

AN AUDIT

*Wisconsin Educational
Communications Board
Television Network*

02-24

December 2002

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CONTENTS

Letter of Transmittal	1
Independent Auditor's Report on the Financial Statements of the Wisconsin Educational Communications Board Television Network	3
Management's Discussion and Analysis	5
Financial Statements	
Statement 1 - Balance Sheet as of June 30, 2002	7
Statement 2 - Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2002	8
Statement 3 - Statement of Cash Flows for the Year Ended June 30, 2002	9
Notes to the Financial Statements	11
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	21



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 Television 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 television network of 5 stations, as well as a radio network of 12 FM stations and 1 AM station. The television network received \$10.9 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

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

We have audited the accompanying balance sheet of the Wisconsin Educational Communications Board Television 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 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. 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 Television 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Wisconsin Educational Communications Board Television 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 14, 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 Television Network. The 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.

LEGISLATIVE AUDIT BUREAU

December 12, 2002

by



Diann Allsen
Audit Director

Management's Discussion and Analysis

Prepared by Educational Communications Board Management

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 the 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 Television 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 Television 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 Television Network for the fiscal year ended June 30, 2001, and the fiscal year ended June 30, 2002, is as follows:

ECB Television Network Condensed Financial Information

<u>Fiscal Year Ended:</u>	<u>2002</u>	<u>2001</u>	<u>Percentage Change</u>
Total Assets	\$12,430,683	\$16,602,543	-25%
Total Liabilities	871,567	5,291,592	-84%
Net Assets	11,559,116	11,310,951	
Operating Revenue	10,250,061	10,248,806	0%
Operating Expenses	10,686,179	10,845,279	-1%
Net Operating Income (Loss)	(436,118)	(596,473)	
Nonoperating Income (Loss)	(305,035)	(119,551)	-155%
Capital Contributions	989,318	177,220	458%
Changes in Net Assets	248,165	(538,804)	

The Total Assets reduction of 25 percent and the Liabilities reduction of 84 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 \$4.5 million in general obligation bond liabilities of the State of Wisconsin and an offsetting receivable from the State of Wisconsin from the ECB Television 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 television network.

It should be noted that \$7,569,944 of the fixed assets of the ECB related to television 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 television and radio networks.

Operating revenues in total were essentially the same as last fiscal year. 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 the influx of State Building Trust Funds and federal grants associated with the development of the digital television network.

This financial report is designed to provide a general overview of the Educational Communication Board's finances related to public television. 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>.

Wisconsin Educational Communications Board Television Network
Balance Sheet
June 30, 2002

	Operating Fund	WPBF (Note 12)	Total June 30, 2002	Total June 30, 2001
Assets				
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 190,942	\$ 659,035	\$ 849,977	\$ 1,263,294
Investments (Note 2)	0	1,988,638	1,988,638	2,192,088
Cost incurred for programs not yet broadcast current	403,519	0	403,519	373,348
Receivable—state general appropriation	629,404	0	629,404	1,282,064
Grants and contracts receivable	185,048	9,603	194,651	3,657
Interfund receivable (payable) (Note 3)	118,275	(118,275)	0	0
Interest receivable	0	2,041	2,041	3,301
Accounts receivable—instructional material	11,038	0	11,038	4,450
Receivable—due from affiliates	86,109	0	86,109	231,652
Other receivables	103,720	5,960	109,680	170,004
Inventory—instructional material	102,630	0	102,630	109,970
Prepaid expenses	37,205	0	37,205	17,023
Total Current Assets	<u>1,867,890</u>	<u>2,547,002</u>	<u>4,414,892</u>	<u>5,650,851</u>
Noncurrent Assets:				
Receivable—state general appropriation (Note 7)	0	0	0	2,732,911
Cost incurred for programs not yet broadcast noncurrent	445,847	0	445,847	488,420
Land (Note 4)	57,416	0	57,416	57,416
Buildings (Note 4 and 5)	1,545,636	0	1,545,636	1,423,830
Equipment (Note 4 and 5)	5,966,892	0	5,966,892	6,249,115
Total Noncurrent Assets	<u>8,015,791</u>	<u>0</u>	<u>8,015,791</u>	<u>10,951,692</u>
Total Assets	<u>\$ 9,883,681</u>	<u>\$ 2,547,002</u>	<u>\$ 12,430,683</u>	<u>\$ 16,602,543</u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 726,593	\$ 6,299	\$ 732,892	\$ 1,064,754
Accrued liabilities due to affiliates	16,516	122,159	138,675	386,756
Deferred revenue for programs not yet broadcast (Note 6)	0	0	0	460,979
Short-term note payable	0	0	0	185,847
Wisconsin general obligation bonds payable	0	0	0	460,345
Total Current Liabilities	<u>743,109</u>	<u>128,458</u>	<u>871,567</u>	<u>2,558,681</u>
Noncurrent Liabilities:				
Wisconsin general obligation bonds payable (Note 7)	0	0	0	2,732,911
Net Assets				
Invested in capital assets, net of related debt	7,569,944	0	7,569,944	7,730,361
Unrestricted	1,570,628	2,418,544	3,989,172	3,580,590
Total Net Assets	<u>9,140,572</u>	<u>2,418,544</u>	<u>11,559,116</u>	<u>11,310,951</u>
Total Liabilities and Net Assets	<u>\$ 9,883,681</u>	<u>\$ 2,547,002</u>	<u>\$ 12,430,683</u>	<u>\$ 16,602,543</u>

The accompanying notes are an integral part of this statement.

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

	Operating Fund	WPBF (Note 12)	Total 2001-02	Total 2000-01
Operating Revenues				
State General Appropriation	\$ 5,181,015	\$ 0	\$ 5,181,015	\$ 5,207,149
Contributions Undesignated	0	2,471,266	2,471,266	2,269,104
Community Services Grant—CPB	0	954,329	954,329	902,353
Underwriting Grants	0	291,975	291,975	306,533
Other Grants	199,627	52,678	252,305	161,477
Donated Services (Note 10)	296,595	0	296,595	329,178
Major Gifts	0	43,070	43,070	26,004
Royalties and Other Income	548,963	209,034	757,997	1,042,437
State Insurance Funds	1,509	0	1,509	4,571
Total Operating Revenues	<u>6,227,709</u>	<u>4,022,352</u>	<u>10,250,061</u>	<u>10,248,806</u>
Operating Expenses				
Program Services:				
Programming and production	4,307,310	235	4,307,545	4,747,036
Broadcasting	4,119,607	9,561	4,129,168	3,898,597
Program information	112,102	87,290	199,392	137,788
Total Program Services	<u>8,539,019</u>	<u>97,086</u>	<u>8,636,105</u>	<u>8,783,421</u>
Support Services:				
Management and general	987,267	66,907	1,054,174	1,148,357
Fund-raising and membership development	43,959	786,904	830,863	730,800
Underwriting	148,765	16,272	165,037	182,701
Total Support Services	<u>1,179,991</u>	<u>870,083</u>	<u>2,050,074</u>	<u>2,061,858</u>
Total Operating Expenses	<u>9,719,010</u>	<u>967,169</u>	<u>10,686,179</u>	<u>10,845,279</u>
Operating income (loss)	(3,491,301)	3,055,183	(436,118)	(596,473)
Nonoperating Revenues (Expenses)				
Investment Income	0	(305,035)	(305,035)	(119,551)
Income (Loss) Before Contributions and Transfers	(3,491,301)	2,750,148	(741,153)	(716,024)
Capital Contributions and Transfers				
Capital Contributions (Note 9)	989,318	0	989,318	177,220
Interfund Transfers (Note 3)	2,631,341	(2,631,341)	0	0
Change in Net Assets	129,358	118,807	248,165	(538,804)
Total Net Assets—Beginning of the Year	<u>9,011,214</u>	<u>2,299,737</u>	<u>11,310,951</u>	<u>11,849,755</u>
Total Net Assets—Ending of the Year	<u>\$ 9,140,572</u>	<u>\$ 2,418,544</u>	<u>\$ 11,559,116</u>	<u>\$ 11,310,951</u>

The accompanying notes are an integral part of this statement.

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

	Operating Fund	WPBF (Note 12)	Total 2001-02	Total 2000-01
Cash Flows from Operating Activities				
Receipts from State Government	\$ 4,728,013	\$ 0	\$ 4,728,013	\$ 5,183,824
Contributed Support	0	2,806,311	2,806,311	2,601,641
Receipts from Grants	14,579	1,001,061	1,015,640	1,060,173
Receipts from Royalties and Other Sales	779,366	177,910	957,276	816,507
Payments to Suppliers	(5,216,812)	(1,169,712)	(6,386,524)	(5,448,709)
Payments to Employees	(3,744,720)	0	(3,744,720)	(4,111,382)
Net Cash Provided (Used) by Operating Activities	<u>(3,439,574)</u>	<u>2,815,570</u>	<u>(624,004)</u>	<u>102,054</u>
Cash Flows from Noncapital Financing Activities				
Operating Subsidies and Transfers to Other Funds	<u>2,631,341</u>	<u>(2,631,341)</u>	<u>0</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities				
Capital Contributions	989,318	0	989,318	177,220
Purchases of Capital Assets	(678,306)	0	(678,306)	(475,377)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>311,012</u>	<u>0</u>	<u>311,012</u>	<u>(298,157)</u>
Cash Flows from Investing Activities				
Net Purchases, Sales, and Maturities of Investments	0	(125,670)	(125,670)	163,676
Interest and Dividends	0	25,345	25,345	152,003
Net Cash Provided (Used) by Investing Activities	<u>0</u>	<u>(100,325)</u>	<u>(100,325)</u>	<u>315,679</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(497,221)	83,904	(413,317)	119,576
Cash and Cash Equivalents				
Balances—Beginning of the Year	<u>688,163</u>	<u>575,131</u>	<u>1,263,294</u>	<u>1,143,718</u>
Balances—End of the Year	<u>\$ 190,942</u>	<u>\$ 659,035</u>	<u>\$ 849,977</u>	<u>\$ 1,263,294</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ (3,491,301)	\$ 3,055,183	\$ (436,118)	\$ (596,473)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation expense	830,228	0	830,228	859,572
Loss on disposal of fixed assets	8,495	0	8,495	48,538
Change in assets and liabilities:				
Receivables, net	51,823	(37,070)	14,753	(257,483)
Inventories	7,340	0	7,340	2,920
Accounts and other payables	(377,400)	(202,543)	(579,943)	131,747
Deferred revenues	(460,979)	0	(460,979)	(54,646)
Prepaid expenses	(7,780)	0	(7,780)	(32,121)
Net Cash Provided by Operating Activities	<u>\$ (3,439,574)</u>	<u>\$ 2,815,570</u>	<u>\$ (624,004)</u>	<u>\$ 102,054</u>

Noncash Investing Activities:

The net decrease in the fair value of investments was \$228,532.

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 television network consisting of five television stations. ECB also operates a network of 13 public radio stations. These financial statements include the accounts relating to the ECB Television 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.

Television 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 12 for further information regarding WPBF.

- 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. Pledges for contributions and membership fees are recorded as income when cash is received. 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 Television 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 Television Network are carried at fair value based on quoted market prices. State Investment Fund shares are valued at fair value.
- F. Costs Incurred for Programs Not Yet Broadcast - Costs incurred for programs not yet broadcast relate to programs produced or acquired by the ECB Television Network that will be broadcast subsequent to the fiscal year-end. Such costs are recorded as a deferred asset. Programs to be completed and broadcast within one year are classified as current assets, whereas programs to be completed and broadcast in more than one year are classified as noncurrent. As the programs are broadcast, the costs incurred will be included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.
- G. 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.
- H. 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.
- I. 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.

- J. 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 Television 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 Television Network deposits with financial institutions was \$659,035, and the bank balance was \$1,323,324. Deposits of up to \$100,000 at each institution are covered by the Federal Deposit Insurance Corporation (FDIC). Of the bank balance, \$100,000 was insured and is, therefore, classified in risk category 1; \$1,223,324 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 and equity mutual funds. 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 open-end mutual funds and 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	\$1,657,771	\$1,772,057
Equity Mutual Funds	<u>330,867</u>	<u>385,243</u>
Total	<u>\$1,988,638</u>	<u>\$2,157,300</u>

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	\$ 57,416	\$ 0	\$ 0	\$ 57,416
Capital assets being depreciated:				
Buildings	2,847,963	218,438	0	3,066,401
Equipment	<u>12,822,174</u>	<u>721,185</u>	<u>(338,566)</u>	<u>13,204,793</u>
Total capital assets at historical cost	15,670,137	939,623	(338,566)	16,271,194
Less accumulated depreciation for:				
Buildings	(1,424,132)	(96,634)	0	(1,520,766)
Equipment	<u>(6,573,059)</u>	<u>(733,594)</u>	<u>68,753</u>	<u>(7,237,900)</u>
Total accumulated depreciation	<u>(7,997,191)</u>	<u>(830,228)</u>	<u>68,753</u>	<u>(8,758,666)</u>
Total capital assets being depreciated, net	<u>7,672,946</u>	<u>109,395</u>	<u>(269,813)</u>	<u>7,512,528</u>
Total capital assets, net	<u>\$7,730,362</u>	<u>\$ 109,395</u>	<u>\$(269,813)</u>	<u>\$ 7,569,944</u>

Depreciation expense was charged to functions as follows:

Programming	\$ 13,390
Delivery	749,250
Promotion	903
Administration	<u>66,685</u>
Total depreciation expense	\$ 830,228

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 1992-93 and FY 1998-99. The depreciated value of equipment purchased with NTIA funds is \$634,435.

5. Fixed Asset Reclassification

For FY 2001-02, ECB reclassified \$2,733,484 of the equipment balance to buildings to correct a prior-year misclassification. The accumulated depreciation amount of \$1,372,622 related to buildings was also reclassified. These balances were also reclassified for FY 2000-01 totals. There was no effect on fund balance.

6. Changes in Deferred Support and Revenues

	Deferred Revenue for Programs <u>Not Yet Broadcast</u>
Beginning Balance	\$ 460,979
(-) Prior-Year Earned	(460,979)
(+) Additions	<u>0</u>
Year-end Balance	<u><u>\$ 0</u></u>

7. 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 Television Network's financial statements, with corresponding receivables for general purpose revenue appropriations to repay the obligations. With the implementation of GASB 34, 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 associated receivable are no longer reported in the ECB Television Network's financial statements. The indebtedness carried by the State of Wisconsin on behalf of the ECB Television Network to be repaid by general purpose revenue as of June 30, 2002, is \$3,575,080 in general obligation bonds and \$453,206 in commercial paper notes. However, ECB is responsible for the repayment of interest on these obligations, and interest expense of \$200,931 is included in the broadcasting expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

8. Endowment

The management of WPBF established an endowment during FY 1992-93. The balance as of June 30, 2002, is \$593,991. Interest income earned on the endowment is used for operations. None of the assets in the endowment at June 30, 2002, are donor-restricted. Assets in the endowment follow the investment policy disclosed in Notes 1 and 2.

9. Restricted Revenue

The principal restricted resources for the ECB Television 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.

10. Donated Services

The financial statements include \$53,882 in donated professional services, \$7,862 in donated general operational services, and \$234,851 in donated instructional television 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.

11. Employee Retirement Plan

Permanent employees of the ECB Television 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 Television Network's contribution to the plan was \$371,848 for FY 2001-02. The relative position of the ECB Television Network in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

12. Wisconsin Public Broadcasting Foundation, Inc. (WPBF)

The accounts of the ECB Television 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>

13. Related Entities

- A. WHA Television 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 Television and Wisconsin Public Radio 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. The Directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the UW Board of Regents. 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. 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 \$16,072 was the television network share. As of June 30, 2002, ECB's share of the asset was valued at \$424,150, of which \$254,490 is reported in the ECB Television Network's buildings account on the balance sheet.

14. 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.

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

We have audited the financial statements of the Wisconsin Educational Communications Board Television Network as of and for the year ended June 30, 2002, and have issued our report thereon dated December 12, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Educational Communications Board Television Network's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 over financial reporting 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