

# consolidated financial report

JUNE 30, 2011



**AMERICAN  
PUBLIC MEDIA  
GROUP™**

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American Public Media Group and Affiliates

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## Independent Auditor's Report

To the Board of Trustees  
American Public Media Group and Affiliates

We have audited the accompanying consolidated statement of financial position of American Public Media Group and Affiliates (the Organization) as of June 30, 2011, and the related consolidated statements of activities 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 was derived from the Organization's 2010 consolidated financial statements and, in our report dated October 21, 2010, 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011, and the results of their activities and their 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 supplemental information by entity and by fund on pages 27 through 29 is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present information regarding the financial position and the results of operations of the individual entities and funds and is not a required part of the basic consolidated financial statements. This additional information by entity and by fund is the responsibility of the Organization's management. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Minneapolis, Minnesota  
October 24, 2011

## American Public Media Group and Affiliates

### Consolidated Statement of Activities

Year Ended June 30, 2011, with Comparative Totals for the Year Ended June 30, 2010

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Consolidated Totals	
				2011	2010
Support from public:					
Individual gifts and membership	\$ 26,402	\$ 4,061	\$ 16	\$ 30,479	\$ 26,685
Individual gifts and membership released from restriction (rfr)	2,058	(2,058)	-	-	-
Regional underwriting	435	15,911	-	16,346	15,154
Regional underwriting rfr	16,106	(16,106)	-	-	-
National underwriting	76	14,793	-	14,869	9,905
National underwriting rfr	12,766	(12,766)	-	-	-
Business general support	351	706	-	1,057	808
Business general support rfr	871	(871)	-	-	-
Foundations	1	2,407	-	2,408	5,532
Foundations rfr	5,989	(5,989)	-	-	-
Educational sponsors	427	-	-	427	426
Other public support	291	334	-	625	8,662
Other public support rfr	880	(880)	-	-	-
<b>Total support from public</b>	<b>66,653</b>	<b>(458)</b>	<b>16</b>	<b>66,211</b>	<b>67,172</b>
Support from governmental agencies:					
Corporation for Public Broadcasting	40	9,882	-	9,922	6,225
Corporation for Public Broadcasting rfr	5,826	(5,826)	-	-	-
Grants from other governmental agencies	280	302	-	582	1,095
Grants from other governmental agencies rfr	2,547	(2,547)	-	-	-
<b>Total support from governmental agencies</b>	<b>8,693</b>	<b>1,811</b>	<b>-</b>	<b>10,504</b>	<b>7,320</b>
Earned revenue:					
Revenue from operating activities	18,542	-	-	18,542	16,471
Royalties and licensing fees	1,421	-	-	1,421	1,412
Investment return, net (Note 5)	23,818	2,893	319	27,030	11,479
Product sales and other earned revenue	8,925	-	-	8,925	11,871
<b>Total earned revenue</b>	<b>52,706</b>	<b>2,893</b>	<b>319</b>	<b>55,918</b>	<b>41,233</b>
<b>Total support and earned revenue</b>	<b>128,052</b>	<b>4,246</b>	<b>335</b>	<b>132,633</b>	<b>115,725</b>
Expenses:					
Cost of goods sold	2,474	-	-	2,474	3,670
Operations	83,919	-	-	83,919	76,803
Selling, general and administrative	12,924	-	-	12,924	11,522
Fundraising	14,217	-	-	14,217	12,294
Capital campaign-related expenses	-	-	-	-	1,024
<b>Total expenses</b>	<b>113,534</b>	<b>-</b>	<b>-</b>	<b>113,534</b>	<b>105,313</b>
<b>Change in net assets</b>	<b>14,518</b>	<b>4,246</b>	<b>335</b>	<b>19,099</b>	<b>10,412</b>
Net assets—beginning of year	173,775	27,547	12,202	213,524	203,112
Net assets—end of year	\$ 188,293	\$ 31,793	\$ 12,537	\$ 232,623	\$ 213,524

See Notes to Consolidated Financial Statements.

## American Public Media Group and Affiliates

### Consolidated Statement of Financial Position June 30, 2011, with Comparative Totals as of June 30, 2010 (In Thousands)

<b>Assets</b>	2011	2010
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,799	\$ 9,890
Trade receivable, net (Note 4)	22,322	17,885
Pledges receivable—capital campaign, net (Note 4)	1,601	2,409
Grants receivable, net (Note 4)	7,015	7,674
Other	6,073	3,651
<b>Total current assets</b>	<b>47,810</b>	<b>41,509</b>
Property and Equipment, net (Note 7)	<b>68,577</b>	71,392
<b>Other Assets</b>		
Investments (Notes 3 and 5)	138,709	131,298
Investments limited to use (Note 3)	-	861
Endowment funds held by others and beneficial interest in trust (Notes 2 and 3)	24,392	19,648
Trade receivable, net (Note 4)	914	420
Pledges receivable—capital campaign, net (Note 4)	3,223	3,933
Grants receivable, net (Note 4)	3,478	2,106
Deferred income taxes	160	129
Broadcast licenses not subject to amortization (Note 8)	43,330	39,520
Intangible assets subject to amortization, net (Note 8)	612	949
Other assets	869	1,040
<b>Total other assets</b>	<b>215,687</b>	199,904
<b>Total assets</b>	<b>\$ 332,074</b>	<b>\$ 312,805</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable—trade	\$ 3,390	\$ 3,105
Optional redemption of long-term obligations (Note 9)	685	3,000
Current portion of long-term obligations, net (Note 9)	2,840	2,438
Line of credit (Notes 2 and 9)	3,836	-
Accrued liabilities	7,085	7,952
Refundable advance	-	250
Deferred revenue (Notes 14 and 15)	4,954	1,195
<b>Total current liabilities</b>	<b>22,790</b>	17,940
<b>Other Liabilities</b>		
Long-term obligations, less current portion, net (Note 9)	54,402	58,224
Interest rate swap (Notes 2 and 3)	1,926	2,097
Deferred revenue, less current portion (Notes 14 and 15)	20,333	21,020
<b>Total liabilities</b>	<b>99,451</b>	99,281
Commitments and Contingencies (Notes 9,10,11,12 and 13)		
<b>Net Assets</b>		
Unrestricted	188,293	173,775
Temporarily restricted	31,793	27,547
Permanently restricted	12,537	12,202
<b>Total net assets</b>	<b>232,623</b>	213,524
<b>Total liabilities and net assets</b>	<b>\$ 332,074</b>	<b>\$ 312,805</b>

See Notes to Consolidated Financial Statements.

## American Public Media Group and Affiliates

### Consolidated Statement of Cash Flows Year Ended June 30, 2011, with Comparative Totals for the Year Ended June 30, 2010 (In Thousands)

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 19,099	\$ 10,412
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	6,335	6,249
Unrealized gains	(20,854)	(15,269)
Revenue from station acquisition (Note 15)	(88)	-
Increase in endowment funds held by others and beneficial interest in trust	(4,744)	(1,374)
(Gain) loss on disposal of property and equipment	(2)	612
Restricted contributions and grants	(716)	(8,899)
Loan forgiveness—City of Saint Paul	(224)	(232)
Deferred income taxes	(31)	13
(Increase) decrease in assets:		
Trade and pledges receivable, net	(4,919)	(2,142)
Grants receivable, net	(1,269)	(1,130)
Other assets	(2,186)	704
(Decrease) increase in liabilities:		
Trade payable and accrued liabilities	(613)	1,031
Refundable advance	(250)	(94)
Deferred revenue	2,895	(733)
<b>Total adjustments</b>	<b>(26,666)</b>	<b>(21,264)</b>
<b>Net cash used in operating activities</b>	<b>(7,567)</b>	<b>(10,852)</b>
Cash Flows From Investing Activities		
Purchase of property and equipment	(2,832)	(12,424)
Purchases of investments	(528,290)	(822,535)
Proceeds from sale of equipment	320	-
Proceeds from sales and maturities of investments	542,119	851,620
Station acquisition (Note 15)	(3,824)	-
<b>Net cash provided by investing activities</b>	<b>7,493</b>	<b>16,661</b>
Cash Flows From Financing Activities		
Borrowing on long-term debt	9,040	-
Borrowing on line of credit, net	3,836	-
Principal payments on long-term obligations	(14,894)	(6,815)
Debt issue costs	(162)	-
Premium received on issue of long-term debt	374	-
Restricted contributions and grants	2,789	5,499
<b>Net cash provided by (used in) financing activities</b>	<b>983</b>	<b>(1,316)</b>
<b>Net change in cash and cash equivalents</b>	<b>909</b>	<b>4,493</b>
Cash and Cash Equivalents—beginning of year	9,890	5,397
Cash and Cash Equivalents—end of year	<b>\$ 10,799</b>	<b>\$ 9,890</b>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 988	\$ 804
Supplemental Disclosures of Noncash Investing Activities		
Additions to net property, plant and equipment funded through trade payable	\$ 74	\$ 91
Noncash consideration transferred in station acquisition (Note 15)	177	-

See Notes to Consolidated Financial Statements.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business

American Public Media Group (APMG) is a not-for-profit parent support organization whose primary purpose is to provide financial and management support services to its affiliated organizations, including Minnesota Public Radio and affiliate (MPR), Southern California Public Radio (SCPR), Classical South Florida (CSF) and Greenspring Company and Affiliate (Greenspring). APMG and its affiliates (the Organization) are engaged in various public radio, theater rental, consumer show, events and publishing activities. APMG also operates Pretty Good Goods, by which APMG sells program-related and psychographically related goods to consumers.

APMG has the ability to elect or approve the election of a majority of the MPR Board of Trustees and all of the SCPR and CSF Boards of Trustees. MPR, in turn, is the not-for-profit parent organization of The Fitzgerald Theater Company (FTC) and has the ability to elect FTC's Board of Trustees. MPR operates its regional program production and broadcasting activities under the name "Minnesota Public Radio" and its national program production and distribution activities under the name "American Public Media."

APMG owns all of the stock of Greenspring Company (Greenspring), a for-profit holding company. Greenspring has a wholly owned, for-profit subsidiary, Greenspring Media Group (GMG), which engages principally in publishing activities and hosting consumer shows and events.

Collectively, MPR, FTC, SCPR, CSF, Greenspring and GMG are referred to as the affiliated organizations or affiliates.

On September 24, 2007, APMG entered into an asset purchase agreement with Trinity International University (Trinity) to acquire WMCU 89.7 FM serving Southern Florida's Miami-Dade and Broward counties and W270AD, an FM translator station in West Palm Beach (together, the station), for \$20,000,000, subject to the approval of the Federal Communications Commission (FCC). Also on September 24, 2007, APMG entered into an affiliation agreement with Trinity to provide classical music programming to the station until the FCC approved the asset purchase agreement. On November 13, 2007, APMG created CSF to fulfill its programming, operational and financial responsibilities under both agreements with Trinity. On March 14, 2008, upon preliminary approval from the FCC, the station, including the FCC licenses and certain broadcasting equipment, was sold to APMG based on the terms of the September 24, 2007, asset purchase agreement. Final FCC approval is pending. Subsequently, CSF entered into a Public Service Operating Agreement (PSOA) with APMG, effective November 13, 2007, assuming responsibility for the day-to-day operations of the station, including maintaining APMG's good standing as the FCC licensee. Under the PSOA, APMG assigned certain broadcasting equipment for the station to CSF and retained certain other equipment to lease to CSF. CSF has the opportunity to solicit donations and underwriting for the station under the PSOA and agrees to pay for and utilize certain APMG shared services, such as management, human resources, finance, legal, fundraising, technical and programming services.

On May 25, 2011, CSF closed on an agreement with Barry Telecommunications, Inc. to acquire the noncommercial radio station WPBI 90.7 FM (formerly WXEL) serving West Palm Beach, Florida (see Note 15). Together, the noncommercial radio stations WKCP 89.7 FM and WPBI 90.7 FM are the Network. Final FCC approval is pending.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies

**Basis of financial statement presentation:** These consolidated financial statements include the accounts of the Organization. All intercompany accounts and transactions have been eliminated upon consolidation.

Net assets, revenues, and gains and losses are classified based on donor-imposed restrictions. Accordingly, 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 restrictions and are available for general support of the Organization. Designated amounts represent those funds that the Board of Trustees has set aside for a particular purpose. APMG and its not-for-profit affiliates maintain the following unrestricted funds (see the APMG supplemental schedules):

**Operating Fund:** To account for general-purpose contributions, grants, and other revenues and to account for revenues and expenses associated with the operations of the Organization.

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

**Designated Fund:** To account for funds intended to ensure the long-term financial health of the Organization. This includes the Earned Endowment for MPR (a quasi-endowment fund), funds for future investments, and APMG's investment in Greenspring. Certain financial assets in the Designated Fund—unrestricted are available to the Operating Fund for cash flow needs.

**Temporarily restricted:** This classification includes net assets subject to donor-imposed restrictions. 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 consolidated statement of activities as net assets released from restriction. For example, underwriting support is released as related on-air spots are broadcast.

Temporarily restricted net assets at June 30, 2011, were restricted for the following purposes:

Program support and underwriting	\$ 22,074,000
Capital campaigns and capital projects	737,000
Undistributed earnings on endowment funds held by others	8,982,000
Total	<u>\$ 31,793,000</u>

**Permanently restricted:** This classification includes net assets subject to donor-imposed restrictions that stipulate the resources be maintained in perpetuity, but permit the Organization to use or expend the income received from the donated assets for operating purposes. Permanently restricted net assets at June 30, 2011, consist of the following:

Endowment funds held by others	\$ 9,816,000
Beneficial interest in trust	2,721,000
Total	<u>\$ 12,537,000</u>



## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

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

**Summarized financial information for the year ended June 30, 2010:** 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, 2010, from which the summarized information was derived. The Organization's financial statements for the prior years are available on its website. Certain amounts in the prior-year summarized comparative information were 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.

#### Revenue recognition:

**Support from public and governmental agencies:** Contributions, which include unconditional promises to give cash and other assets, are reported at fair value at the date the asset or 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 consolidated statement of activities as net assets released from restriction.

**Operating activities:** The Organization recognizes revenue from three primary activities: carriage fees, satellite fees and ticket sales. Carriage fees and satellite fees are earned when content is provided to subscribing broadcasters. Ticket revenue is earned when a live event occurs.

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

**Magazine advertising revenue:** The Organization recognizes revenue from magazine display and classified advertising. Revenue is recognized as earned when the publication of the advertisement occurs, net of agency commissions.

**Magazine subscriptions:** The Organization recognizes revenue from magazine subscription sales of its for-profit subsidiary. Revenue is deferred and recognized over the subscription period.

**Newsstand sales:** The Organization recognizes revenue from newsstand sales of copies of magazines of its for-profit subsidiary. Revenue is recognized when copies are shipped, less an estimated amount of returns.

**Consumer shows and events:** The Organization recognizes revenue from consumer shows and events of its for-profit subsidiary. Revenue is recognized as earned when the show or event is complete.

**Barter transactions:** The Organization provides on-air and web underwriting spots for certain goods and services. Underwriting revenue is recognized at fair value and released from restriction when spots run. Barter expense is recorded when the goods or services are used or received. During the year ended June 30, 2011, barter revenue of \$3,716,000 and barter expense of \$3,938,000 are reflected in the consolidated statement of activities.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**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.

**Other earned revenue:** Other earned revenue includes product sales, rental income and other service fees. The Organization recognizes revenue when the service is performed or when the product is provided.

**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 the Organization's current needs. The Organization maintains its cash in bank deposit accounts and money market funds that may at times exceed federally insured limits. The Organization has not experienced any losses on such accounts.

**Investments:** Investments are stated at fair value. As defined in Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, fair value is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

**Endowment funds held by others:** MPR has Board-designated and donor-restricted endowment funds (the Fund) invested at the Minnesota Community Foundation (MCF). Under the terms of the agreement establishing the Fund, the Organization received a minimum annual distribution of 5.0 percent for the year ended June 30, 2011, of the 16-quarter moving average market value of the Fund's assets. The Fund is managed at the discretion of MCF, except that MPR may direct MCF to replace any investment manager if the Fund does not produce a reasonable return. Distributions are unrestricted and are included in investment return, net, in the consolidated statement of activities.

SCPR has endowment funds at the California Community Foundation (the Endowment). These include contributions subject to donor-imposed restrictions that stipulate the resources be maintained permanently. SCPR currently does not receive a draw from the Endowment; rather, SCPR has elected to reinvest all investment returns. As a result, no funds have been distributed.

Endowment funds held by others are stated at fair value. Because MPR and SCPR retained variance power but are unable to set the spending rates on these funds, the funds are not endowment funds as defined by the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

**Beneficial interest in trust:** The Oakleaf Endowment Trust for MPR (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 that is intended to ensure that payments to MPR from all of its permanent endowments do not exceed their earnings above inflation, but which may not be less than 1.0 percent 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 beneficial interest in trust is stated at fair value. Changes in fair value are recorded as increases in permanently restricted net assets. Distributions are unrestricted and are included in investment return, net, in the consolidated statement of activities.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Net property and equipment:** 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:

	<u>Years</u>
Building	32–40
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.

**Intangible assets:** Intangible assets are recorded at cost. Finite-life intangible assets are amortized over their estimated useful lives of five to 15 years using the straight-line method.

**Impairment of broadcast licenses not subject to amortization:** Broadcast licenses are considered indefinite-lived intangibles and are tested annually on June 30 for impairment or more frequently if an event occurs or circumstances change that would indicate an impairment in accordance with ASC 350, Intangibles—Goodwill and Other. The Organization did not recognize any impairment charge for the year ended June 30, 2011. Also see Note 8.

**Impairment of intangible assets subject to amortization and other long-lived assets:** Other long-lived assets, such as property and equipment and finite-life intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. In evaluating recoverability, the following factors, among others, are considered: a significant change in the circumstances used to determine the amortization period, an adverse change in legal factors or in the business climate, a transition to a new product or service strategy, a significant change in customer base and a realization of failed marketing efforts. The recoverability of an asset is measured by a comparison of the unamortized balance of the asset to future undiscounted cash flows.

If the unamortized balance was estimated to be unrecoverable, the Organization would recognize an impairment charge necessary to reduce the unamortized balance to fair value. The amount of such impairment would be charged to operations in the current period. The Organization has not identified any indicators of impairment associated with its long-lived assets.

**Other assets:** Other assets include barter assets and debt issuance costs. Barter assets are initially recorded at fair market value and expensed as goods and services are used or received. Debt issuance costs include costs incurred in connection with the issuance of the variable-rate demand revenue bonds: MPR Series 2002, SCPR Series 2005, MPR Series 2005-7, APMG Series 2008 and MPR Series 2010. 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.

**Cost of goods sold:** Cost of goods sold includes product cost, production cost, postage, and fees paid to freelance writers and photographers.

**Capital campaign and related expenses:** Capital campaign and related expenses include fundraising and administrative costs directly attributable to the capital campaign.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

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

**Income tax status:** APMG, MPR, FTC and SCPR are organized under Chapter 317 of Minnesota Statutes as not-for-profit organizations. CSF is incorporated as a not-for-profit corporation under Florida Statute Chapter 617. The Internal Revenue Service (IRS) has determined that APMG 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)(3) of the Code. The IRS has determined that MPR, SCPR and CSF are tax-exempt organizations under Section 501(c)(3) of the Code and are not private foundations, as they qualify under Section 509(a)(1) as organizations defined under Section 170(b)(1)(A)(vi) of the Code. The IRS has 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 APMG, MPR, FTC and SCPR are exempt from Minnesota income taxes under Section 290.05 Subdivision 9 of Minnesota Statutes. 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. The Florida Department of State has determined CSF is exempt from state income tax under Florida Statute Section 220.13(2)(h). Greenspring is a wholly owned, taxable for-profit subsidiary of APMG. APMG and its not-for-profit affiliates are engaged in certain activities that result in taxable unrelated business income. APMG and its not-for-profit affiliates incurred tax expense of \$64,000 for the year ended June 30, 2011, which is included in selling, general and administrative expenses on the consolidated statement of activities. The provision for income taxes was determined using the asset and liability approach of accounting for income taxes. Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The Organization and its affiliates have adopted certain provisions of ASC 740, Income Taxes. The provisions clarify the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribe a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Generally, 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, 2007. The Organization has reviewed its tax position for all open tax years and has concluded that there are no uncertain tax positions that require recognition.

**Interest rate swaps:** MPR and APMG make use of interest rate swaps to manage their overall interest rate exposure. Other than the interest rate swaps, the Organization has no other free-standing or embedded derivatives.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

On January 13, 2006, MPR entered into a 10-year amortizing interest rate swap agreement (the agreement) with Allied Irish Bank, New York, with an initial aggregate notional amount of \$10,000,000. Under this agreement, MPR is the fixed-rate payor on the swap, and Allied Irish Bank is the floating-rate payor. The fixed rate of interest is 3.5 percent and the fixed-rate day count fraction is 30/360. The floating rate is 70.0 percent of the London Interbank Offered Rate. MPR pays or receives a monthly settlement based on the difference between the fixed and floating rates. During the year ended June 30, 2011, MPR paid interest expense of \$329,000 and received no interest income toward the monthly swap settlement, which is shown as part of investment return, net, on the consolidated statement of activities. As of June 30, 2011, the notional amount of the swap is \$9,500,000. Any liability related to the swap transaction is guaranteed by APMG. In addition to certain nonfinancial covenants, APMG is required to maintain a ratio of unrestricted cash and investments to indebtedness of at least 1.2-to-1.0.

MPR reserves the right to terminate the swap agreement at any time at the then-current fair value. This may result in MPR making or receiving a termination payment. As of June 30, 2011, the outstanding fair value of the agreement was \$910,000, reported as a long-term liability. The change in the fair value of the agreement is included in investment return, net, on the consolidated statement of activities.

In May 2009, APMG entered into a 10-year amortizing interest rate swap agreement with Piper Jaffray Financial Products, Inc., with an aggregate notional amount of \$22,300,000. Under this agreement, APMG is the fixed-rate payor on the swap, and Piper Jaffray Financial Products, Inc. is the floating-rate payor. The fixed rate of interest is 2.6 percent and the fixed-rate day count fraction is 30/360. The floating rate is 70.0 percent of the three-month London Interbank Offered Rate. APMG pays or receives a monthly settlement based on the difference between the fixed and floating rates. During the year ended June 30, 2011, APMG paid interest expense of \$530,000 and received no interest income toward the monthly swap settlement, which is shown as part of investment return, net, on the consolidated statement of activities. In addition to certain nonfinancial covenants, the Organization is required to maintain consolidated net assets of at least \$150,000,000, unrestricted cash and investments of at least \$60,000,000, and a ratio of unrestricted cash and investments to indebtedness of at least 1.0-to-1.0.

As of June 30, 2011, the outstanding fair value of the agreement was \$1,016,000, reported as a long-term liability. The change in the fair value of the agreement is included in investment return, net, on the consolidated statement of activities.

**Line of credit:** On March 10, 2011, American Public Media Group entered into a revolving credit agreement with U.S. Bank National Association to obtain an unsecured line of credit for an amount not to exceed \$8,000,000. Interest on the drawings is payable at 1.20 percent plus the one-month LIBOR rate. The facility expires on February 28, 2013, unless terminated sooner by APMG upon written notice to the bank. As of June 30, 2011, the outstanding balance of this line of credit was \$3,836,000.

**Use of estimates:** The preparation of the consolidated 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 revenue and expenses during the period. Actual results could differ from those estimates.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Risks and uncertainties:** The Organization invests in various securities, including equity mutual funds, alternative investments, government-sponsored enterprises, and corporate certificates of deposit and notes. 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 consolidated statements of financial position and activities.

**New accounting standards:** Accounting Standards Codification 958, Not-for-Profit Entities, establishes principles and requirements for how a not-for-profit entity accounts for and discloses mergers and acquisitions. These provisions of ASC 958 are effective for mergers occurring on or after December 15, 2009, and acquisitions for which the acquisition date is on or after July 1, 2010. The Organization applied the provisions of ASC 958 to the acquisition of WXEL in 2011. See Note 15.

In August 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-05 to ASC 820, *Fair Value Measurements and Disclosures—Measuring Liabilities at Fair Value*, for the fair value measurement of liabilities. This amendment provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more prescribed techniques. The amendment also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendment further clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required, are Level 1 fair value measurements under the fair value hierarchy. The Organization adopted this standard for the fiscal year ended June 30, 2011.

In January 2010, the FASB issued Update No. 2010-06 to ASC 820, *Fair Value Measurements and Disclosures—Improving Disclosures About Fair Value Measurements*, which requires new disclosures and reasons for transfers between Level 1 and Level 2 measurements under the fair value hierarchy. This amendment also clarifies that disclosures about inputs and valuation techniques are required for both Level 2 and Level 3 measurements. The amendment further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances and settlements instead of netting these changes. The Organization adopted this standard for the fiscal year ended June 30, 2011.

**Subsequent events:** The Organization has considered subsequent events through October 24, 2011, the date of issuance, in preparing the consolidated financial statements and notes thereto.

#### Note 3. Fair Value Measurements

ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate that value. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

The carrying values of cash and cash equivalents, trade, pledges and grants receivable, trade accounts payable, line of credit, and accrued liabilities are reasonable estimates of their fair values 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 obligations approximates their carrying value based on current rates for obligations with similar remaining maturities offered to similar not-for-profit organizations.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 3. Fair Value Measurements (Continued)

ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value and expands the disclosures about fair value measurements.

Input levels as defined by ASC 820 are as follows:

- Level 1: Financial assets and liabilities are valued using inputs that are unadjusted quoted prices of identical financial assets and liabilities in active markets accessible at the measurement date. The inputs include those traded on an active exchange, such as the New York Stock Exchange.
- Level 2: Financial assets and liabilities are valued using inputs such as quoted prices for similar assets, or inputs that are observable, either directly or indirectly.
- Level 3: Financial assets and liabilities are valued using pricing inputs that are unobservable for the asset, or inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset.

The fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair values of actively traded money market funds, mutual funds, and fixed-income and equity securities are based on quoted market prices. Fair values of inactively traded fixed-income, certificates of deposit, and money market funds are based on quoted market prices of identical or similar securities based on observable inputs like interest rates using a market valuation approach.

The Organization invests in private equity funds, which are not traded. The investment mix, which is very diverse, is at the direction of several fund managers and includes partnerships, venture capital, buyouts and others, utilizing various strategies. Such investments are valued at the net asset value of the Organization's ownership interest in the fund, as reported to the Organization quarterly by the fund managers. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2011, include private equity funds that invest in domestic and international closed-end private equity limited partnerships, private placements in emerging growth companies and collective investment funds. These investments cannot be redeemed with the fund. Distributions are received as the underlying investments in the fund are liquidated. It is expected that the liquidation of the funds will take place over the next four to 14 years. As of June 30, 2011, the Organization has committed to invest an additional \$6,480,000 in private equity funds. Management believes these methods provide a reasonable estimate of fair value.

The endowment funds held by others and the beneficial interest in trust are recorded at the value of the underlying assets, which approximates the present value of the future payment stream the Organization will receive. The interest rate swap liability is recorded using ASC 820 criteria, which include mark-to-market valuations and nonperformance risk (i.e., credit risk).

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

#### Note 3. Fair Value Measurements (Continued)

Financial assets and liabilities measured at fair value on a recurring basis are as follows:

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,067,000	\$ 1,158,000	\$ -	\$ 3,225,000
Government-sponsored enterprises debt securities	-	5,644,000	-	5,644,000
Corporate certificates of deposit and notes	-	5,995,000	-	5,995,000
Mutual funds (1)	109,187,000	-	-	109,187,000
Private equities	-	-	14,580,000	14,580,000
Endowment funds held by others	-	-	21,671,000	21,671,000
Beneficial interest in trust	-	-	2,721,000	2,721,000
Interest rate swap	-	-	(1,926,000)	(1,926,000)
Total	\$ 111,254,000	\$ 12,797,000	\$ 37,046,000	\$ 161,097,000

- (1) Invested in American Funds Capital Income Builder—Class A (\$35,655,000), T. Rowe Price Capital Appreciation Fund (\$36,731,000), Oakmark Equity & Income Fund (\$36,727,000), fixed income (\$27,000) and other equity mutual funds (\$47,000).

Changes in fair value measurements using Level 3 inputs for the year ended June 30, 2011, are as follows:

	Private Equities	Interest Rate Swap	Beneficial Interest in Trust	Endowment Fund Held by Others	Total
Beginning investments at fair value	\$ 12,545,000	\$ (2,097,000)	\$ 2,401,000	\$ 17,247,000	\$ 30,096,000
Purchase of investments	1,291,000	-	-	-	1,291,000
Sale of investments	(2,044,000)	-	-	-	(2,044,000)
Contributions to endowments	-	-	-	1,538,000	1,538,000
Distributions	-	-	(96,000)	(959,000)	(1,055,000)
Investment income, net of fees	(236,000)	-	-	-	(236,000)
Realized gains	1,267,000	-	-	-	1,267,000
Unrealized gains	1,757,000	-	-	-	1,757,000
Change in value	-	171,000	416,000	3,845,000	4,432,000
Ending investments at fair value	\$ 14,580,000	\$ (1,926,000)	\$ 2,721,000	\$ 21,671,000	\$ 37,046,000

An unrealized gain of \$1,757,000 is included in the consolidated statement of activities related to the investments held at June 30, 2011.

#### Note 4. Receivables

**Receivables:** Unconditional promises to give due in the next year are reported at their net realizable value as current assets in the statement of financial position. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value as other assets in the statement of financial position, using discount rates applicable to the years in which the promises are received. Present value discounts were \$107,000 at June 30, 2011. Amortization of the discount is reported on the support and earned revenue lines associated with the initial transaction within the statement of activities.



## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 4. Receivables (Continued)

At June 30, 2011, net trade, pledges receivable—capital campaign, and grants receivable were due as follows:

In less than one year	\$ 30,938,000
In one to five years	7,326,000
In greater than five years	289,000
Total receivables	<u>\$ 38,553,000</u>

**Allowance for doubtful accounts:** The Organization estimates an allowance for doubtful accounts based on a review of outstanding accounts as well as considering historical experience. Receivables are presented net of allowances for doubtful accounts of \$1,769,000 at June 30, 2011, to provide for estimated bad debts.

**Pledge receivables:** Pledge receivables consist of unconditional promises to give to finite special-purpose fundraising campaigns. This balance includes large, one-time gifts to such campaigns.

**Grant receivables:** Grant receivables are unconditional promises to give to support the general operating or capital needs of the Organization.

Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2011, the Organization had received conditional promises to give of \$10,104,000 that were not recorded in the financial statements because the conditions had not been met.

#### Note 5. Investments

At June 30, 2011, the composition of investments was as follows:

Cash	\$ 72,000
Money market funds	3,225,000
Government-sponsored enterprises debt securities	5,644,000
Corporate certificates of deposit and notes	5,995,000
Mutual funds	109,160,000
Fixed-income mutual funds	27,000
Cash value insurance policy	6,000
Private equities	14,580,000
Total	<u>\$ 138,709,000</u>

For the year ended June 30, 2011, net investment return consisted of the following:

Net investment return:	
Interest income	\$ 1,745,000
Realized gain	170,000
Unrealized gain	20,683,000
Change in value of interest rate swap	171,000
Change in value of endowment funds held by others and beneficial interest in trust	4,261,000
Total	<u>\$ 27,030,000</u>

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 5. Investments (Continued)

Investments are allocated for the following purposes as of June 30, 2011:

APMG Designated Fund	\$ 116,732,000
Reserve investments	9,295,000
Capital campaign investments	4,105,000
MPR Board-Designated Fund	8,496,000
MPR charitable gift annuities	81,000
Total	<u>\$ 138,709,000</u>

Reserves were established by the Organization for the purpose of replacing existing equipment or facilities and preserving the long-term health of the Organization.

Funds from MPR and SCPR capital campaigns are intended for general purposes, including the construction of each organization's new building and other media infrastructure. Unrestricted funds are accounted for in the Property Fund, and restricted funds are classified accordingly.

MPR's Board-Designated Fund was established by MPR's Board of Trustees to receive and hold such funds as may be designated by the Board of Trustees to provide for the long-term financial health of the Organization. The funds are available to the Organization upon the approval of MPR's Board of Trustees. Cash balances in this fund are available for cash flow needs. Unrestricted funds are accounted for in MPR's Designated Fund, and restricted funds are classified accordingly.

MPR's charitable gift annuities are split-interest agreements that reflect transfers of assets by donors to MPR in exchange for a promise to receive fixed annual payments for the remainder of the beneficiary's life. At the time of the agreement, the difference between the assets transferred from the donor and the related annuity liability was recognized as a contribution. The liability is adjusted annually for changes in discount rates, actuarial assumptions, and other changes to estimated future benefits. Restricted funds are classified accordingly.

#### Note 6. Board-Designated Endowment

APMG's Board of Trustees set aside \$85.6 million from the \$123 million net proceeds of the April 1998 sale of Rivertown Trading Company as a permanent quasi-endowment for the benefit of MPR, which is accounted for in the APMG Designated Fund. From time to time, additional amounts have been deposited into this endowment. APMG maintains variance power over the endowment. The Organization has adopted investment and spending policies for endowment assets with the objectives of providing a predictable stream of funding to programs supported by its endowment and maintaining the purchasing power of the endowment assets. The investment policy includes a spending policy designating an annual distribution of 5.0 percent of the five-year average market value of the earned endowment's assets. The distribution to MPR of \$6,292,000 for the year ended June 30, 2011, was appropriated for operating expenses. At June 30, 2011, the market value of the earned endowment for MPR held by APMG in the APMG Designated Fund was \$124,336,000.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 107,584,000	\$ -	\$ -	\$ 107,584,000
Investment income, net of investment fees	2,171,000	-	-	2,171,000
Net appreciation (realized and unrealized)	20,873,000	-	-	20,873,000
Appropriation of endowment assets for expenditure	(6,292,000)	-	-	(6,292,000)
Endowment net assets, end of year	<u>\$ 124,336,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,336,000</u>

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 7. Property and Equipment

Net property and equipment at June 30, 2011, consisted of the following:

Cost:	
Land	\$ 13,484,000
Building and leasehold improvements	60,366,000
Equipment	32,266,000
Construction in progress	1,300,000
Total cost	<u>107,416,000</u>
Less accumulated depreciation and amortization	<u>38,839,000</u>
Net property and equipment	<u>\$ 68,577,000</u>

Total depreciation and leasehold amortization expense was \$5,904,000 for the year ended June 30, 2011, and was recorded in the Property Fund.

#### Note 8. Broadcast Licenses, Magazine Titles and Other Intangibles

Broadcast licenses and other intangibles at June 30, 2011, consisted of the following:

	Weighted- Average Remaining Life in Years	2011
Intangibles subject to amortization (primarily program rights)	2	\$ 3,297,000
Less accumulated amortization		<u>2,685,000</u>
		612,000
Broadcast licenses (not subject to amortization)		<u>43,330,000</u>
Total		<u>\$ 43,942,000</u>

Total amortization expense was \$337,000 for the year ended June 30, 2011.

The Organization's broadcast licenses, which have indefinite lives, are tested annually at June 30 for impairment or more frequently if events or changes in circumstances indicate the asset may be impaired. The unit of accounting used to test broadcast licenses represents all licenses owned and operated within an individual market, as such licenses are used together, are complementary to each other and are representative of the best use of those assets. To complete the Organization's annual impairment test, management was assisted by an outside firm (the Firm) with noncommercial radio broadcast license expertise to provide a market valuation for each of the Organization's broadcast licenses. The Firm reviewed data from recent sale transactions and developed price-per-person multiples that could be applied to the populations reached by each of the Organization's broadcast licenses, based on the engineering characteristics of the broadcast signals and the demographics of the population served. The Firm cautioned that due to the volatility of prices in recent comparable sales, combined with the current economic environment, the resulting valuation may not be indicative of long-term trends.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 8. Broadcast Licenses, Magazine Titles and Other Intangibles (Continued)

Based solely on a market approach, the Organization identified two broadcast licenses whose combined carrying value exceeded the reported market value—WKCP 89.7 FM Miami, Florida, and WPBI 90.7 FM West Palm Beach, Florida (the Network), with a carrying value of \$24,056,000. The market approach reported an estimated fair value of \$17,933,000. The Organization entered into an asset purchase agreement to purchase WKCP 89.7 FM on September 24, 2007, and WPBI 90.7 FM on May 25, 2011 (Note 15), and changed the format to broadcast classical music. The Organization continues to implement the business plan it developed when it acquired WKCP in 2007. The Firm reported that the availability of credit is important to maintain a functional market in radio broadcast licenses, especially in top-ranked, highly populated markets such as Miami and West Palm Beach, Florida. The Firm also reported that, historically, past declines in broadcast values have been followed by a recovery to past levels. Considering the difference between carrying value and reported market value, the limitations in comparable market data for the Network, the historical recovery patterns of market values of broadcast licenses, and the income potential for the Network's new format, the Organization's management conducted further analysis using an income approach. With these circumstances, a heavier emphasis was placed on the income approach (80 percent weighting) than the market approach (20 percent weighting). The income approach involves projecting cash flows into the future and discounting those future cash flows at an appropriate discount rate to calculate a net present value at June 30, 2011 (the Valuation Date). The major assumptions used in the income approach included growth in revenue and fundraising expenditures, based on the past experience of this and other stations operated by the Organization, and operating expenses projected to grow at the rate of inflation. The future cash flows were discounted at a risk-adjusted rate of 10.0 percent, which reflects a base return plus a risk premium.

The income approach resulted in an estimated fair value of \$28,764,000. Assumptions about future cash flows require significant judgment because of the state of the economy and the fluctuation of actual revenues and expenses. If the expected cash flows are not realized, impairment losses may be recorded in the future.

The Organization applied weighted values noted above to estimate a fair value. Because the fair value of the Network exceeded the carrying value, no impairment was recorded as of June 30, 2011.

#### Note 9. Long-Term Obligations

Long-term obligations at June 30, 2011, included the following:

\$11,500,000 variable-rate, Port Authority of the City of Saint Paul Demand Revenue Bonds—Series 2005-7, with interest due monthly (0.10% as of June 30, 2011), maturing May 1, 2025; secured by an irrevocable letter of credit of \$10,224,521, which expires on November 15, 2015	\$ 10,100,000
\$9,040,000 fixed-rate, Housing and Redevelopment Authority of the City of Saint Paul Revenue Refunding Bonds—Series 2010, issued at a premium, with interest due semiannually (2.0% to 5.0% as of June 30, 2011), maturing December 1, 2025	9,382,000
\$10,000,000 variable-rate, Housing and Redevelopment Authority of the City of Saint Paul Demand Revenue Bonds—Series 2002, with interest due monthly (0.10% as of June 30, 2011), maturing May 1, 2022; secured by an irrevocable letter of credit of \$8,422,575 which expires on November 15, 2015	8,320,000
\$3,550,000 note payable to the Housing and Redevelopment Authority of the City of Saint Paul, bearing interest at 6.5% and maturing March 13, 2017. Accrued interest and principal of \$378,000 per annum can be forgiven provided MPR meets certain employment commitments.	1,828,000

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Long-Term Obligations (Continued)

\$218,000 note payable to the Saint Paul Foundation, with payments due at such time that operating savings from district heating systems are realized. Interest at 6.0% will accrue when savings are realized, and payments of 75.0% of such operating savings will be payable, first to repay accrued interest and then principal.	218,000
\$7,000,000 variable-rate, California Infrastructure and Economic Development Demand Revenue Bonds—Series 2005, with interest due monthly (0.10% as of June 30, 2011), maturing September 1, 2025; secured by an irrevocable letter of credit of \$6,489,027, which expires on November 15, 2015	6,410,000
\$22,300,000 variable-rate, Miami-Dade County Industrial Development Authority, FL Variable Demand Revenue Bonds—Series 2008, with interest due monthly (0.07% as of June 30, 2011), maturing December 1, 2038; secured by an irrevocable letter of credit of \$21,336,921, which expires on October 28, 2015	21,140,000
\$1,750,000 payable to Public Radio International (PRI), payable in 28 quarterly installments of \$62,500 through June 30, 2012; interest imputed at 3.6%	244,000
Charitable gift annuities	69,000
Total long-term debt	<u>57,711,000</u>
Less optional redemption	685,000
Less amounts due within one year	<u>2,840,000</u>
Long-term portion	<u>\$ 54,186,000</u>

The Housing and Redevelopment Authority of the City of Saint Paul, Minnesota, (the Authority) issued Revenue Refunding Bonds (Minnesota Public Radio Project)—Series 2010 (Series 2010 Bonds) in the original aggregate principal amount of \$9,040,000, issued at a net premium of \$374,000. The proceeds of the bonds were used to refund the outstanding principal amount of the Authority's \$10,000,000 Variable Rate Demand Revenue Bonds, Series 2005 (the Series 2005 Bonds), which provided partial financing for the acquisition, remodeling and equipping of MPR's facilities located at 480 Cedar Street, Saint Paul, Minnesota. The bonds are secured by a guaranty provided by American Public Media Group, whereby APMG guarantees the payments when due for the principal and interest on the bonds. The bonds were issued on December 1, 2010, and will mature on December 1, 2025. Interest on the bonds is fixed and is payable semiannually, due June 1 and December 1, commencing June 1, 2011. In addition to certain nonfinancial covenants, the Organization is required to maintain a ratio of unrestricted cash and investments to indebtedness of no less than 1.0-to-1.0.

The principal balance of Series 2010 Bonds is netted against any related unamortized premium of the bond sale. Bond premiums are deferred and amortized over the life of the bonds as a decrease to interest expense using the effective-interest-rate method of amortization. Amortization expense for the year ended June 30, 2011, is recorded in administrative expenses in the consolidated statement of activities.

Interest on the variable-rate Demand Revenue Bonds (MPR Series 2002 and 2005-7, APMG Series 2008, and SCPR Series 2005) (the Bonds) is based on a daily remarketing process; however, the rate is not to exceed 10.0 percent. MPR, APMG and SCPR have the option to call for the redemption and prepayment of the Bonds in full or in part as per the redemption schedules. Based on the redemption schedules, APMG, MPR and SCPR redeemed \$1,550,000 of the Bonds during the year ended June 30, 2011. The Bonds can also be tendered on certain dates by the bondholders. The remarketing agreements provide for a "best efforts" remarketing of any bonds tendered.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Long-Term Obligations (Continued)

On October 28, 2010, MPR and SCPR entered into an agreement with JPMorgan Chase Bank, N.A. as the letter of credit provider for the MPR and SCPR variable-rate bonds. The JPMorgan Chase letters of credit replaced original letters of credit with Allied Irish Bank, p.l.c, New York. The replacement letters of credit were established for five years, expiring on November 15, 2015, unless terminated. The letters of credit are for an amount equal to the aggregate outstanding principal amount of the Bonds, plus 45 days' interest at a maximum interest rate of 10.0 percent per annum. The letters of credit are also secured by the guarantee provided to the trustee by the Organization. In addition to certain nonfinancial covenants, APMG is required to maintain a ratio of unrestricted cash and investments to indebtedness of no less than 1.2-to-1.0.

On October 28, 2010, APMG entered into an agreement with U.S. Bank National Association as the letter of credit provider for the APMG Series 2008 bonds. This replaced the original letter of credit with Northern Trust. The replacement letter of credit was established for five years, expiring on October 28, 2015, unless terminated. The letter of credit is for an amount equal to the aggregate outstanding principal amount of the bonds, plus 34 days' interest at a maximum interest rate of 10.0 percent per annum. In addition to certain nonfinancial covenants, APMG is required to maintain a ratio of unrestricted cash and investments to indebtedness of no less than 1.2-to-1.0.

SCPR exercised its option to call and redeem \$685,000 of the Southern California Public Radio Project Series 2005 bonds on September 1, 2011. As of June 30, 2011, SCPR reported the optional redemption of long-term obligations as a current liability on its statement of financial position.

While there is no assurance that the letters of credit can be renewed, it is management's intention to renew the letters of credit. Scheduled maturities of the long-term obligations, assuming the variable-rate demand bonds are remarketed and the letters of credit are renewed over the terms of the bonds, are as follows:

#### Years Ending June 30,

2012	\$ 3,525,000
2013	2,681,000
2014	2,782,000
2015	2,881,000
2016	2,997,000
Thereafter	42,845,000
Total	<u>\$ 57,711,000</u>

In the event the Bonds are not remarketed and amounts are drawn on the letters of credit, such amounts are due in quarterly installments of one-twelfth the amount of the draw, beginning in the calendar quarter one year after the draw date. Additionally, any outstanding draws would be due in full on the earlier of the date of remarketing of the related bonds or termination of the letter of credit. There were no amounts outstanding on the letters of credit that were not remarketed as of June 30, 2011.

The Organization incurred \$965,000 of interest expense during the year ended June 30, 2011.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 10. Leases

The Organization leases office, studio and transmission facilities, as well as various computer equipment, under noncancelable operating leases. Total rent expense for all operating leases, including month-to-month leases and one-time rentals, was \$2,273,000 for the year ended June 30, 2011.

Minimum future payments required under noncancelable operating leases as of June 30, 2011, are as follows:

#### Years Ending June 30,

2012	\$ 1,488,000
2013	1,324,000
2014	1,163,000
2015	932,000
2016	777,000
Thereafter	2,834,000
Total	<u>\$ 8,518,000</u>

#### Note 11. Commitments and Contingencies

CSF operates the Network of radio stations based on preliminary FCC approval of the agreements in Note 1. APMG and CSF would appeal should the FCC ultimately deny the agreements.

The Organization 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 financial statements of the Organization.

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 remains the licensee of the station. The PACCD Agreement is effective through December 31, 2025, and automatically extends for successive periods of five years each thereafter, unless either party files written notice at least 12 months prior to the end of the then-current term of extension.

SCPR is also 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. SCPR assumed responsibility for the programming, operation and financial activities of KUOR, while UR remains the licensee of the station. The UR Agreement terminates on April 21, 2017.

Under the terms of the public service operating agreements, SCPR must maintain certain minimum regulatory and operating requirements and share revenues generated.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 12. Income Taxes of For-Profit Subsidiary

Greenspring follows the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect. There was no benefit (provision) for federal and state income taxes included in the consolidated statement of activities for the year ended June 30, 2011.

The difference between the statutory federal rate and the effective rate relates primarily to an increase in the valuation allowance, state income taxes and permanent differences.

At June 30, 2011, deferred taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. Temporary differences, which gave rise to significant portions of the net deferred tax assets and liabilities, were as follows at June 30, 2011:

Deferred tax liabilities:	
Accelerated tax deductions for benefits to be paid in future periods	\$ 32,000
Accrued bonuses	60,000
Other	25,000
Total deferred tax liabilities	<u>117,000</u>
Deferred tax assets:	
Net operating loss carryforward	3,207,000
Charitable contributions	43,000
Accrued vacation	14,000
Deferred compensation	57,000
Deferred rent	5,000
Depreciation and amortization	15,000
Allowance for bad debt	52,000
Other	8,000
Total deferred tax assets	<u>3,401,000</u>
Valuation allowance	<u>(3,284,000)</u>
Net deferred tax asset	<u>\$ -</u>

Greenspring's ability to realize its deferred tax assets depends upon the generation of sufficient future taxable income to allow for the utilization of its net operating loss carryforwards and deductible temporary differences. Management annually evaluates the realizability of the deferred tax assets and the need for valuation allowances. As of June 30, 2011, based on current facts and circumstances, management does not believe that it is more likely than not that Greenspring will realize benefit for its gross deferred tax assets. Accordingly, Greenspring has established a valuation allowance to reduce its deferred tax assets to the estimated realizable value. The valuation allowance increased by \$280,000 during the year ended June 30, 2011.

At June 30, 2011, Greenspring has \$7,919,000 in gross federal and state net operating loss carryforwards that begin to expire in 2020.



## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 13. Retirement Plans and Deferred Compensation

The Organization and its not-for-profit affiliates have a 403(b) tax-deferred retirement plan, which provides that qualified employees may contribute to the plan through payroll deductions that were matched 100 percent by the respective employer up to 6 percent of the employee's base compensation through December 31, 2010, and 6.5 percent thereafter. Participation is voluntary after one year and is required after five years of employment or age 35, whichever is later. The Organization's contributions totaled \$2,148,000 for the year ended June 30, 2011.

The Organization's for-profit affiliates have a 401(k) tax-deferred retirement plan to which qualified employees may contribute through payroll deductions.

Greenspring and its subsidiary have compensation arrangements with certain employees that provide for payments in the event of a change in control of Greenspring or its subsidiary.

#### Note 14. Educational Broadband Service (EBS) Frequencies Contracts

During the year ended June 30, 2008, MPR entered into contracts with Nextel Spectrum Acquisition Corporation (Sprint Nextel) and Clearwire Corporation (Clearwire), in accordance with Federal Communications Commission (FCC) rules, to lease excess capacity on its EBS channels. Under the terms of the contracts, MPR will remain the licensee on all of these EBS licenses and will have the responsibility for compliance with all educational and other requirements imposed by the FCC. The contracts further provided that total lease payments of \$25,000,000 be paid at the inception of the agreement. The contracts provide for initial lease periods of 15 years, with the option to renew the agreement for an additional 15 years. The agreements contain acquisition rights subject to FCC rules. The total revenue from these contracts of \$25,000,000, less \$831,000 of costs incurred to execute the agreements, is to be recognized over the 30-year lease terms on a straight-line basis. During the year ended June 30, 2011, the Organization recognized \$805,000 as licensing fees in the consolidated statement of activities.

#### Note 15. Business Acquisition

On May 25, 2011, the Organization closed on an agreement with Barry Telecommunications, Inc. to acquire the noncommercial radio station WPBI 90.7 FM (formerly WXEL) licensed to West Palm Beach, Florida.

The acquisition-date fair value consideration transferred for the purchase is as follows:

Cash paid	\$ 3,824,000
Liability incurred for deferred underwriting revenue	177,000
Receivable from seller	(11,000)
Total consideration transferred	<u>\$ 3,990,000</u>

The liability incurred for deferred underwriting revenue is an obligation for the Organization to air underwriting spots acknowledging Barry University, the parent of Barry Telecommunications, Inc., over a three-year period beginning on the closing date. As of the acquisition date, management estimated the net present value of the underwriting spots to be approximately \$177,000, based on the price that CSF could charge other customers for the spots in a cash transaction. The Organization has determined that this liability is a Level 2 fair value measurement within the FASB's fair value hierarchy. The receivable from seller is settlement for the purchase price adjustments per the agreement.

## American Public Media Group and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 15. Business Acquisition (Continued)

This acquisition will enhance and expand the service of the Organization, while securing the station as a powerful presence for classical music in southern Florida. The Organization incurred transaction costs of \$66,000 for the year ended June 30, 2011, that are reflected in operations expense on the statement of activities.

The fair value of assets acquired and liabilities assumed represent management's estimate of fair values at the acquisition date. Management determines fair value through comparable sales and discounted cash flow models.

The fair value of assets acquired and liabilities assumed is as follows:

Prepaid expenses	\$ 28,000
Equipment	240,000
Broadcast license	3,810,000
Grant and underwriting revenue	(88,000)
Total assets acquired and liabilities assumed	<u>\$ 3,990,000</u>

This license is not subject to amortization. Broadcast licenses are considered indefinite-lived intangibles and are recorded at cost and tested annually for impairment or more frequently if an event occurs or circumstances change that would indicate impairment.

## **Supplemental Information**

## American Public Media Group and Affiliates

### Schedule of Operating Fund and Long-Term Activities Year Ended June 30, 2011, with Comparative Totals for the Year Ended June 30, 2010 (In Thousands)

	APMG	CSF	MPR	SCPR	Eliminations	Consolidated Total	
						2011	2010
Operating Fund activities:							
Support from public:							
Individual gifts and membership	\$ -	\$ 1,421	\$ 18,136	\$ 8,582	\$ -	\$ 28,139	\$ 23,794
Regional underwriting	-	702	8,430	7,390	-	16,522	14,531
National underwriting	-	-	12,842	-	-	12,842	9,831
Business general support	-	7	1,135	80	-	1,222	1,091
Foundations	-	56	5,460	468	-	5,984	6,895
Earned endowment draw	-	-	3,502	-	-	3,502	2,546
Intercompany grants	-	28	-	98	(126)	-	-
Educational sponsors	-	-	427	-	-	427	426
Other public support	-	-	402	528	-	930	396
<b>Total support from public</b>	-	2,214	50,334	17,146	(126)	69,568	59,510
Support from governmental agencies:							
Corporation for Public Broadcasting	-	235	4,351	963	-	5,549	5,658
Grants from other governmental agencies	-	40	1,807	16	-	1,863	1,393
<b>Total support from governmental agencies</b>	-	275	6,158	979	-	7,412	7,051
Earned revenue:							
Revenue from operating activities	-	-	18,832	49	(257)	18,624	16,554
Royalties and licensing fees	69	-	547	-	-	616	607
Investment return, net	67	-	706	1	-	774	835
Product sales and other earned revenue	14,039	6	1,916	102	(6,891)	9,172	12,623
<b>Total earned revenue</b>	14,175	6	22,001	152	(7,148)	29,186	30,619
<b>Total support and earned revenue</b>	14,175	2,495	78,493	18,277	(7,274)	106,166	97,180
Expenses:							
Operations	9,456	2,911	57,594	11,490	(1,511)	79,940	71,923
Selling, general and administrative	3,113	570	11,713	2,532	(6,682)	11,246	10,639
Fundraising	-	978	9,038	4,207	(766)	13,457	11,695
Costs of goods sold	2,551	-	-	-	(77)	2,474	3,670
<b>Total expenses</b>	15,120	4,459	78,345	18,229	(9,036)	107,117	97,927
<b>Support and revenues in excess of (less than) expenses before long-term activities</b>	(945)	(1,964)	148	48	1,762	(951)	(747)
Long-term activities:							
Designated Fund support from operating	-	-	2,040	339	-	2,379	3,751
Designated Fund net change	17,623	-	1,063	-	(62)	18,624	6,490
Property Fund net change	911	(217)	(4,115)	(413)	(1,700)	(5,534)	5,415
Temporarily restricted net change	-	63	2,873	1,310	-	4,246	(4,640)
Permanently restricted net change	-	-	319	16	-	335	143
<b>Change in net assets (deficit)</b>	17,589	(2,118)	2,328	1,300	-	19,099	10,412
Net assets (deficit)—beginning of year	90,572	(5,544)	101,725	26,771	-	213,524	203,112
Net assets (deficit)—end of year	\$ 108,161	\$ (7,662)	\$ 104,053	\$ 28,071	\$ -	\$ 232,623	\$ 213,524

## American Public Media Group and Affiliates

### Schedule of Consolidating Statement of Financial Position Information by Entity June 30, 2011, with Comparative Totals as of June 30, 2010 (In Thousands)

Assets	APMG	CSF	MPR	SCPR	Eliminations	Consolidated Total	
						2011	2010
<b>Current Assets</b>							
Cash and cash equivalents	\$ 10,799	\$ -	\$ -	\$ -	\$ -	\$ 10,799	\$ 9,890
Trade receivable, net	1,036	507	17,421	3,358	-	22,322	17,885
Pledges receivable—capital campaign	-	-	81	1,520	-	1,601	2,409
Grants receivable	-	160	6,119	736	-	7,015	7,674
Investments—interest in investment pool	-	-	-	1,133	(1,133)	-	-
Other	3,326	23	1,781	943	-	6,073	3,651
Due from affiliates	100	-	806	-	(906)	-	-
<b>Total current assets</b>	<b>15,261</b>	<b>690</b>	<b>26,208</b>	<b>7,690</b>	<b>(2,039)</b>	<b>47,810</b>	<b>41,509</b>
Property and Equipment, net	83	594	45,918	21,982	-	68,577	71,392
<b>Other Assets</b>							
Investments—interest in investment pool	-	7	16,799	-	(16,806)	-	-
Investments	119,301	-	239	1,230	17,939	138,709	131,298
Investments limited to use	-	-	-	-	-	-	861
Endowment funds held by others and beneficial interest in trust	-	-	24,205	187	-	24,392	19,648
Trade receivable, net	-	-	874	40	-	914	420
Pledges receivable—capital campaign, net	-	-	12	3,211	-	3,223	3,933
Grants receivable, net	-	543	2,411	524	-	3,478	2,106
Deferred income taxes	115	45	-	-	-	160	129
Broadcast licenses not subject to amortization	20,246	3,810	18,267	1,007	-	43,330	39,520
Intangible assets subject to amortization, net	137	-	475	-	-	612	949
Other assets	373	18	383	95	-	869	1,040
Due from affiliates	13,238	-	26,946	-	(40,184)	-	-
<b>Total other assets</b>	<b>153,410</b>	<b>4,423</b>	<b>90,611</b>	<b>6,294</b>	<b>(39,051)</b>	<b>215,687</b>	<b>199,904</b>
<b>Total assets</b>	<b>\$ 168,754</b>	<b>\$ 5,707</b>	<b>\$ 162,737</b>	<b>\$ 35,966</b>	<b>\$ (41,090)</b>	<b>\$ 332,074</b>	<b>\$ 312,805</b>
<b>Liabilities and Net Assets</b>							
<b>Current Liabilities</b>							
Accounts payable—trade	\$ 1,217	\$ 58	\$ 1,852	\$ 263	\$ -	\$ 3,390	\$ 3,105
Optional redemption of long-term obligations	-	-	-	685	-	685	3,000
Current portion of long-term debt, net	500	-	2,025	315	-	2,840	2,438
Accrued liabilities	1,486	131	4,581	887	-	7,085	7,952
Line of credit	3,836	-	-	-	-	3,836	-
Refundable advance	-	-	-	-	-	-	250
Deferred revenue	3,930	59	965	-	-	4,954	1,195
Due to affiliates	806	-	-	100	(906)	-	-
<b>Total current liabilities</b>	<b>11,775</b>	<b>248</b>	<b>9,423</b>	<b>2,250</b>	<b>(906)</b>	<b>22,790</b>	<b>17,940</b>
<b>Other Obligations</b>							
Long-term obligations, less current portion, net	20,856	-	28,136	5,410	-	54,402	58,224
Interest rate swap	1,016	-	910	-	-	1,926	2,097
Deferred revenue, less current portion	-	118	20,215	-	-	20,333	21,020
Loan from affiliates	26,946	13,003	-	235	(40,184)	-	-
<b>Total liabilities</b>	<b>60,593</b>	<b>13,369</b>	<b>58,684</b>	<b>7,895</b>	<b>(41,090)</b>	<b>99,451</b>	<b>99,281</b>
<b>Net Assets</b>							
Unrestricted	108,161	(8,625)	65,379	23,378	-	188,293	173,775
Temporarily restricted	-	963	26,312	4,518	-	31,793	27,547
Permanently restricted	-	-	12,362	175	-	12,537	12,202
<b>Total net assets</b>	<b>108,161</b>	<b>(7,662)</b>	<b>104,053</b>	<b>28,071</b>	<b>-</b>	<b>232,623</b>	<b>213,524</b>
<b>Total liabilities and net assets</b>	<b>\$ 168,754</b>	<b>\$ 5,707</b>	<b>\$ 162,737</b>	<b>\$ 35,966</b>	<b>\$ (41,090)</b>	<b>\$ 332,074</b>	<b>\$ 312,805</b>

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