, technical, human resources and accounting services to SCPR.

SCPR is party to a Public Service Operating Agreement (the UR Agreement) with the University of Redlands (UR) for the operation of public radio station KUOR (89.1 FM), whose city of license is Redlands, California. KUOR provides a radio broadcast signal to a significant portion of Southern California's Inland Empire. Effective April 21, 2007, SCPR assumed responsibility for the programming, operation and financial activities of KUOR, while UR remained the licensee of the station. Pursuant to the UR Agreement, SCPR must maintain certain minimum regulatory and operating requirements and share revenues generated from or with respect to KUOR with UR (also see Note 10). The Organization believes they are in compliance with the UR Agreement as of June 30, 2008. The UR Agreement terminates on April 21, 2017.

SCPR operates an Internet website at www.scpr.org, where it provides a stream of its radio programming, archived audio programming, text and interaction.

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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 2. Summary of Significant Accounting Policies

The Organization maintains 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.

Property Fund: To acquire and account for all property and equipment owned by the Organization.

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted: This classification contains net assets that are not subject to donor-imposed stipulations and are available for support of the operations of the Organization. All property, plant and equipment, and debt are considered unrestricted.

Temporarily restricted: This classification includes net assets subject to donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. For example, underwriting revenue is released as related spots are run.

Temporarily restricted net assets at June 30, 2008 and 2007, were restricted for the following:

	2008	2007
Program support and underwriting	\$ 1,239,000	\$ 2,660,000
Capital campaign	10,959,000	3,218,000
Total temporarily restricted net assets	<u>\$ 12,198,000</u>	<u>\$ 5,878,000</u>

Temporarily restricted funds released from donor-imposed restrictions for the years ended June 30, 2008 and 2007, consist of the following:

	2008	2007
Individual gifts and membership	\$ 208,000	\$ 248,000
Underwriting	5,332,000	3,474,000
Foundations	1,014,000	767,000
Corporation for Public Broadcasting	779,000	1,046,000
Capital campaign	1,799,000	1,371,000
Total	<u>\$ 9,132,000</u>	<u>\$ 6,906,000</u>

Permanently restricted: This classification includes net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Organization to use or expend the income derived from the donated assets for specified or unspecified purposes. 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, 2008, represent endowment funds held by California Community Foundation.

Southern California Public Radio
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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 2. Summary of Significant Accounting Policies (Continued)

Basis of accounting: The financial statements of the Organization are prepared on the accrual basis of accounting.

Summarized financial information for the year ended June 30, 2007: The financial statements and notes to financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2007, from which the summarized information was derived. Certain amounts in the prior-year summarized comparative information have been reclassified to be consistent with the presentation in the current-year financial statements. These classifications had no impact on changes in net assets as previously presented.

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

Investments: Investments at market are carried at fair value based on quoted market prices, are invested in cash equivalents and money market accounts, and are recorded as long-term assets as SCPR intends to utilize these for future construction projects. SCPR's investment in Gather Inc. is carried at cost as SCPR holds less than 20 percent of the equity and does not have significant influence. Cost-basis investments are reviewed annually for impairment. There were no impairment charges during the years ended June 30, 2008 and 2007.

The Organization maintains its cash in bank deposit accounts and money market funds, which may at times exceed federally insured limits. The Organization has not experienced any losses on such accounts.

Revenue recognition:

Support from public and governmental agencies, and capital campaign revenue: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor restrictions that limit the use of the donated assets. When the donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Broadcasting activities: The Organization recognizes revenue from ticket sales, which is generated from live events. Revenue is recognized as earned when the live event occurs.

Barter transactions: The Organization exchanges underwriting spots for certain goods and services. Underwriting revenue is recognized at fair value when spots air. Trade expense is recorded when the goods or services are used or received. During the years ended June 30, 2008 and 2007, trade revenues of approximately \$1,128,000 and \$360,000, respectively, and trade expenses of approximately \$1,134,000 and \$441,000, respectively, are reflected in the statements of activities.

Investment return: Interest and dividend income is recorded when earned. Realized gains and losses are recorded when the investments are sold. Unrealized gains and losses represent the change in fair value between reporting periods.

Southern California Public Radio
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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 2. Summary of Significant Accounting Policies (Continued)

Accounts receivable: The Organization estimates an allowance for doubtful accounts based on a review of outstanding accounts as well as considering historical experience.

Trade accounts receivable: Trade accounts receivable consist primarily of individual gifts, membership, and underwriting contributions. Allowances for doubtful accounts of \$200,000 and \$197,000 at June 30, 2008 and 2007, respectively, have been recorded to provide for estimated bad debts.

Capital campaign receivable and grants receivable: Contributions, which include unconditional promises to give, are recorded as revenues in the period received. Unconditional promises to give due in the next year are reflected as pledges receivable and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as pledges receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received. Present value discounts were \$80,000 and \$23,000 at June 30, 2008 and 2007, respectively. Amortization of the discount is included in contribution revenues. Pledges receivable from various corporations, foundations and individuals were discounted between 2.88 percent and 5.13 percent at June 30, 2008. Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2008, the Organization has received conditional promises to give of \$2,300,000 that has not been recorded in the financial statements because the conditions have not been met.

Trade, capital campaign, and grants receivable at June 30, 2008, were due as follows:

	Temporarily Restricted	Unrestricted	Total
In less than one year	\$ 2,868,000	\$ 1,682,000	\$ 4,550,000
In one to five years	1,464,000	2,000	1,466,000
In greater than five years	32,000	-	32,000
Trade, capital campaign, and grants receivable	<u>\$ 4,364,000</u>	<u>\$ 1,684,000</u>	<u>\$ 6,048,000</u>

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

	Years
Building	40
Equipment	3 – 20

Leasehold improvements are amortized over the shorter of the lease term or 40 years. Interest expense, net of investment earnings on amounts externally restricted to fund capital projects, is capitalized as a component of construction in progress. No interest was capitalized in 2008 or 2007.

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

Other assets: Other assets include barter assets and capitalized bond issue costs. Barter assets are recorded at fair market value and expensed as goods and services are used or received. Bond issue costs are recorded at historical cost and expensed over the life of the bonds using the straight-line method, which approximates the effective-interest method.

Southern California Public Radio
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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 2. Summary of Significant Accounting Policies (Continued)

Capital campaign and related expenses: Capital campaign and related expenses include fundraising and administrative costs directly attributable to the capital campaign and debt servicing costs directly attributable to the capital project until the project is completed.

Allocation of expenses: The Organization's costs of providing its various services have been classified on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between operations, administrative and fundraising functions. Expenses are charged directly to these functional areas where possible. Remaining expenses are allocated using the best available method.

Income tax status: SCPR is organized under Chapter 317 of Minnesota Statutes as a not-for-profit organization. The Internal Revenue Service has determined that SCPR is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and is not a private foundation, as it qualifies under Section 509(a)(1) as an organization defined under Section 170(b)(1)(A)(vi) of the Code. The State of California Franchise Tax Board has determined that SCPR is exempt from California franchise or income taxes under Section 2370(1)(d) of the California Code, and the Minnesota Department of Revenue has determined that SCPR is exempt from Minnesota income taxes under Section 290.05 Subdivision 9 of Minnesota Statutes. SCPR is engaged in certain activities that result in unrelated business income.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of activities.

The Organization files income tax returns in the U.S. federal jurisdiction and various states. As of June 30, 2008, and for the year then ended, there are no material unrecognized/derecognized tax benefits or tax penalties or interest. With few exceptions, the Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before the year ended June 30, 2005.

Fair value of financial instruments: The carrying values of cash and cash equivalents, trade, pledges and grants receivable, and line of credit 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 based on quoted market prices. The fair value of long-term obligations approximates its carrying value based on current rates for obligations with similar remaining maturities offered to similar not-for-profit organizations.

Southern California Public Radio
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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 2. Summary of Significant Accounting Policies (Continued)

The Organization continually monitors the differences between the cost and estimated fair value of investments. If any of the Organization's investments experience a decline in value that the Organization believes is other than temporary, the Organization records the loss. There was no other-than-temporary impairment loss recorded for the years ended June 30, 2008 and 2007.

Derivative instruments and hedging activities: Management has reviewed the requirements of Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and determined that it has no freestanding or embedded derivatives.

Impairment of long-lived assets: Management periodically reviews the carrying value of long-lived assets for potential impairment by comparing the carrying value of these assets to the estimated undiscounted future cash flows expected to result from the use of these assets. Should the sum of the related expected future net cash flows be less than the carrying value, an impairment loss would be recognized. No impairment was recorded in fiscal year 2008 or 2007.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

New accounting standards: In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The Organization adopted FIN 48 for the year ended June 30, 2008, with no impact on the financial statements.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which establishes a framework for reporting fair value and expands disclosure about fair value measurements. FASB Statement No. 157 is effective for the Organization for the year ending June 30, 2009. The Organization is evaluating the impact on the financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115*. FASB Statement No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial statement assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to report, on the face of the financial statements, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. FASB Statement No. 159 is effective for the Organization for the year ending June 30, 2009. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as cumulative-effect adjustment to net assets as of the initial date of the adoption. The Organization is evaluating the impact on the financial statements.

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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 3. Investments

Risks and uncertainties: The Organization's investments include an interest in the investment pool. The investment pool invests in various securities, including U.S. government securities, corporate debt instruments and cash equivalents. 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 statement of financial position.

Investments, interest in investment pool, and investments limited to use, at June 30, 2008 and 2007, consisted of the following:

	2008	2007
Investments at market:		
SCPR investments limited to use	\$ 7,804,000	\$ 2,099,000
SCPR Capital Campaign	9,655,000	2,334,000
Interest in investment pool	850,000	970,000
Investments at cost — investment in Gather Inc.	150,000	150,000
Total	<u>\$ 18,459,000</u>	<u>\$ 5,553,000</u>

Types of investments held at June 30, 2008 and 2007, were as follows:

	2008	2007
Cash equivalents	\$ 99,000	\$ 4,433,000
Money market funds	17,360,000	-
Interest in investment pool	850,000	970,000
Gather Inc.	150,000	150,000
Total	<u>\$ 18,459,000</u>	<u>\$ 5,553,000</u>

Net investment return for the years ended June 30, 2008 and 2007, consisted of the following:

	2008	2007
Interest and dividend income	\$ 437,000	\$ 230,000
Realized losses, net	-	(7,000)
Unrealized gains	1,000	9,000
Endowment funds held by others (Note 11)	(1,000)	4,000
Total net investment return	<u>\$ 437,000</u>	<u>\$ 236,000</u>

The return from investments consists primarily of interest income from the capital campaign money market account and from the Project Bonds investments limited to use. The investment return from the interest in investment pool is the allocated portion due to SCPR based on the average investment balances.

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Note 3. Investments (Continued)

The California Infrastructure and Economic Development Bank issued \$7,000,000 of Variable Rate Demand Revenue Bonds (SCPR investments limited to use) — Series 2005 and \$8,000,000 of Variable Rate Demand Revenue Bonds (SCPR investments limited to use) — Series 2007 to finance the acquisition, construction, improvement and remodeling of the capital facilities at 474 South Raymond Avenue (also see Notes 4 and 6). The SCPR investments limited to use are the proceeds from the SCPR Project Bonds (see Note 6) and are held in trust at Wells Fargo Bank in a construction fund. The proceeds remaining at June 30, 2008, were \$7,804,000 and will be used for the purposes noted above.

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

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

Note 4. Net Property and Equipment

Net property and equipment at June 30, 2008 and 2007, consisted of the following:

	2008	2007
Cost:		
Land	\$ 4,734,000	\$ 4,734,000
Building and leasehold improvements	1,201,000	1,201,000
Equipment	730,000	758,000
Construction in progress	1,890,000	1,022,000
Total	<u>8,555,000</u>	<u>7,715,000</u>
Less accumulated depreciation and amortization	(671,000)	(535,000)
Total net property and equipment	<u>\$ 7,884,000</u>	<u>\$ 7,180,000</u>

Total depreciation expense and amortization of leasehold improvements charged to operations in the Property Fund was \$184,000 and \$188,000 for the years ended June 30, 2008 and 2007, respectively.

Construction in progress: Construction in progress at June 30, 2008, represents costs incurred in connection with remodeling and building projects. At June 30, 2008, building expansion and remodeling projects are currently in progress, with estimated remaining costs to complete of approximately \$16,000,000.

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Note 5. Amounts Payable to APMG

In January 2000, a loan was entered into between APMG and SCPR to provide long-term financing of up to \$1,000,000. The loan bears no stated interest rate, and no monthly principal payments were required. On February 5, 2004, an APMG board resolution approved a fixed repayment schedule for the note payable. At June 30, 2008 and 2007, the amount outstanding was \$215,000 and \$315,000, respectively.

Annual principal payments due on the loan from APMG at June 30, 2008, are as follows:

Years ending June 30:		
2009	\$	150,000
2010		65,000
Total loan for APMG		<u>215,000</u>
Less amounts due within one year		<u>(150,000)</u>
Long-term portion	\$	<u>65,000</u>

In fiscal 2001, APMG established a line of credit for SCPR's general operating needs. This line was originally set at \$700,000 and increased to \$1,000,000 in February 2004. This line bears interest at the federal funds rate. The rate was 2.47 percent at June 30, 2008, and 5.31 percent at June 30, 2007. Interest amounted to \$16,000 and \$19,000 for the respective fiscal years 2008 and 2007. The line of credit expires on June 30, 2009, and is classified as short-term, as the June 30, 2008, balance is expected to be repaid within one year. The amount of the line outstanding at June 30, 2008 and 2007, was \$101,000 and \$537,000, respectively.

Note 6. Long-Term Obligations

Long-term obligations consisted of the following at June 30, 2008 and 2007:

	2008	2007
\$7,000,000 variable-rate, California Infrastructure and Economic Development Demand Revenue Bonds (Southern California Public Radio Project) — Series 2005, with interest due monthly (2.25% and 3.88% as of June 30, 2008 and 2007, respectively), maturing September 1, 2025; secured by an irrevocable letter of credit of \$7,086,302, which expires on September 8, 2009	\$ 7,000,000	\$ 7,000,000
\$8,000,000 variable-rate, California Infrastructure and Economic Development Demand Revenue Bonds (Southern California Public Radio Project) — Series 2007, with interest due monthly (2.25% as of June 30, 2008), maturing October 1, 2025; secured by an irrevocable letter of credit of \$8,096,631, which expires on October 4, 2012	8,000,000	8,000,000
	<u>\$ 15,000,000</u>	<u>\$ 15,000,000</u>

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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 6. Long-Term Obligations (Continued)

Proceeds from the Series 2005 and 2007 bonds (the Bonds) were transferred to the trustee, who was required by the indenture agreements to deposit the proceeds in construction funds (see Note 3). Interest on the Bonds is based on a daily remarketing process; however, the rate is not to exceed 10 percent. SCPR has the option to call for the redemption and prepayment of the outstanding Bonds in full or in part as per the redemption schedule. The Bonds can be called on certain dates by the bondholders. The remarketing agreements provide for a "best efforts" remarketing of the Bonds. If the letters of credit are drawn on to purchase bonds that are not remarketed, such amounts are due upon the earlier of 366 days following the date upon which the letters of credit are drawn upon or the expiration of the letter of credit. The Bonds are also secured by the guarantee provided to the trustee by APMG.

In the event SCPR is unsuccessful in renewing the letters of credit, the following is a summary of the annual maturities of the Bonds, based upon the stated terms of the Bonds and letters of credit at June 30, 2008:

Years ending June 30:	
2009	\$ -
2010	7,000,000
2011	-
2012	390,000
2013	7,610,000
Thereafter	-
	<u>\$ 15,000,000</u>

It is management's intention to renew the letters of credit. Following is a summary of the annual maturities of the Bonds, assuming renewals of the letters of credit:

Years ending June 30:	
2009	\$ -
2010	290,000
2011	300,000
2012	705,000
2013	730,000
Thereafter	12,975,000
	<u>\$ 15,000,000</u>

The Organization incurred \$313,000 and \$247,000 of interest expense during the years ended June 30, 2008 and 2007, respectively.

Note 7. Leases

The Organization leases studio facilities, transmission facilities and office space under noncancelable operating lease agreements that expire at varying dates. Total rent expense for all operating leases, including month-to-month leases, was \$311,000 and \$296,000 for the years ended June 30, 2008 and 2007, respectively.

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Notes to Financial Statements, With Comparative Information for the Year Ended June 30, 2007

Note 7. Leases (Continued)

Minimum future payments required under noncancelable operating leases as of June 30, 2008, are as follows:

Years ending June 30:	
2009	\$ 196,000
2010	196,000
2011	105,000
2012	85,000
2013	86,000
Thereafter	872,000
	<u>\$ 1,540,000</u>

Note 8. Contingencies

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

Note 9. Retirement Plan

SCPR employees participate in APMG's 403(b) tax-deferred retirement plan, which provides that qualified employees may contribute to the plan through payroll deductions that are matched 100 percent by the employer up to 7.5 percent 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 \$239,000 and \$172,000 for the years ended June 30, 2008 and 2007, respectively.

Note 10. Affiliated and Related-Party Organizations

Services provided by APMG and MPR|APM: SCPR is charged by APMG for its estimated share of various administrative services incurred on its behalf. For the years ended June 30, 2008 and 2007, these charges totaled \$313,000 and \$274,000, respectively, and are included in administrative expenses.

During the years ended June 30, 2008 and 2007, SCPR was charged \$175,000 and \$68,000, respectively, for various operational services provided by MPR|APM. These charges are reflected in operations expenses.

SCPR is charged by MPR|APM for tenant improvements and rental costs associated with their shared office space in downtown Los Angeles. For the years ended June 30, 2008 and 2007, these charges totaled \$30,000 and \$128,000, respectively, and are included in operations in space costs.

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Note 11. Public Service Operating Agreements

SCPR is party to two public service operating agreements (the agreements) with PACCD and UR (the licensees) for the operation of the public radio stations KPCC (89.3 FM) and KUOR (89.1 FM). SCPR agrees to make minimum revenue-sharing payments and to reimburse the licensees for certain actual expenses. Minimum revenue-sharing payments to the licensees under the terms of the agreements are as follows for the years ending June 30:

Years ending June 30:	
2009	\$ 210,000
2010	210,000
2011	210,000
2012	210,000
2013	212,000
Thereafter	3,546,000
	<u>\$ 4,598,000</u>

For the years ended June 30, 2008 and 2007, payments to the licensees for minimum revenue-sharing payments and expense reimbursement totaled \$303,000 and \$310,000, respectively, and are included in operations expense.

Note 12. Subsequent Event

On August 21, 2008, APMG purchased KBXO (90.3 FM) — Coachella, California, from Creative Educational Media Corp Inc., which serves the greater Palm Springs area, for \$1,000,000. APMG intends to enter into a public service operating agreement with SCPR, where APMG will hold the license and SCPR will operate the station and broadcast its existing format, for a yet to be determined fee.