

USC Radio

Combined Financial Statements

For KUSC-FM, KDSC-FM, KQSC-FM and KPSC-FM

For the Year Ended June 30, 2008

(With Summarized Financial Information

For the Year Ended June 30, 2007)

Report of Independent Auditors

To the Board of Trustees of the
University of Southern California

In our opinion, the accompanying combined statement of financial position and the related combined statements of activities and cash flows present fairly, in all material respects, the financial position of KUSC-FM, KDSC-FM, KQSC-FM and KPSC-FM (the "USC Radio") at June 30, 2008, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of USC Radio's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from USC Radio's 2007 financial statements; and in our report dated October 30, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The *Corporation for Public Broadcasting Financial Reporting Guidelines* was used as a guide for conducting our audit. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 21, 2008

USC Radio
Combined Statement of Financial Position
As of June 30, 2008
(With Summarized Financial Information as of June 30, 2007)

	2008	2007
Assets		
Investments	\$ 2,256,086	\$ 2,268,344
Due from the University of Southern California	2,625,990	1,846,187
Investment in affiliate	150,000	611,827
Property and equipment, net	<u>638,733</u>	<u>783,707</u>
Total assets	<u>\$ 5,670,809</u>	<u>\$ 5,510,065</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 246,983	\$ 273,184
Deposits and deferred revenue	59,527	459,322
Actuarial liability for annuities payable	<u>412,102</u>	<u>408,140</u>
Total liabilities	<u>718,612</u>	<u>1,140,646</u>
Net assets		
Unrestricted	4,066,843	3,526,703
Temporarily restricted	557,742	586,042
Permanently restricted	<u>327,612</u>	<u>256,674</u>
Total net assets	<u>4,952,197</u>	<u>4,369,419</u>
Total liabilities and net assets	<u>\$ 5,670,809</u>	<u>\$ 5,510,065</u>

The accompanying notes are an integral part of these combined financial statements.

USC Radio
Combined Statement of Activities
For the Year Ended June 30, 2008
(With Summarized Financial Information for the Year Ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Total 2007
Revenue and support					
Corporation for Public Broadcasting grants	\$ 436,133	\$ -	\$ -	\$ 436,133	\$ 530,119
Corporation and foundation contributions	1,896,844	-	-	1,896,844	1,309,239
Subscription, associate and individual contributions	4,993,816	7,639	70,938	5,072,393	4,080,148
Contribution from the University of Southern California	40,658	-	-	40,658	23,471
Decrease in net assets of affiliate	(461,827)	-	-	(461,827)	(8,130)
Carriage fees	9,962	-	-	9,962	11,516
Net (depreciation)/appreciation in fair value of investments	(68,857)	2,897	-	(65,960)	231,836
Present value adjustment to annuities payable	-	(38,836)	-	(38,836)	(26,886)
Other	<u>206,837</u>	<u>-</u>	<u>-</u>	<u>206,837</u>	<u>361,141</u>
Total revenue and support	<u>7,053,566</u>	<u>(28,300)</u>	<u>70,938</u>	<u>7,096,204</u>	<u>6,512,454</u>
Expenses					
Programming and production	2,602,024	-	-	2,602,024	2,365,303
Broadcast operations	999,632	-	-	999,632	935,254
Fund-raising	1,731,800	-	-	1,731,800	1,395,381
Underwriting and grant solicitation	563,223	-	-	563,223	534,485
General and administrative	<u>616,747</u>	<u>-</u>	<u>-</u>	<u>616,747</u>	<u>667,189</u>
Total expenses	<u>6,513,426</u>	<u>-</u>	<u>-</u>	<u>6,513,426</u>	<u>5,897,612</u>
Change in net assets	540,140	(28,300)	70,938	582,778	614,842
Net assets at beginning of year	<u>3,526,703</u>	<u>586,042</u>	<u>256,674</u>	<u>4,369,419</u>	<u>3,754,577</u>
Net assets at end of year	<u>\$ 4,066,843</u>	<u>\$ 557,742</u>	<u>\$ 327,612</u>	<u>\$ 4,952,197</u>	<u>\$ 4,369,419</u>

The accompanying notes are an integral part of these combined financial statements.

USC Radio
Combined Statement of Cash Flows
For the Year Ended June 30, 2008
(With Summarized Financial Information for the Year Ended June 30, 2007)

	2008	2007
Cash flows from operating activities		
Change in net assets	\$ 582,778	\$ 614,842
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	222,915	239,607
Credit received for equipment traded out	–	(72,000)
Net depreciation/(appreciation) in fair value of investments	65,960	(231,836)
Present value adjustment to annuities payable	38,836	26,886
Change in assets and liabilities		
Decrease in net assets of affiliate	461,827	8,130
Increase in due from the University of Southern California	(779,803)	(659,055)
Decrease in accounts payable and accrued expenses	(26,201)	(49,044)
(Decrease)/increase in deposits and deferred revenue	(399,795)	228,877
Contributions restricted for long-term investments	<u>(80,938)</u>	<u>(5,945)</u>
Net cash provided by operating activities	<u>85,579</u>	<u>100,462</u>
Cash flows from investing activities		
Proceeds from sale of investments	43,740	4,707
Purchases of investments	(97,442)	–
Purchases of property and equipment	<u>(77,941)</u>	<u>(78,212)</u>
Net cash used in investing activities	<u>(131,643)</u>	<u>(73,505)</u>
Cash flows from financing activities		
Contributions restricted for long-term investments	80,938	5,945
Increase in annuities payable due to new gifts	7,361	4,778
Investment income on annuities payable	1,505	21,837
Payments on annuities payable	<u>(43,740)</u>	<u>(59,517)</u>
Net cash provided by (used in) financing activities	<u>46,064</u>	<u>(26,957)</u>
Net change in cash	–	–
Cash at beginning of year	<u>–</u>	<u>–</u>
Cash at end of year	<u>\$ –</u>	<u>\$ –</u>
Supplemental noncash activity information		
Credit received for equipment traded out	\$ –	\$ 72,000
Retirement of fully depreciated equipment	–	43,314

The accompanying notes are an integral part of these combined financial statements.

USC Radio

Notes to Combined Financial Statements

June 30, 2008

1. General

KUSC-FM, located in Los Angeles, and affiliated stations KDSC-FM, located in Thousand Oaks, KQSC-FM, located in Santa Barbara, and KPSC-FM, located in Palm Springs (collectively, "USC Radio") are noncommercial, not-for-profit, educational radio stations which are owned and operated by the University of Southern California (the "University").

In accordance with the *Corporation for Public Broadcasting Financial Reporting Guidelines*, the financial statements of USC Radio have been combined for financial statement presentation purposes.

2. Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting and includes the accounts of KUSC-FM, KDSC-FM, KQSC-FM and KPSC-FM, in accordance with accounting principles generally accepted in the United States of America and with the provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide, "Not-for-Profit Organization," which requires USC Radio to classify its net assets into three categories according to donor-imposed restrictions or provisions of law as follows:

Unrestricted net assets include all support unless donor stipulations specify how the donated assets must be used. Absent donor stipulations about how assets must be maintained, USC Radio reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Temporarily restricted net assets include gifts of cash and other assets if they are received with donor stipulations that limit the use of the donated assets. 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.

Permanently restricted net assets include gifts and income subject to donor-imposed stipulations that they be maintained permanently by USC Radio. Generally, the donors of these assets permit USC Radio to use all or part of the income earned on these assets for general or specific purposes. The components of these net assets are true endowments.

All material inter-station transactions have been eliminated in the combined financial statements.

Investments are stated at fair value. Net appreciation/(depreciation) in the fair value of investments, which consists of realized gains or losses and the unrealized appreciation/(depreciation) on those investments, is shown on the statement of activities. The investments include units in the University's pooled investment fund. The pool is comprised of bonds, stocks, international investments, venture capital and other investments. USC Radio's investment in the pool has a market value of \$1,286,242 and cost value of \$963,576 at June 30, 2008.

Property and equipment is stated at cost or estimated fair value determined as of the date of receipt. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 10 years.

USC Radio
Notes to Combined Financial Statements
June 30, 2008

2. Summary of Significant Accounting Policies (Continued)

Unrestricted contributions and grants are recognized as revenue when received. Other unrestricted revenues are recognized as earned. Unconditional promises to give are recorded as contributions when received at the net present value of the amounts expected to be collected. Temporarily restricted contributions and grants whose restrictions are met in the same reporting period are reported as unrestricted revenue and support. Unrestricted expenditures are recognized when incurred.

Due from the University of Southern California represents unexpended gift and grant funds maintained in the University's working capital funds.

The actuarial liability for annuities payable include gift annuities, unitrusts and life estates which are based on the present value of future payments using discount rates ranging from 3.3% to 7.5% and Retired Pensioners 2000 Mortality Table issued on or before December 31, 2004 and Annuity 2000 Mortality Table for annuities issued on or after January 1, 2005.

Subscription revenue which primarily consisted of cash donations from donors through fund-raising activities is recorded when received. Fund-raising expenses related to promotional items distributed to subscribers are recognized as incurred. All promotional items are mailed at the time subscriptions are made; therefore, no liability is recognized in the financial statements.

The preparation of 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 disclosure 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 from those estimates.

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. 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 USC Radio's financial statements for the year ended June 30, 2007, from which the summarized financial information was derived.

3. Property and Equipment

Property and equipment at June 30, 2008 consists of:

Equipment	\$ 1,607,536
Leasehold improvements	883,249
Less: Accumulated depreciation and amortization	<u>(1,852,052)</u>
	<u>\$ 638,733</u>

Depreciation and amortization expense for the year ended June 30, 2008 was \$222,915.

USC Radio
Notes to Combined Financial Statements
June 30, 2008

4. Operating Lease

USC Radio leases office space under an operating lease expiring April, 2011. Future minimum lease payments due under non-cancellable operating leases at June 30, 2008 are as follows:

Years Ending June 30,	
2009	\$ 433,161
2010	433,161
2011	<u>324,871</u>
	<u>\$ 1,191,193</u>

Total rent expense under the operating lease for the year ended June 30, 2008 was \$595,463.

5. Investment in Affiliate

In 1999, USC Radio entered into an operating agreement with Public Broadcasting of Colorado, Inc. (dba Colorado Public Radio) ("CPR"), to form Classical Public Radio Network, LLC ("CPRN"), a limited liability company. CPRN is exempt from federal income taxes under the provisions of Section 501(c)(3) of the U.S. Internal Revenue Code. USC Radio and CPR each have a 50% interest in CPRN's net assets. Through June 30, 2008, CPRN distributed the program service via noncommercial public radio broadcast stations across the country. As of July 1, 2008, CPRN is no longer distributing the broadcast programming, but instead has changed focus to research other methods of distribution, particularly Internet distribution. The shift in focus will result in a substantial change in CPRN's financial statements for the year ending June 30, 2009. The primary changes to the financial statements will include no income and no personnel, fundraising, or client station expenses. However, CPRN will incur expenses related to Internet research, including telecommunications and travel, which will be funded by CPRN's existing reserves.

USC Radio has accounted for its investment in CPRN under the equity method of accounting. Under the equity method, USC Radio recognizes its share of the change in net assets of CPRN.

Condensed financial information, which was audited by other auditors, as of and for the year ended June 30, 2008 relating to CPRN is as follows:

Assets	\$ 967,821
Liabilities	<u>(176,415)</u>
Net assets	<u>\$ 791,406</u>
Total revenue	\$ 2,310,646
Total expenses	\$ 2,742,895

USC Radio

Notes to Combined Financial Statements

June 30, 2008

5. Investment in Affiliate (Continued)

For the year ended June 30, 2008, USC Radio's share of the change in net assets of CPRN was \$395,703; however, as a result of the termination of broadcast programming and the uncertainty of the outcome of other methods of distribution, USC Radio has recognized an impairment loss for the amount of \$245,703. This impairment loss is recorded in the unrestricted activity as part of the total "Decrease in net assets of affiliate" of \$461,827, in the combined statement of activities. The net carrying value after recognizing the impairment loss amounted to \$150,000 as of June 30, 2008 and is shown as "Investment in affiliate" on the combined statement of financial position.

For the year ended June 30, 2008, included in programming and production expense is \$600,000 for programming purchased from CPRN. No amounts were due to CPRN as of June 30, 2008.

6. Significant Risks and Uncertainties

USC Radio receives significant portions of its revenues and support from three sources. USC Radio received \$1,896,844 or 26%, of its revenue from corporation and foundation contributions. USC Radio received \$4,993,816 or 68%, of its revenue from subscription appeals to listeners. Corporation, foundation and subscription revenue is susceptible to economic conditions and listener satisfaction with programming. The Corporation for Public Broadcasting ("CPB") provided \$436,133 in support, or 6%, of total revenues for USC Radio's programming during 2008. The continued support of the CPB is dependent on future federal funding and continued corporate, foundation and subscription revenue.

7. Tax Status

The University is generally exempt from federal income taxes under the provisions of Internal Revenue Code Section 501 (c) (3). The University is also generally exempt from payment of California state income, gift, estate and inheritance taxes.

8. Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 157, *Fair Value Measurements*. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. USC Radio does not believe the adoption of SFAS 157 will have a material impact on the financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. USC Radio is currently evaluating the potential effect on the financial statements of adopting SFAS 159.

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Notes to Combined Financial Statements
June 30, 2008

8. Recently Issued Accounting Standards (Continued)

In August 2008, the FASB issued FASB Staff Position ("FSP")117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and expands disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to UPMIFA. The standard will be effective for fiscal years ending after December 15, 2008. USC Radio is currently evaluating the potential effect on the financial statements of adopting FSP 117-1.

9. Subsequent Event

On October 24, 2008, the University entered into an Asset Purchase Agreement with People of Action to purchase the assets of KGDP-FM, a licensed noncommercial educational broadcast radio station for the sum of \$800,000, to be adjusted subject to the terms and conditions of the agreement.