

AN AUDIT

*Wisconsin Educational  
Communications Board  
Radio Network*

*02-23*

*December 2002*

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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December 20, 2002

Senator Gary R. George and  
Representative Joseph K. Leibham, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Senator Gary R. George, Chairperson  
Mr. Thomas Fletemeyer, Executive Director  
Educational Communications Board  
3319 West Beltline Highway  
Madison, Wisconsin 53713

Dear Senator George, Representative Leibham, and Mr. Fletemeyer:

We have completed a financial audit of the State of Wisconsin Educational Communications Board Radio Network to meet our audit requirements under s. 13.94, Wis. Stats., and as requested by the Educational Communications Board to fulfill the audit requirements of the Corporation for Public Broadcasting. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels.

The Educational Communications Board, which is an agency of the State of Wisconsin, operates a radio network of 12 FM stations and 1 AM station, as well as a television network of 5 stations. The radio network received \$7.6 million in support and revenue during fiscal year 2001-02, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains the financial statements and related notes for the period July 1, 2001 through June 30, 2002. We were able to issue an unqualified independent auditor's report on these statements. A new financial reporting model was implemented for fiscal year 2001-02 that changed the presentation of the financial statements. An important feature of the new model is Management's Discussion and Analysis, which is prepared by management of the Educational Communications Board and provides an overview of the financial statements and an analysis of financial results.

We appreciate the courtesy and cooperation extended to us by Educational Communications Board staff during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/DA/ss



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## Independent Auditor's Report on the Financial Statements of the Wisconsin Educational Communications Board Radio Network

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We have audited the accompanying balance sheet of the Wisconsin Educational Communications Board Radio Network as of June 30, 2002, and the related statement of revenues, expenses, and changes in fund net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Educational Communications Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Wisconsin Public Radio Association, of which net assets of \$332,308 are contractually committed to the Educational Communications Board and are reflected in the accompanying financial data contained in Note 11. Net assets and revenues of the Wisconsin Public Radio Association included in the accompanying financial statements represent 4.9 percent of the total assets and 45.7 percent of total revenue. The financial statements of the Wisconsin Public Radio Association were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin Public Radio Association were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the additional requirements of *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Wisconsin Educational Communications Board Radio Network and are not intended to present fairly the financial position of the State of Wisconsin, the results of its operations, and changes in funds balances of its fund types in conformity with accounting principles generally accepted in the United States of America.


In our opinion, based upon our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Wisconsin Educational Communications Board Radio Network as of June 30, 2002, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, the Educational Communications Board has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as of June 30, 2002.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Educational Communications Board Radio Network. Management’s Discussion and Analysis on pages 5 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2002, on our consideration of the Wisconsin Educational Communications Board’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 12, 2002

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director



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## Management's Discussion and Analysis

### *Prepared by Educational Communications Board Management*

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Management's Discussion and Analysis (MD&A) is prepared by the Educational Communications Board's (ECB's) management and is a required element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement Number 34. Its purpose is to provide general information on the financial activities of ECB and the Wisconsin Public Broadcasting Foundation, Incorporated (WPBF).

The ECB is an agency of the State of Wisconsin that operates a public television network of 5 stations as well as a public radio network of 12 FM stations and 1 AM station. The WPBF was organized by the ECB under s. 39.12 and ch. 181 Wis. Stats., on September 29, 1983, for the exclusive purpose of raising funds for the Wisconsin educational television and radio networks.

Following this section are the financial statements and notes as they relate to the ECB Radio Network. The Balance Sheet provides information on the types of assets and the liabilities of the ECB, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Radio Network's financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Assets and Statement of Cash Flows provide information on income and expenses. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Condensed financial information relating to the ECB Radio Network for the fiscal year ended June 30, 2001, and the fiscal year ended June 30, 2002, is as follows:

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#### **ECB Radio Network Condensed Financial Information**

<u>Fiscal Year Ended:</u>	<u>2002</u>	<u>2001</u>	<u>Percentage Change</u>
Total Assets	\$6,756,060	\$7,294,267	-7%
Total Liabilities	1,317,725	2,864,634	-54%
Net Assets	5,438,335	4,429,633	
Operating Revenue	6,807,852	6,532,245	4%
Operating Expenses	6,604,987	6,713,807	-2%
Net Operating Income (Loss)	202,865	(181,562)	
Nonoperating Income (Loss)	(229,980)	(61,716)	-273%
Capital Contributions	1,035,817	370,239	180%
Changes in Net Assets	1,008,702	126,961	

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The Total Assets reduction of 7 percent and the Liabilities reduction of 54 percent were largely due to the adoption of the provisions of GASB Statement Number 34 as they related to bond liability and receivables. GASB 34 required the removal of over \$1.8 million in general obligation bond liabilities of the State of Wisconsin and an offsetting receivable from the state of Wisconsin from the ECB Radio Network statements. The liabilities are now reported on the State of Wisconsin government-wide statement of net assets. These bonds fund buildings and equipment used to construct the statewide public radio network.

It should be noted that \$3,642,398 of the fixed assets of the ECB related to radio are presented at historical cost less depreciation. Replacement cost of buildings and equipment, using the Builders Cost Index, is over \$40 million for the combined statewide public radio and television networks.

Operating revenues increased primarily due to an increase in contributions, underwriting, and grants. Expenses overall decreased slightly from the level of last fiscal year.

Nonoperating income and losses consist of investment earnings and losses, both realized and unrealized. The value of investments decreased in both FY 2000-01 and FY 2001-02 because of the market decline.

Capital contributions increased with State Building Trust Funds used to construct a new tower and building for WHAD.

This financial report is designed to provide a general overview of the Educational Communication Board's finances related to public radio. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ECB in care of the Associate Director for Finance and Administration, 3319 West Beltline Highway, Madison, WI 53713-4296.

General information relating to the Educational Communications Board can be found at the ECB's Web site, <http://www.ecb.org>.

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**Wisconsin Educational Communications Board Radio Network**  
**Balance Sheet**  
June 30, 2002

	Operating Fund	WPBF (Note 10)	Total June 30, 2002	Total June 30, 2001
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents (Notes 1 and 2)	\$ 176,782	\$ 545,514	\$ 722,296	\$ 707,605
Investments (Notes 1 and 2)	0	1,572,461	1,572,461	1,734,567
Equity in resources held by WPRA (Note 11)	0	332,308	332,308	157,855
Receivable—state general appropriation	407,984	0	407,984	675,286
Grants and contracts receivable	70,448	0	70,448	0
Interfund receivable (payable) (Note 3)	12,000	(12,000)	0	0
Interest receivable	0	3,021	3,021	3,070
Other receivables	5,144	0	5,144	9,380
Total Current Assets	<u>672,358</u>	<u>2,441,304</u>	<u>3,113,662</u>	<u>3,287,763</u>
Noncurrent Assets:				
Receivable—state general appropriation (Note 6)	0	0	0	1,474,463
Land (Note 4)	68,845	0	68,845	68,845
Buildings (Notes 4 and 5)	1,146,980	0	1,146,980	1,004,410
Equipment (Notes 4 and 5)	2,426,573	0	2,426,573	1,458,786
Total Noncurrent Assets	<u>3,642,398</u>	<u>0</u>	<u>3,642,398</u>	<u>4,006,504</u>
Total Assets	<u>\$ 4,314,756</u>	<u>\$ 2,441,304</u>	<u>\$ 6,756,060</u>	<u>\$ 7,294,267</u>
<b>Liabilities and Net Assets</b>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 246,889	\$ 733	\$ 247,622	\$ 247,456
Accrued liabilities due to affiliates	750,149	164,234	914,383	874,261
Short-term note payable	0	0	0	135,422
Wisconsin general obligation bonds payable (Note 6)	5,100	0	5,100	133,032
Total Noncurrent Liabilities	<u>1,002,138</u>	<u>164,967</u>	<u>1,167,105</u>	<u>1,390,171</u>
Noncurrent Liabilities:				
Wisconsin general obligation bonds payable (Note 6)	150,620	0	150,620	1,474,463
Total Noncurrent Liabilities	<u>150,620</u>	<u>0</u>	<u>150,620</u>	<u>1,474,463</u>
Net Assets				
Invested in capital assets, net of related debt	3,486,678	0	3,486,678	2,263,587
Unrestricted	(324,680)	2,276,337	1,951,657	2,166,046
Total Net Assets	<u>3,161,998</u>	<u>2,276,337</u>	<u>5,438,335</u>	<u>4,429,633</u>
Total Liabilities and Net Assets	<u>\$ 4,314,756</u>	<u>\$ 2,441,304</u>	<u>\$ 6,756,060</u>	<u>\$ 7,294,267</u>

The accompanying notes are an integral part of this statement.

**Wisconsin Educational Communications Board Radio Network**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
for the Year Ended June 30, 2002

	Operating Fund	WPBF (Note 10)	Total 2001-02	Total 2000-01
<b>Operating Revenues</b>				
State General Appropriations	\$ 1,546,539	\$ 0	\$ 1,546,539	\$ 1,716,873
Contributed Support (Note 11)	0	3,480,046	3,480,046	3,286,937
Community Services Grant—CPB	0	603,263	603,263	590,649
Underwriting Grants	0	622,069	622,069	495,869
Other Grants and Contracts	253,922	0	253,922	0
In-kind Donated Services (Note 8)	190,220	0	190,220	246,512
State Insurance Funds	1,006	0	1,006	4,522
Royalties and Other Income	102,273	8,514	110,787	190,883
Total Operating Revenues	<u>2,093,960</u>	<u>4,713,892</u>	<u>6,807,852</u>	<u>6,532,245</u>
<b>Operating Expenses</b>				
Program Services:				
Programming and production	3,348,716	44,697	3,393,413	3,032,322
Broadcasting	1,806,916	1,778	1,808,694	2,070,649
Program information	0	272,481	272,481	420,516
Total Program Services	<u>5,155,632</u>	<u>318,956</u>	<u>5,474,588</u>	<u>5,523,487</u>
Support Services:				
Management and general	595,628	113,378	709,006	754,711
Fund-raising and membership development	41,919	378,710	420,629	428,537
Underwriting	86	678	764	7,072
Total Support Services	<u>637,633</u>	<u>492,766</u>	<u>1,130,399</u>	<u>1,190,320</u>
Total Operating Expenses	<u>5,793,265</u>	<u>811,722</u>	<u>6,604,987</u>	<u>6,713,807</u>
Operating Income (Loss)	(3,699,305)	3,902,170	202,865	(181,562)
<b>Nonoperating Revenues (Expenses)</b>				
Investment Income	0	(229,980)	(229,980)	(61,716)
Income (Loss) Before Contributions and Transfers	(3,699,305)	3,672,190	(27,115)	(243,278)
<b>Capital Contributions and Transfers</b>				
Capital Contributions (Note 7)	1,035,817	0	1,035,817	370,239
Interfund Transfers (Note 3)	3,585,946	(3,585,946)	0	0
Change in Net Assets	922,458	86,244	1,008,702	126,961
Total Net Assets—Beginning of the Year	<u>2,239,540</u>	<u>2,190,093</u>	<u>4,429,633</u>	<u>4,302,672</u>
Total Net Assets—Ending of the Year	<u>\$ 3,161,998</u>	<u>\$ 2,276,337</u>	<u>\$ 5,438,335</u>	<u>\$ 4,429,633</u>

The accompanying notes are an integral part of this statement.

**Wisconsin Educational Communications Board Radio Network**  
**Statement of Cash Flows**  
for the Year Ended June 30, 2002

	Operating Fund	WPBF (Note 10)	Total 2001-02	Total 2000-01
<b>Cash Flows from Operating Activities</b>				
Receipts from State Government	\$ 1,546,393	\$ 0	\$ 1,546,393	\$ 1,713,026
Contributed Support	0	4,102,115	4,102,115	3,782,806
Receipts from Grants	183,474	603,263	786,737	590,649
Receipts from Royalties and Other Sales	106,509	8,514	115,023	686,823
Payments to Suppliers	(3,760,881)	(832,378)	(4,593,259)	(5,323,772)
Payments to Employees	(1,498,543)	0	(1,498,543)	(1,423,235)
Net Cash Provided (Used) by Operating Activities	<u>(3,423,048)</u>	<u>3,881,514</u>	<u>458,466</u>	<u>26,297</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Subsidies and Transfers to Other Funds	<u>3,585,946</u>	<u>(3,585,946)</u>	<u>0</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Capital Contributions	1,035,817	0	1,035,817	370,239
Purchases of Capital Assets	(1,393,034)	0	(1,393,034)	(255,136)
Proceeds from Capital Debt	165,359	0	165,359	0
Principal Paid on Capital Debt	(4,887)	0	(4,887)	0
Interest Paid on Capital Debt	(4,752)	0	(4,752)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(201,497)</u>	<u>0</u>	<u>(201,497)</u>	<u>115,103</u>
<b>Cash Flows from Investing Activities</b>				
Net Purchases, Sales, and Maturities of Investments	0	(102,435)	(102,435)	(139,485)
Interest and Dividends	0	34,610	34,610	117,044
Equity in Resources Held by WPRA	0	(174,453)	(174,453)	(146,665)
Net Cash Provided (Used) by Investing Activities	<u>0</u>	<u>(242,278)</u>	<u>(242,278)</u>	<u>(169,106)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(38,599)	53,290	14,691	(27,706)
<b>Cash and Cash Equivalents</b>				
Balances—Beginning of the Year	<u>215,381</u>	<u>492,224</u>	<u>707,605</u>	<u>735,311</u>
Balances—End of the Year	<u>\$ 176,782</u>	<u>\$ 545,514</u>	<u>\$ 722,296</u>	<u>\$ 707,605</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Operating Income (Loss)	\$ (3,699,305)	\$ 3,902,170	\$ 202,865	\$ (181,562)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation expense	282,216	0	282,216	214,038
Loss on disposal of fixed assets	461	0	461	50,624
Change in Assets and Liabilities:				
Receivables, net	(67,364)	0	(67,364)	487,571
Accounts and other payables	60,944	(20,656)	40,288	(544,374)
Net Cash Provided by Operating Activities	<u>\$ (3,423,048)</u>	<u>\$ 3,881,514</u>	<u>\$ 458,466</u>	<u>\$ 26,297</u>

## Noncash Investing Activities:

The net decrease in the fair value of investments was \$166,888.

The accompanying notes are an integral part of this statement.



### 1. Summary of Significant Accounting Policies

- A. Organization - The Educational Communications Board (ECB), an agency of the State of Wisconsin, operates a radio network consisting of 13 public radio stations. ECB also operates a network of five television stations. These financial statements include the accounts relating to the ECB Radio Network. Separate accounts for the radio and television networks are maintained by direct charging whenever possible. All general organization transactions are distributed by an appropriate allocation system.

Radio Network financial statements are combined with the accounts of the Wisconsin Public Broadcasting Foundation (WPBF), a not-for-profit corporation that solicits funds in the name of and with the express approval of ECB and provides support to the ECB radio and television networks. See Note 10 for further information regarding WPBF.

ECB Radio Network financial statements also include an equity interest in the Wisconsin Public Radio Association (WPRA), a not-for-profit corporation that collects funds for public radio and provides support to the ECB radio network and to WHA-Radio. See Note 11 for further information regarding WPRA.

- B. Basis of Presentation - The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). ECB has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Contributions and grants that are unrestricted are recorded as support when ECB is entitled to them. Restricted revenues are recorded as support when the purpose for which the resource was provided has been accomplished. Revenue is recognized for pledged WPRA contributions that are expected to be collected within one year. Non-cash contributions are recognized as revenues in the period of receipt.

Expenses are categorized in functional categories. Expenses that relate to more than one category are allocated to the respective categories, using estimates if necessary. Restricted resources are first applied when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating revenues and expenses are directly related to programming, production, development, and delivery of telecommunication services. Nonoperating revenues and expenses relate to revenues and expenses indirectly associated to programming, production, development, and delivery of telecommunication services, such as interest revenue.

- C. Accounting Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.
- D. Cash and Cash Equivalents - Cash and cash equivalents in the Radio Network's operating fund include cash balances deposited with the State Treasurer and shares in the State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the WPBF fund include cash deposits with financial institutions.
- E. Valuation of Investments - All investments of WPBF related to the Radio Network are carried at fair value based on quoted market prices. State Investment Fund shares are valued at fair value.
- F. Receivable—State of Wisconsin General Appropriations - The portion of liabilities to be financed with amounts appropriated by the State of Wisconsin is reported as a receivable as of the fiscal year-end.
- G. Property and Equipment - Items classified as permanent property are recorded at cost or, for donated property, at the estimated fair-market value at the date of receipt. Assets are capitalized if their acquisition value is in excess of \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 years for computer equipment to 20 years for buildings and towers. Expenses for repairs and maintenance are charged to operating expenses as incurred.
- H. Employee Compensated Absences - Unused, earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System are also accrued with a resulting liability. The liability and the expense for compensated absences are based on current rates of pay.
- I. Prior-Year Financial Statements - The financial information shown for fiscal year (FY) 2000-01 in the accompanying financial statements presents summarized totals and is included to provide a basis for comparison with FY 2001-02. Certain amounts presented in the prior year totals have been reclassified in order to be consistent with the current year's presentation.



## 2. Deposits and Investments

The cash balances of ECB's operating fund are deposited with the State of Wisconsin Treasurer and invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and Wisconsin Statutes. Holdings of the State Investment Fund include certificates of deposit and investments consisting primarily of direct obligations of the federal government and the State, and unsecured notes of qualifying financial and industrial issuers.

Shares in the State Investment Fund are not required to be categorized under GASB Statement 3. The State Investment Fund is not registered with the Securities and Exchange Commission.

WPBF manages its cash and investment activities separate from the cash and investment activities of the State Investment Fund. Cash balances are held in demand deposit and money market accounts at financial institutions. The investments of WPBF relating to the ECB Radio Network are managed by private trust companies. Interest earnings are income to WPBF and are not transferred to the State of Wisconsin.

- A. Deposits - GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of credit risk assumed. These risk categories are: 1) insured or collateralized, with securities held by the entity or by its agent in the entity's name; 2) collateralized, with securities held by the financial institution's trust department or agent in the entity's name; and 3) uninsured or uncollateralized.

At year-end, the carrying amount of ECB's Radio Network deposits with financial institutions was \$545,514 and the bank balance was \$1,109,801. Deposits of up to \$100,000 at each financial institution are covered by the Federal Deposit Insurance Corporation (FDIC). Of the bank balance, \$100,000 was insured and, therefore, classified in risk category 1; \$1,009,801 was uninsured and uncollateralized and, therefore, classified in risk category 3.

- B. Investments - Beginning with FY 2000-01, WPBF's Board of Trustees amended the long-term investment policy to provide for 100 percent investment in equities. Investments authorized by WPBF's Board of Trustees and held by WPBF include publicly traded stocks. GASB Statement 3 requires investments to be categorized to indicate the level of risk assumed by the State at year-end. The risk categories for investments are: 1) insured or registered, or the securities are held by the entity or its agent in the entity's name; 2) uninsured and unregistered, with securities held by counterparty or its agent in the entity's name; and

3) uninsured and unregistered, or the securities are held by counterparty or its agent, but not in the entity's name. With the exception of funds invested in the State Investment Fund, which are not required to be categorized, all investments meet the criterion for risk category 1. Detail for investment balances as of June 30, 2002 follows:

	<u>Fair Value</u>	<u>Cost</u>
Equity Securities	\$1,572,461	\$1,654,706

### 3. Fund Transfers

WPBF transfers funds to ECB's operating fund monthly, based on funding requirements and reflected as interfund transfers. The timing of those transfers and the expenses result in an interfund payable and receivable at year-end.

### 4. Fixed Assets

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 68,845	\$ 0	\$ 0	\$ 68,845
Capital assets being depreciated:				
Buildings	1,690,764	198,008	0	1,888,772
Equipment	<u>3,091,173</u>	<u>1,388,430</u>	<u>(198,008)</u>	<u>4,281,595</u>
Total capital assets at historical cost	4,781,937	1,586,438	(198,008)	6,170,367
Less accumulated depreciation for:				
Buildings	(686,354)	(55,438)	0	(741,792)
Equipment	<u>(1,632,387)</u>	<u>(226,778)</u>	<u>4,143</u>	<u>(1,855,022)</u>
Total accumulated depreciation	<u>(2,318,741)</u>	<u>(282,216)</u>	<u>4,143</u>	<u>(2,596,814)</u>
Total capital assets being depreciated, net	<u>2,463,196</u>	<u>1,304,222</u>	<u>(193,865)</u>	<u>3,573,553</u>
Total capital assets, net	<u>\$ 2,532,041</u>	<u>\$ 1,304,222</u>	<u>\$ (193,865)</u>	<u>\$ 3,642,398</u>

Depreciation expense was charged to functions as follows:

Programming	\$ 181
Delivery	252,922
Administration	<u>29,113</u>
Total depreciation expense	\$ 282,216

Federal grant funds received from National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years, during which time the federal government retains priority reversionary interest in the equipment. ECB has five NTIA capital equipment grants received between FY 1995-96 and FY 2001-02. The depreciated value of equipment purchased with NTIA funds is \$126,583.

#### **5. Fixed Asset Reclassification**

For FY 2001-02, ECB reclassified \$1,614,446 of the equipment balance to buildings to correct a prior-year misclassification. The accumulated depreciation amount of \$652,014 related to buildings was also reclassified. These balances were also reclassified for FY 2000-01 totals. There was no effect on fund balance.

#### **6. General Obligation Bonds and Notes**

ECB has used proceeds received from a number of State of Wisconsin general obligation bonds and general obligation commercial paper notes to finance the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB. The proceeds were included as support in the year the facilities were acquired.

Prior to the implementation of GASB 34 in FY 2001-02, ECB reported the general obligations as debt in the ECB Radio Network's financial statements, with corresponding receivables for general purpose revenue appropriations to repay the obligations. With the implementation of GASB 34, most of the general obligations are not considered debt of ECB because their repayment is from general purpose revenue. Accordingly, the debt financed through general purpose revenue appropriations and the related receivable are no longer reported in the ECB Radio Network's financial statements. The indebtedness carried by the State of Wisconsin on behalf of the ECB Radio Network to be repaid by general purpose revenue as of June 30, 2002, is \$1,550,752 in general obligation bonds and \$149,677 in commercial paper notes. However, ECB is responsible for the repayment of interest on these obligations, and interest expense of \$57,318 is included in the broadcasting expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

In addition to general obligations financed by general purpose revenue, three general obligation bond issues are financed through program revenues, as mandated by s. 20.255(1)(j), Wis. Stats. Because the repayment of this indebtedness is financed through ECB's program revenues, it represents debt of the ECB Radio Network and, accordingly, is presented as a liability in the financial statements. The amount provided through program revenue for principal repayment during FY 2001-02 is \$4,887, and interest expense of \$4,752 for these three bond issues is included in the broadcasting expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

The changes in the long-term liability for the general obligation bonds repaid by the Radio Network's program revenue are as follows:

General Obligation Bonds Payable as of June 30, 2001	\$ 0
Principal Adjustments and Prior Bond Refunding Adjustments in FY 2001-02	129,259
New Issuance	26,461
Reclassified as Current—Bonds Payable	<u>(5,100)</u>
General Obligation Bonds Payable as of June 30, 2002	<u>\$150,620</u>

As of June 30, 2002, debt service requirements for principal and interest in future years are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2003	\$ 5,100	\$ 10,094	\$ 15,194
2004	5,321	9,839	15,160
2005	5,567	9,573	15,140
2006	5,822	9,295	15,117
2007	6,103	9,004	15,107
2008 to 2012	36,157	40,240	76,397
2013 to 2017	49,273	26,375	75,648
2018 to 2022	<u>42,377</u>	<u>7,875</u>	<u>50,252</u>
Total	<u>\$155,720</u>	<u>\$122,295</u>	<u>\$278,015</u>

## 7. Restricted Revenue

The principal restricted resources for the ECB Radio Network are:

- A. State of Wisconsin Building Trust Fund Appropriation - The amounts provided from the State of Wisconsin Building Trust Fund to finance ECB projects approved by the State Building Commission are recorded as revenue in the period expenses are incurred.

- B. Grants - Funds received from grantors that are designated for a specific purpose are classified as restricted.

## **8. Donated Services**

The financial statements include \$26,060 in donated professional services, \$156,904 in donated general operational services, and \$7,256 in donated instructional radio services. These contributions are recognized as revenues and expenses in the period received and used. Donated professional services are recorded at the fee typically charged by the professional for the same type of service. All other donated services are recorded at fair value, when clearly measurable, or at the cost of providing the service.

## **9. Employee Retirement Plan**

Permanent employees of the ECB Radio Network are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1999, may be obtained by writing to:

Department of Employee Trust Funds  
P.O. Box 7931  
Madison, WI 53707-7931

The separately issued financial report for the year ended December 31, 2000, will be available in calendar year 2003.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The ECB Radio Network's contribution to the plan was \$135,164 for FY 2001-02. The relative position of the ECB Radio Network in the Wisconsin Retirement System is not available because the system is a statewide, multi-employer plan.

**10. Wisconsin Public Broadcasting Foundation, Inc. (WPBF)**

The accounts of the ECB Radio Network are combined with the accounts of WPBF, a not-for-profit corporation that solicits funds in the name of, and with the approval of, ECB. A summary of significant financial data relating to WPBF, which includes radio, television, and other non-broadcasting activities of WPBF, follows:

	Fiscal Year Ended <u>June 30, 2002</u>
Revenues	\$8,201,229
Expenses	<u>(1,778,891)</u>
Excess Revenues over Expenses	<u>\$6,422,338</u>
	 <u>June 30, 2002</u>
Cash and Investments	\$4,765,648
Other Current Assets	352,933
Liabilities	<u>(423,700)</u>
Net Assets	<u>\$4,694,881</u>

**11. Related Entities**

- A. WHA Radio - WHA Radio is a public telecommunications entity operated by the University of Wisconsin (UW) Extension. In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the UW Extension developed partnerships called Wisconsin Public Radio and Wisconsin Public Television to manage and operate their licenses. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. ECB and the UW Board of Regents jointly appoint the Directors of Wisconsin Public Television and Wisconsin Public Radio. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the balance sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.
- B. Wisconsin Public Radio Association (WPRA) - WPRA is a not-for-profit corporation that solicits funds for public radio and provides support to the ECB Radio Network and WHA-Radio, a network of radio stations licensed to the UW Board of Regents. WPRA solicits funds in the name of, and with the approval of, both ECB and WHA Radio. ECB Radio and WHA Radio have access to WPRA's net resources and retain an ongoing equity interest.

ECB Radio's equity interest in WPRA is calculated in accordance with an affiliation agreement, which currently provides ECB with 76 percent of WPRA net resources. This agreement is renegotiated annually based upon fund drive results.

ECB Radio includes in revenue the entire amount of WPRA net resources to which it is entitled each year. ECB Radio also recognizes WPRA expenses made on its behalf as both a contribution and an expense. A summary of amounts related to WPRA included in the accompanying financial statements follows:

	Fiscal Year Ended <u>June 30, 2002</u>
Equity in Resources Held by WPRA	\$ 332,308
Contributed Support	\$3,480,046
Expenses:	
Program information	\$272,481
Management and general	80,611
Fund-raising and membership development	<u>378,710</u>
Total Expenses	\$ 731,802

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data follows:

	Fiscal Year Ended <u>June 30, 2002</u>
Revenues	\$4,588,198
Expenses	<u>(4,349,465)</u>
Excess Revenues over Expenses	<u>\$ 238,733</u>
	<u>June 30, 2002</u>
Current Assets	\$ 986,950
Endowment	197,429
Long-term Investments	105,097
Current Liabilities	(280,347)
Restricted Fund Balance	<u>(84,260)</u>
Net Assets Contractually Committed for Distribution to ECB and WHA Radio	<u>\$ 924,869</u>

- C. Joint Venture - ECB entered into a joint venture on November 1, 2001, to erect, operate, and maintain a new broadcast tower on Rib Mountain, Wisconsin. The agreement is between ECB, WRIG, Inc., QNI, and Gray Midamerica Television, Inc. The shares of ownership are 33 percent, 23 percent, 20 percent, and 24 percent, respectively. Each party contributes its respective share of maintenance and repair on an annual basis. An annual budget is prepared for the joint venture to determine respective amounts of maintenance due from each party. ECB allocates the asset and expense between the radio and television networks. For FY 2001-02, ECB's share of the cost for maintenance and repair was \$26,786, of which \$10,714 was the radio network share. As of June 30, 2002, ECB's share of the asset was valued at \$424,150, of which \$169,660 is reported in the ECB Radio Network's buildings account on the balance sheet.

## **12. WHAD-FM Allocation**

On September 29, 1993, WHAD-FM and its affiliated Ideas Network stations qualified for Community Service Grant assistance from the Corporation for Public Broadcasting. WHAD-FM and affiliated Ideas Network stations are licensed to ECB, and the stations' financial transactions are included as part of the ECB Radio Network financial statements. That portion of the Statement of Revenues, Expenses, and Changes in Fund Net Assets attributable to Ideas Network stations' revenues, direct expenses, and related readily allocable indirect expenses are identified in the following table. The remaining revenues and expenses are considered attributable to WERN and its affiliated Music Network stations and include any unallocated amounts of the Ideas Network stations. A summary of the portions of ECB Radio Network activities attributed to WHAD-FM and WERN follows:



<b>Operating Revenues</b>	<b>ECB Radio Total</b>	<b>WHAD-FM and Affiliates</b>	<b>WERN-FM and Affiliates</b>
State General Appropriations	\$1,546,539	\$ 516,697	\$ 1,029,842
Contributed Support	3,480,046	1,076,892	2,403,154
Community Services Grant—CPB	603,263	128,242	475,021
Underwriting Grants	622,069	405,033	217,036
Other Grants and Contracts	253,922	0	253,922
In-kind Donated Services	190,220	0	190,220
State Insurance Funds	1,006	0	1,006
Royalties and Other Income	<u>110,787</u>	<u>24,646</u>	<u>86,141</u>
Total Operating Revenues	<u>6,807,852</u>	<u>2,151,510</u>	<u>4,656,342</u>
<b>Operating Expenses</b>			
Program Services:			
Programming and production	3,393,413	1,622,667	1,770,746
Broadcasting	1,808,694	1,033,862	774,832
Program information	<u>272,481</u>	<u>0</u>	<u>272,481</u>
Total Program Services	<u>5,474,588</u>	<u>2,656,529</u>	<u>2,818,059</u>
Support Services:			
Management and general	709,006	308,647	400,359
Fund-raising and membership development	420,629	0	420,629
Underwriting	<u>764</u>	<u>0</u>	<u>764</u>
Total Support Services	<u>1,130,399</u>	<u>308,647</u>	<u>821,752</u>
Total Operating Expenses	<u>6,604,987</u>	<u>2,965,176</u>	<u>3,639,811</u>
Operating Income (Loss)	202,865	(813,666)	1,016,531
<b>Nonoperating Revenues (Expenses)</b>			
Investment Income	<u>(229,980)</u>	<u>12,500</u>	<u>(242,480)</u>
Income (Loss) Before Contributions and Transfers	(27,115)	(801,166)	774,051
<b>Capital Contributions</b>			
Capital Contributions	<u>1,035,817</u>	<u>801,166</u>	<u>234,651</u>
Changes in Net Assets	<u>\$1,008,702</u>	<u>\$ 0</u>	<u>\$1,008,702</u>

### **13. Change in Accounting Principle**

ECB implemented a new financial reporting model, as required by the provisions of GASB Statement Number 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as of June 30, 2002. Implementation of GASB 34 had a material effect on ECB’s balance sheet due to the removal of general obligation bonds paid out of general purpose revenue of the State of Wisconsin and the related receivables. However, the removal of the general obligation bonds had no effect on total net assets. Additionally, financial statement presentation changed to reclassify revenues and expenses into operating and nonoperating revenues and expenses, and capital contributions on the Statement of Revenues, Expenses, and Changes in Fund Net Assets, cash flow presentation changed to the direct method, and management added a discussion and analysis of operations.

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## **Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

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We have audited the financial statements of the Wisconsin Educational Communications Board Radio Network as of and for the year ended June 30, 2002, and have issued our report thereon dated December 12, 2002. We did not audit the financial statements of the Wisconsin Public Radio Association. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Wisconsin Public Radio Association were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the additional requirements of *Government Auditing Standards*.

### **Compliance**

As part of obtaining reasonable assurance about whether the Educational Communications Board Radio Network's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Educational Communications Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This independent auditor's report is intended for the information and use of the Educational Communications Board, the Wisconsin Legislature's Joint Legislative Audit Committee, and the Corporation for Public Broadcasting. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

December 12, 2002

by   
Diann Allsen  
Audit Director