

An Audit

# **Wisconsin Educational Communications Board Radio Network**

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State Auditor – Janice Mueller

### **Audit Prepared by**

Diann Allsen, *Director and Contact Person*

Aimee Wierzba

Michelle Skogen

# CONTENTS

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<b>Letter of Transmittal</b>	<b>1</b>
<b>Audit Opinion</b>	<b>3</b>
Independent Auditor's Report on the Financial Statements of the Wisconsin Educational Communications Board Radio Network	
<b>Management's Discussion and Analysis</b>	<b>5</b>
<b>Financial Statements</b>	<b>9</b>
Balance Sheet as of June 30, 2007	10
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2007	11
Statement of Cash Flows for the Year Ended June 30, 2007	12
Balance Sheet as of June 30, 2006	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2006	15
Statement of Cash Flows for the Year Ended June 30, 2006	16
<b>Notes to the Financial Statements</b>	<b>19</b>
<b>Report on Control and Compliance</b>	<b>37</b>
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	





**STATE OF WISCONSIN**  
Legislative Audit Bureau

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Janice Mueller  
State Auditor

December 18, 2007

Senator Jim Sullivan and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Mr. Gene Purcell, Interim Executive Director  
Educational Communications Board  
3319 West Beltline Highway  
Madison, Wisconsin 53713

Dear Senator Sullivan, Representative Jeskewitz, and Mr. Purcell:

We have completed a financial audit of the State of Wisconsin Educational Communications Board (ECB) Radio Network to meet our audit requirements under s. 13.94, Wis. Stats., and as requested by ECB 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.

ECB, which is an agency of the State of Wisconsin, operates a radio network of 13 FM stations and 1 AM station, as well as a television network of 5 digital stations and 5 analog stations. The Radio Network reported \$8.9 million in support and revenue during fiscal year (FY) 2006-07, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains the ECB Radio Network's financial statements and related notes as of and for the periods ending June 30, 2007, and June 30, 2006. We were able to issue an unqualified independent auditor's report on these statements.

We appreciate the courtesy and cooperation extended to us by ECB staff during the audit.

Respectfully submitted,

Janice Mueller  
State Auditor

JM/DA/ss



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## Audit Opinion ■

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

We have audited the accompanying Balance Sheets of the Wisconsin Educational Communications Board Radio Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Radio Fund as of June 30, 2007 and 2006, and the related Statements of Revenues, Expenses, and Changes in Fund Net Assets and Statements of Cash Flows for the years 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 audits. We did not audit the financial statements of the Wisconsin Public Radio Association, Inc., of which net assets of \$1,064,921 as of June 30, 2007, are allocated to the Educational Communications Board and are reflected in the accompanying financial data contained in Note 13B. Assets and revenues of the Wisconsin Public Radio Association, Inc., included in the accompanying financial statements represent 9.0 percent of the Radio Network's total assets as of June 30, 2007, and 48.6 percent of the Radio Network's total revenue during fiscal year 2006-07. The financial statements of the Wisconsin Public Radio Association, Inc., 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, Inc., is based solely upon the report of the other auditors.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin Public Radio Association, Inc., 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 audits and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the Wisconsin Educational Communications Board Radio Network and do not purport to, and do not, present fairly the financial position of the State of Wisconsin and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based upon our audits and the report of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the Wisconsin Educational Communications Board Radio Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Radio Fund as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Educational Communications Board Radio Network. The supplementary information included as Management's Discussion and Analysis on pages 5 through 8 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 7, 2007, on our consideration of the Wisconsin Educational Communications Board's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

December 7, 2007

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director

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# Management's Discussion and Analysis ■

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## *Prepared by Educational Communications Board Management*

The Management's Discussion and Analysis (MD&A) section is prepared by the Educational Communications Board's (ECB's) management and is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement Number 34. The MD&A provides the reader with general information on the financial activities of ECB and the Wisconsin Public Broadcasting Foundation, Inc. (WPBF).

ECB is an agency of the State of Wisconsin that operates a public radio network of 13 FM stations (4 of the FM sites are currently broadcasting a digital radio signal in addition to analog) and 1 AM station, as well as a public television network of 5 digital stations and 5 analog stations. ECB also operates 3 FM translators, 6 TV translators, a network of 26 weather service broadcast sites, and multiple Educational Broadband Service licenses. WPBF was organized by 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 Sheets provide information on the types of assets and the liabilities of the Radio Network, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the Radio Network's financial position is improving or deteriorating. The Statements of Revenues, Expenses, and Changes in Fund Net Assets and the Statements of Cash Flows provide information on income and expenses and cash activities. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**6 ■ ■ ■ ■ MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed financial information relating to the ECB Radio Network as of and for the fiscal years ended June 30, 2007, June 30, 2006, and June 30, 2005, is as follows:

**ECB Radio Network Condensed Financial Information**

	June 30, 2007	Change from Previous Year	June 30, 2006	Change from Previous Year	June 30, 2005 <sup>1</sup>
Capital Assets	\$7,183,806	6%	\$ 6,766,823	5%	\$ 6,439,285
Other Assets	4,986,982	3	4,820,035	9	4,417,032
<b>Total Assets</b>	<b><u>12,170,788</u></b>		<b><u>11,586,858</u></b>		<b><u>10,856,317</u></b>
Current Liabilities	1,006,276	(27)	1,372,022	14	1,198,727
Noncurrent Liabilities	205,850	5	195,429	(8)	212,193
<b>Total Liabilities</b>	<b><u>1,212,126</u></b>		<b><u>1,567,451</u></b>		<b><u>1,410,920</u></b>
Invested in Capital Assets, Net of Related Debt	7,056,545	6	6,633,459	5	6,300,099
Restricted by Grants or Donors	95,843	(8)	104,725	(16)	124,717
Unrestricted	3,806,274	16	3,281,223	9	3,020,581
<b>Total Net Assets</b>	<b><u>\$10,958,662</u></b>		<b><u>\$10,019,407</u></b>		<b><u>\$9,445,397</u></b>

	FY 2006-07	Change from Previous Year	FY 2005-06	Change from Previous Year	FY 2004-05 <sup>1</sup>
Operating Revenues	\$6,325,739	4%	\$6,088,346	3%	\$5,936,871
Operating Expenses	7,731,197	(4)	8,059,030	8	7,434,077
<b>Net Operating Loss</b>	<b>(1,405,458)</b>		<b>(1,970,684)</b>		<b>(1,497,206)</b>
Nonoperating Revenues (Expenses)	1,852,227	33	1,392,705	1	1,380,014
Capital Contributions	492,486	(57)	1,151,989	16	993,343
<b>Changes in Net Assets</b>	<b><u>\$ 939,255</u></b>		<b><u>\$ 574,010</u></b>		<b><u>\$ 876,151</u></b>

<sup>1</sup> Certain FY 2004-05 amounts reflect prior-period restatements.

Under governmental accounting standards, state General Fund revenue, which is a significant source of funding for the Radio Network, is reported as nonoperating revenues. The result of this accounting treatment is a reported loss in operating income. This loss is offset by nonoperating revenues, primarily state General Fund revenue and capital contributions, resulting in an increase in net assets.

Capital assets increased 6 percent from fiscal year (FY) 2005-06 to FY 2006-07, due to construction of a new radio station on Platte Mound, installation of an alarm and control system with a grant received from the U.S. Department of Commerce, and the construction of new HD Radio transmission facilities. In FY 2005-06 capital assets increased 5 percent, due in part to replacement of transmitters in the All-Hazards Radio Warning System with a grant received from the Department of Homeland Security and the construction of a new operations center for digital broadcasting. Realized gains on investments were greater than unrealized losses in FY 2006-07, contributing to a net increase of 3 percent in other assets. In FY 2005-06 the unrealized gains offset realized losses on investments, resulting in a net increase in the value of other assets of 9 percent.

It should be noted that ECB Radio Network's capital assets of \$7,183,806 as of June 30, 2007, are presented at historical cost less depreciation. The Radio Network's share of the replacement cost of buildings and equipment, using the Builder's Cost Index, is over \$20 million. The replacement cost of the combined statewide public television and radio networks is over \$60 million.

The decrease of current liabilities by 27 percent in FY 2006-07 and their increase of 14 percent in FY 2005-06 are due to the timing of invoicing by vendors during the construction of the operations center. The value of noncurrent liabilities increased by 5 percent in FY 2006-07 and decreased by 8 percent in FY 2005-06 to reflect variations in the amount due to employees for compensated absences.

Operating revenues increased by 4 percent in FY 2006-07 and 3 percent in FY 2005-06, due to an increase in contributions from individuals and program underwriting. Operating expenses decreased by 4 percent in FY 2006-07, due to a decrease from the amount spent in the prior year for broadcast transmission equipment maintenance. Operating expenses increased by 8 percent in FY 2005-06, due to an increase in the funding for programming and increased costs for broadcasting.

Nonoperating revenues consist of investment earnings and losses, both realized and unrealized, and gain or loss on disposal of assets. In accordance with GASB 34, nonoperating revenues also include financial support from the State of Wisconsin General Fund. Nonoperating revenues and expenses overall had an increase of 33 percent during FY 2006-07 and an increase of 1 percent during FY 2005-06. These changes were due to an increase in investment income in both years and a loss on the disposal of capital assets during FY 2005-06, when the analog operations center was dismantled and replaced with digital equipment.

Capital contributions decreased significantly in FY 2006-07 in comparison to FY 2005-06, when there was a substantial increase. This reflects the end of one-time funding for construction of the digital operations center in FY 2005-06. ECB received increased funding for this project from the State Building Trust Fund, the Corporation for Public Broadcasting, and federal grants. The net results of all operations for the year are summarized in the line titled Changes in Net Assets.

## 8 ■ ■ ■ ■ MANAGEMENT'S DISCUSSION AND ANALYSIS

This financial report is designed to provide a general overview of the Educational Communications 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 ECB in care of the Executive Director, 3319 West Beltline Highway, Madison, WI 53713-4296.

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

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## **Financial Statements ■**

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## Balance Sheet

### June 30, 2007

	Operating Fund	WPBF (Note 12)	Total June 30, 2007
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents (Notes 1D and 2)	\$ 101,044	\$ 1,017,333	\$ 1,118,377
Investments (Notes 1E and 2)	0	3,319,687	3,319,687
Receivable—state general appropriations (Note 1F)	73,708	0	73,708
Pledges receivable	0	216,435	216,435
Interfund receivable (payable) (Note 3)	6,000	(6,000)	0
Interest receivable	0	2,907	2,907
Other receivables	18,273	0	18,273
Prepaid expenses (Note 6)	136,562	21,710	158,272
Inventory	0	8,490	8,490
Total Current Assets	<u>335,587</u>	<u>4,580,562</u>	<u>4,916,149</u>
Noncurrent Assets:			
Prepaid expenses (Note 6)	70,833	0	70,833
Land (Note 4)	85,518	0	85,518
Buildings, net of accumulated depreciation (Note 4)	2,705,268	0	2,705,268
Equipment, net of accumulated depreciation (Note 4)	4,354,351	38,669	4,393,020
Total Noncurrent Assets	<u>7,215,970</u>	<u>38,669</u>	<u>7,254,639</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,551,557</u></u>	<u><u>\$ 4,619,231</u></u>	<u><u>\$ 12,170,788</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 202,494	\$ 22,267	\$ 224,761
Accrued liabilities due to affiliates	378,509	198,170	576,679
Deferred revenue	0	198,444	198,444
Bonds payable (Note 7)	6,392	0	6,392
Total Current Liabilities	<u>587,395</u>	<u>418,881</u>	<u>1,006,276</u>
Noncurrent Liabilities:			
Compensated absences payable (Note 5)	84,981	0	84,981
Bonds payable (Notes 5 and 7)	120,869	0	120,869
Total Noncurrent Liabilities	<u>205,850</u>	<u>0</u>	<u>205,850</u>
Net Assets:			
Invested in capital assets, net of related debt paid by ECB	7,017,876	38,669	7,056,545
Restricted by grants or donors (Note 1I)	67,421	28,422	95,843
Unrestricted	(326,985)	4,133,259	3,806,274
<b>Total Net Assets</b>	<u><u>6,758,312</u></u>	<u><u>4,200,350</u></u>	<u><u>10,958,662</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 7,551,557</u></u>	<u><u>\$ 4,619,231</u></u>	<u><u>\$ 12,170,788</u></u>

The accompanying notes are an integral part of this statement.

**Statement of Revenues, Expenses, and Changes in Fund Net Assets  
for the Year Ended June 30, 2007**

	Operating Fund	WPBF (Note 12)	Total FY 2006-07
<b>OPERATING REVENUES</b>			
Contributed Support (Notes 1B and 13B)	\$ 0	\$ 3,990,699	\$ 3,990,699
Corporation for Public Broadcasting Grants	0	617,997	617,997
Underwriting Grants	0	727,398	727,398
Other Grants and Contracts	295,838	0	295,838
Major Gifts	0	111,657	111,657
Contributed In-Kind Support (Note 10)	312,693	0	312,693
Royalties and Other Income	113,525	155,932	269,457
<b>Total Operating Revenues</b>	<b>722,056</b>	<b>5,603,683</b>	<b>6,325,739</b>
<b>OPERATING EXPENSES</b>			
Program Services:			
Programming and production	4,276,539	81,679	4,358,218
Broadcasting	2,064,750	0	2,064,750
Program information	0	147,583	147,583
Total Program Services	<u>6,341,289</u>	<u>229,262</u>	<u>6,570,551</u>
Support Services:			
Management and general	485,548	110,120	595,668
Fund-raising and membership development	55,425	504,095	559,520
Underwriting	1,247	4,211	5,458
Total Support Services	<u>542,220</u>	<u>618,426</u>	<u>1,160,646</u>
<b>Total Operating Expenses</b>	<b>6,883,509</b>	<b>847,688</b>	<b>7,731,197</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(6,161,453)</b>	<b>4,755,995</b>	<b>(1,405,458)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State General Fund Revenue for Operations	1,660,405	0	1,660,405
Loss on Disposal of Capital Assets	(22,594)	0	(22,594)
Capital Debt Interest Expense (Note 7)	(220,504)	0	(220,504)
Investment Income	0	434,920	434,920
<b>Total Nonoperating Revenues (Expenses)</b>	<b>1,417,307</b>	<b>434,920</b>	<b>1,852,227</b>
Income (Loss) Before Capital Contributions and Transfers	(4,744,146)	5,190,915	446,769
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Capital Contributions (Note 9)	492,486	0	492,486
Interfund Transfers (Note 3)	5,225,103	(5,225,103)	0
<b>CHANGE IN NET ASSETS</b>	<b>973,443</b>	<b>(34,188)</b>	<b>939,255</b>
Total Net Assets—Beginning of the Year	5,784,869	4,234,538	10,019,407
Total Net Assets—End of the Year	<u>\$ 6,758,312</u>	<u>\$ 4,200,350</u>	<u>\$ 10,958,662</u>

The accompanying notes are an integral part of this statement.

**Statement of Cash Flows  
for the Year Ended June 30, 2007**

	Operating Fund	WPBF (Note 12)	Total FY 2006-07
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Contributed Support	\$ 0	\$ 4,834,621	\$ 4,834,621
Receipts from Grants	321,198	808,022	1,129,220
Receipts from Royalties and Other Income	99,425	176,825	276,250
Payments to Suppliers	(5,141,364)	(804,703)	(5,946,067)
Payments to Employees	(1,432,040)	0	(1,432,040)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(6,152,781)</b>	<b>5,014,765</b>	<b>(1,138,016)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Receipts from State Government	1,664,801	0	1,664,801
Interfund Transfers	5,225,103	(5,225,103)	0
<b>Net Cash Provided (Used) for Noncapital Financing Activities</b>	<b>6,889,904</b>	<b>(5,225,103)</b>	<b>1,664,801</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Contributions	547,246	0	547,246
Purchases of Capital Assets	(956,718)	(46,347)	(1,003,065)
Principal Paid on Capital Debt	(6,103)	0	(6,103)
Interest Paid on Capital Debt	(220,504)	0	(220,504)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(636,079)</b>	<b>(46,347)</b>	<b>(682,426)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases, Sales, and Maturities of Investments	0	(650,239)	(650,239)
Interest and Dividends	0	193,159	193,159
<b>Net Cash Used for Investing Activities</b>	<b>0</b>	<b>(457,080)</b>	<b>(457,080)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>101,044</b>	<b>(713,765)</b>	<b>(612,721)</b>
Balances—Beginning of the Year	0	1,731,098	1,731,098
Balances—End of the Year	<u>\$ 101,044</u>	<u>\$ 1,017,333</u>	<u>\$ 1,118,377</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	WPBF (Note 12)	Total FY 2006-07
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ (6,161,453)	\$ 4,755,995	\$ (1,405,458)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation expense	555,810	7,678	563,488
Change in assets and liabilities:			
Receivables, net	11,260	25,760	37,020
Inventories	0	(3,324)	(3,324)
Prepaid expense	1,535	17,945	19,480
Deferred revenue	0	190,025	190,025
Accounts and other payables	(559,933)	20,686	(539,247)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (6,152,781)</u></b>	<b><u>\$ 5,014,765</u></b>	<b><u>\$ (1,138,016)</u></b>

Noncash Activities:

Contributed in-kind support totaled \$312,693.

The net decrease in the fair value of investments was \$77,590.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$22,594.

**Balance Sheet**  
**June 30, 2006**

	Operating Fund	WPBF (Note 12)	Total June 30, 2006
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents (Notes 1D and 2)	\$ 0	\$ 1,731,098	\$ 1,731,098
Investments (Notes 1E and 2)	0	2,429,120	2,429,120
Receivable—state general appropriations (Note 1F)	78,104	0	78,104
Grants and contracts receivable	80,120	0	80,120
Pledges receivable	0	221,302	221,302
Interfund receivable (payable) (Note 3)	6,000	(6,000)	0
Interest receivable	0	1,474	1,474
Other receivables	4,173	20,893	25,066
Prepaid expenses (Note 6)	133,097	39,655	172,752
Inventory	0	5,166	5,166
Total Current Assets	<u>301,494</u>	<u>4,442,708</u>	<u>4,744,202</u>
Noncurrent Assets:			
Prepaid expenses (Note 6)	75,833	0	75,833
Land (Note 4)	85,518	0	85,518
Buildings, net of accumulated depreciation (Note 4)	2,826,198	0	2,826,198
Equipment, net of accumulated depreciation (Note 4)	3,855,107	0	3,855,107
Total Noncurrent Assets	<u>6,842,656</u>	<u>0</u>	<u>6,842,656</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,144,150</u></b>	<b><u>\$ 4,442,708</u></b>	<b><u>\$ 11,586,858</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 295,550	\$ 35,696	\$ 331,246
Accrued liabilities due to affiliates	862,199	164,055	1,026,254
Deferred revenue	0	8,419	8,419
Bonds payable (Note 7)	6,103	0	6,103
Total Current Liabilities	<u>1,163,852</u>	<u>208,170</u>	<u>1,372,022</u>
Noncurrent Liabilities:			
Compensated absences payable (Note 5)	68,168	0	68,168
Bonds payable (Notes 5 and 7)	127,261	0	127,261
Total Noncurrent Liabilities	<u>195,429</u>	<u>0</u>	<u>195,429</u>
Net Assets:			
Invested in capital assets, net of related debt paid by ECB	6,633,459	0	6,633,459
Restricted by grants or donors (Note 11)	75,251	29,474	104,725
Unrestricted	(923,841)	4,205,064	3,281,223
<b>Total Net Assets</b>	<b><u>5,784,869</u></b>	<b><u>4,234,538</u></b>	<b><u>10,019,407</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,144,150</u></b>	<b><u>\$ 4,442,708</u></b>	<b><u>\$ 11,586,858</u></b>

The accompanying notes are an integral part of this statement.

## Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2006

	Operating Fund	WPBF (Note 12)	Total FY 2005-06
<b>OPERATING REVENUES</b>			
Contributed Support (Notes 1B and 13B)	\$ 0	\$ 3,822,235	\$ 3,822,235
Corporation for Public Broadcasting Grants	25,889	729,112	755,001
Underwriting Grants	0	647,081	647,081
Other Grants and Contracts	304,244	0	304,244
Major Gifts	0	63,498	63,498
Contributed In-Kind Support (Note 10)	258,601	9,410	268,011
Royalties and Other Income	91,630	136,646	228,276
<b>Total Operating Revenues</b>	<b>680,364</b>	<b>5,407,982</b>	<b>6,088,346</b>
<b>OPERATING EXPENSES</b>			
Program Services:			
Programming and production	3,813,984	80,249	3,894,233
Broadcasting	3,003,226	0	3,003,226
Program information	0	151,942	151,942
Total Program Services	<u>6,817,210</u>	<u>232,191</u>	<u>7,049,401</u>
Support Services:			
Management and general	425,570	130,028	555,598
Fund-raising and membership development	50,814	402,009	452,823
Underwriting	446	762	1,208
Total Support Services	<u>476,830</u>	<u>532,799</u>	<u>1,009,629</u>
<b>Total Operating Expenses</b>	<b>7,294,040</b>	<b>764,990</b>	<b>8,059,030</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(6,613,676)</b>	<b>4,642,992</b>	<b>(1,970,684)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State General Fund Revenue for Operations	1,583,007	0	1,583,007
Required Lapse to the State General Fund	(1,227)	0	(1,227)
Loss on Disposal of Capital Assets	(172,749)	0	(172,749)
Capital Debt Interest Expense (Note 7)	(219,117)	0	(219,117)
Investment Income	0	202,791	202,791
<b>Total Nonoperating Revenues (Expenses)</b>	<b>1,189,914</b>	<b>202,791</b>	<b>1,392,705</b>
Income (Loss) Before Capital Contributions and Transfers	(5,423,762)	4,845,783	(577,979)
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Capital Contributions (Note 9)	1,151,989	0	1,151,989
Interfund Transfers (Note 3)	4,001,225	(4,001,225)	0
<b>CHANGE IN NET ASSETS</b>	<b>(270,548)</b>	<b>844,558</b>	<b>574,010</b>
Total Net Assets—Beginning of the Year	5,928,869	3,389,980	9,318,849
Prior-Period Restatement (Note 15)	126,548	0	126,548
Total Net Assets—End of the Year	<u>\$ 5,784,869</u>	<u>\$ 4,234,538</u>	<u>\$ 10,019,407</u>

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Year Ended June 30, 2006

	Operating Fund	WPBF (Note 12)	Total FY 2005-06
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Contributed Support	\$ 0	\$ 4,532,814	\$ 4,532,814
Receipts from Grants	288,884	737,531	1,026,415
Receipts from Royalties and Other Income	102,666	186,342	289,008
Payments to Suppliers	(4,870,899)	(787,248)	(5,658,147)
Payments to Employees	(1,464,481)	0	(1,464,481)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(5,943,830)</b>	<b>4,669,439</b>	<b>(1,274,391)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Receipts from State Government	1,548,796	0	1,548,796
Required Lapse to the State General Fund	(1,227)	0	(1,227)
Interfund Transfers	4,001,225	(4,001,225)	0
<b>Net Cash Provided (Used) for Noncapital Financing Activities</b>	<b>5,548,794</b>	<b>(4,001,225)</b>	<b>1,547,569</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Contributions	1,353,675	0	1,353,675
Purchases of Capital Assets	(913,188)	0	(913,188)
Principal Paid on Capital Debt	(5,822)	0	(5,822)
Interest Paid on Capital Debt	(219,117)	0	(219,117)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>215,548</b>	<b>0</b>	<b>215,548</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases, Sales, and Maturities of Investments	0	(435,809)	(435,809)
Interest and Dividends	0	154,053	154,053
<b>Net Cash Used for Investing Activities</b>	<b>0</b>	<b>(281,756)</b>	<b>(281,756)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(179,488)</b>	<b>386,458</b>	<b>206,970</b>
Balances—Beginning of the Year	179,488	1,344,640	1,524,128
Balances—End of the Year	<u>\$ 0</u>	<u>\$ 1,731,098</u>	<u>\$ 1,731,098</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	WPBF (Note 12)	Total FY 2005-06
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ (6,613,676)	\$ 4,642,992	\$ (1,970,684)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation expense	484,901	0	484,901
Change in assets and liabilities:			
Receivables, net	(213)	49,696	49,483
Inventories	0	1,802	1,802
Prepaid expense	4,800	(7,046)	(2,246)
Deferred revenue	(30,000)	8,419	(21,581)
Accounts and other payables	210,358	(26,424)	183,934
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (5,943,830)</u></b>	<b><u>\$ 4,669,439</u></b>	<b><u>\$ (1,274,391)</u></b>

Noncash Activities:

Contributed in-kind support totaled \$340,011.

The net increase in the fair value of investments was \$61,212.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$172,749.



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# Notes to the Financial Statements ■

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Organization

The Educational Communications Board (ECB) is an agency of the State of Wisconsin that operates a public radio network of 13 FM stations (4 of the FM sites are currently broadcasting a digital radio signal in addition to analog) and 1 AM station, as well as a public television network of 5 digital stations and 5 analog stations. ECB also operates 3 FM translators, 6 TV translators, a network of 26 weather service broadcast sites, and multiple Educational Broadband Service licenses. These financial statements include the accounts relating to the ECB Radio Network only. 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 Radio Fund of the Wisconsin Public Broadcasting Foundation, Inc. (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.

ECB Radio Network financial statements also include in the WPBF fund ECB's allocated share of the assets, liabilities, revenues, and expenses of the Wisconsin Public Radio Association, Inc. (WPRA), a not-for-profit corporation that collects funds for Wisconsin Public Radio and provides

support to the ECB Radio Network and to some University of Wisconsin (UW) Board of Regents' licensed stations. See Note 13B 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. Under accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Revenues from government-mandated or voluntary nonexchange transactions, such as contributions and grants, are recognized when all applicable eligibility requirements are met. Eligibility requirements are established by the provider of the funds and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies. Restrictions that specify the purpose for which resources are required to be used are not considered eligibility requirements and do not affect when a nonexchange revenue is recognized.

Contributions, gifts, and grants that do not have eligibility requirements are reported as revenue when ECB is entitled to the funds. Revenue is recognized for pledged WPRA contributions that are expected to be collected within one year at their net realizable value. Contributions, gifts, and grants with eligibility requirements, such as expenditure-driven grants, are recognized when the eligibility requirements are met. Noncash contributions and donated services are recognized as revenues in the period of receipt.

Operating revenues and expenses are directly related to programming, production, development, and delivery of telecommunication services. Nonoperating revenues and expenses, such as investment income, are indirectly associated with programming, production, development, and delivery of telecommunication services. Certain significant revenue streams, such as state General Fund revenue, are reported as nonoperating revenue, as defined by GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

Expenses are categorized in functional categories. Expenses that relate to more than one category are allocated to their respective categories, using estimates if necessary. When an expense is incurred for purposes

for which both restricted and unrestricted net assets are available, restricted resources are applied first.

**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. For example, broadcasting expenses and administrative expenses are allocated between the television and radio networks based upon historical costs. Whenever possible, actual costs are applied; however, the 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 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 and the Radio Network's share of WPRA cash and cash equivalents, which include cash deposits and highly liquid investments with an original maturity of three months or less.

**E. Valuation of Investments**

Investments are carried at fair-market value based on quoted market prices. State Investment Fund shares are valued at fair-market value.

**F. Receivable—State General Appropriations**

The portion of liabilities to be financed with amounts appropriated by the State of Wisconsin for the fiscal year is reported as a receivable as of the fiscal year-end.

**G. Property and Equipment**

Buildings, equipment, and land 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. Land is not depreciated. Expenses for repairs and maintenance are charged to operating expenses as incurred.

**H. Compensated Absences for Employees**

Unused, earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The liability and the expense for compensated absences are based on current rates of pay. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System is also accrued with a

resulting liability. The compensated absences liability is classified as either a current or noncurrent liability, based upon an estimate determined by management. The noncurrent liability portion of the compensated absences liability generally is not paid out until retirement.

#### I. Restricted Net Assets

Restricted Net Assets are reported when constraints placed on net assets are externally imposed, such as by donors or grantors. The ECB Radio Network's restricted assets include program or purpose restrictions placed by donors on contributed support or gifts. Unrestricted net assets may be used at the Radio Network's discretion.

## 2. DEPOSITS AND INVESTMENTS

The cash balances of ECB's operating fund are deposited with the State 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 in accordance with Wisconsin Statutes. The State Investment Fund is not registered with the Securities and Exchange Commission.

The types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17(3)(b), (ba), and (bd), Wis. Stats., and include direct obligations of the United States and Canada, securities guaranteed by the United States government, securities of federally chartered corporations, unsecured notes of financial and industrial issuers, Yankee/Eurodollar issues, certificates of deposit issued by banks in the United States and solvent financial institutions in this state, and bankers acceptances. The Investment Board's trustees may approve other prudent investments and have granted derivatives authority, subject to review and approval by the Investment Board's Investment Committee, limited to positions in finance futures, options, and swaps, and only if the purpose is to hedge existing positions, adjust portfolio duration within statutory guidelines, or reduce the interest rate risk to which the Investment Board is subjected in the normal course of business. Interest only and principal only securities, inverse floaters, and off balance sheet synthetic derivatives are not permitted.

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 a financial institution. The investments held by WPBF relating to the ECB Radio Network include publicly traded stocks, equity mutual funds, fixed-income mutual funds, and repurchase agreement investments and are managed by private trust companies. There were no fixed-income investments prior to FY 2006-07. WPRA cash balances are held in deposit and money market accounts at one financial institution. WPRA investments include certificates of deposit; however, they are classified as deposits for purposes of this note disclosure. The ECB Radio Network includes its share of the WPRA deposits and investments in the WPBF Fund. Investment income is

presented as a nonoperating revenue in the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

WPBF has investment policies in place regarding credit risk, concentration of credit risk, and interest rate risk. However, as of June 30, 2007, WPBF had no formal deposit or investment policies relating to custodial credit risk and foreign currency risk. In October 2007, the WPBF Board approved policies related to these risks. As of June 30, 2007, WPRA had no deposit and investment policies relating to custodial credit risk.

**A. Deposits**

Custodial credit risk is the risk that in the event of the failure of a financial institution, deposits may not be returned. Deposits of up to \$100,000 at each financial institution are covered by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2007, \$1,208,989 of ECB’s Radio Network’s bank balance of \$1,325,129 was exposed to custodial credit risk. As of June 30, 2006, \$2,037,088 of ECB’s Radio Network’s bank balance of \$2,744,036 was exposed to custodial credit risk.

**B. Investments**

Fair-market value of investment balances for ECB’s Radio Network as of June 30, 2007 and 2006, was as follows:

<u>Investment Type</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Equities	\$ 700,875	\$1,442,746
Equity Mutual Funds	558,686	227,193
Fixed-Income Mutual Funds	370,112	0
Certificate of Deposit	0	759,181
Repurchase Agreement		
Investments	<u>1,690,014</u>	<u>0</u>
Total Investments	\$3,319,687	\$2,429,120

The investments of ECB’s Radio Network are exposed to the following risks:

*Credit Risk*—Credit risk is the risk that an issuer or other counterparty to a fixed-income investment will not fulfill its obligations. WPBF’s investment guidelines prohibit security transactions that involve a counterparty rated below A by a major recognized rating firm. As of June 30, 2007, ECB’s Radio Network’s fixed-income funds were all unrated. The repurchase agreement investments were in fixed-income investments with a AAA rating.

*Interest Rate Risk*—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WPBF’s investment guidelines require that the fixed-income investments maintain a weighted average maturity of less than ten years. As of June 30, 2007, the fixed-income investments for ECB’s Radio Network had the following durations:

<u>Fixed-Income Investment</u>	<u>Market Value</u>	<u>Duration</u>
Dodge and Cox Income Fund	\$ 139,903	3.9 years
Vanguard Inflation Protected Securities Class A	10,711	6.4 years
Vanguard Total Bond Index Fund	21,772	4.7 years
Vanguard Fixed Income Short Term Repurchase Agreement Investments	197,726	2.3 years
	<u>1,690,014</u>	1 day
Total Investments	\$2,060,126	

*Foreign Currency Risk*—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2007 and 2006, WPBF's exposure to foreign currency risk is its investments of \$182,142 and \$51,121, respectively, in international equity investments.

### 3. FUND TRANSFERS

WPBF transfers funds monthly to ECB's operating fund based upon funding requirements. The transfers are reflected as interfund transfers on the Statements of Revenues, Expenses, and Changes in Fund Net Assets. The timing of those transfers and the expenses result in an interfund payable and a receivable at year-end, which are reflected in the Balance Sheets.

### 4. CAPITAL ASSETS

<u>FY 2006-07</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	<u>\$ 85,518</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 85,518</u>
Capital Assets Being Depreciated:				
Buildings	3,934,595	36,095	0	3,970,690
Equipment	<u>6,293,757</u>	<u>966,970</u>	<u>(118,042)</u>	<u>7,142,685</u>
Total Capital Assets at Historical Cost	<u>10,228,352</u>	<u>1,003,065</u>	<u>(118,042)</u>	<u>11,113,375</u>
Less Accumulated Depreciation for:				
Buildings	(1,108,397)	(157,025)	0	(1,265,422)
Equipment	<u>(2,438,650)</u>	<u>(406,463)</u>	<u>95,448</u>	<u>(2,749,665)</u>
Total Accumulated Depreciation	<u>(3,547,047)</u>	<u>(563,488)</u>	<u>95,448</u>	<u>(4,015,087)</u>
Total Capital Assets Being Depreciated, Net	<u>6,681,305</u>	<u>439,577</u>	<u>(22,594)</u>	<u>7,098,288</u>
Total Capital Assets, Net	<u>\$6,766,823</u>	<u>\$439,577</u>	<u>\$(22,594)</u>	<u>\$7,183,806</u>

<u>FY 2005-06</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 85,518	\$ 0	\$ 0	\$ 85,518
Capital Assets Being Depreciated:				
Buildings	3,846,098	88,497	0	3,934,595
Equipment	<u>5,898,508</u>	<u>896,691</u>	<u>(501,442)</u>	<u>6,293,757</u>
Total Capital Assets at Historical Cost	<u>9,744,606</u>	<u>985,188</u>	<u>(501,442)</u>	<u>10,228,352</u>
Less Accumulated Depreciation for:				
Buildings	(1,039,954)	(68,443)	0	(1,108,397)
Equipment	<u>(2,350,885)</u>	<u>(416,458)</u>	<u>328,693</u>	<u>(2,438,650)</u>
Total Accumulated Depreciation	<u>(3,390,839)</u>	<u>(484,901)</u>	<u>328,693</u>	<u>(3,547,047)</u>
Total Capital Assets Being Depreciated, Net	<u>6,353,767</u>	<u>500,287</u>	<u>(172,749)</u>	<u>6,681,305</u>
Total Capital Assets, Net	<u>\$6,439,285</u>	<u>\$500,287</u>	<u>\$(172,749)</u>	<u>\$6,766,823</u>

Depreciation expense was charged to functions as follows:

	<u>FY 2006-07</u>	<u>FY 2005-06</u>
Programming and Production	\$ 363	\$ 362
Broadcasting	545,670	474,337
Management and General	9,777	10,202
Fund-raising and Membership Development	<u>7,678</u>	<u>0</u>
Total Depreciation Expense	\$563,488	\$484,901

Federal grant funds received from the National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years after the grant is closed, during which time the federal government retains priority reversionary interest in the equipment. ECB was awarded five NTIA capital equipment grants related to the ECB Radio Network between FY 1995-96 and FY 2003-04. The book value of equipment purchased with NTIA funds is \$430,778 as of June 30, 2007, and \$414,649 as of June 30, 2006.

## 5. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$ 68,168	\$28,389	\$(11,576)	\$ 84,981
Bonds Payable	<u>127,261</u>	<u>0</u>	<u>(6,392)</u>	<u>120,869</u>
Noncurrent Liabilities	\$195,429	\$28,389	\$(17,968)	\$205,850

Noncurrent liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$ 78,829	\$15,611	\$(26,272)	\$ 68,168
Bonds Payable	<u>133,364</u>	<u>0</u>	<u>(6,103)</u>	<u>127,261</u>
Noncurrent Liabilities	\$212,193	\$15,611	\$(32,375)	\$195,429

The noncurrent liabilities are generally funded with operating subsidies received from the State of Wisconsin, with the exception of the bonds payable, which are funded with program revenue (Note 7). In addition, compensated absences and bond payments expected to be paid within one year are reflected in the current liabilities on the Balance Sheets.

## 6. GREEN BAY TOWER OPERATING LEASE

The Department of Administration authorized ECB to enter into a long-term contract with Young Broadcasting of Green Bay, Inc., with the contract period not to exceed 20 years. ECB executed a multi-year lease of a tower, transmission line, antenna, channel combiner, air conditioner, and transmitter building. The lease agreement required a rent prepayment in the amount of \$743,000, of which \$100,000 was allocated to the Radio Network. The prepayment was paid in September 2002 and was funded by the Wisconsin State Building Trust Fund. The rent expense associated with the prepayment is being recognized over the life of the lease, which is 20 years. The amount paid in excess of the amount recognized is reported as a prepaid expense on the Balance Sheets and totals \$75,833 as of June 30, 2007, and \$80,833 as of June 30, 2006.

In addition to the rent prepayment, ECB is required to make annual rent payments in lieu of taxes. The contract requires an initial payment of \$10,000 and a scheduled rent increase each lease year by 3 percent compounded until the end of the lease term. The annual payments are allocated 60 percent to the Television Network and 40 percent to the Radio Network. Payments related to ECB’s Radio Network were \$4,502 and \$4,371 for FY 2006-07 and FY 2005-06, respectively.

The following is a schedule of future minimum obligations under this operating lease as of June 30, 2007:

<u>Fiscal Year Ended June 30</u>	<u>Television Network</u>	<u>Radio Network</u>	<u>Total Amount</u>
2008	6,956	4,637	11,593
2009	7,164	4,776	11,940
2010	7,379	4,920	12,299
2011	7,601	5,067	12,668
2012	7,829	5,219	13,048
2013-2017	42,810	28,540	71,350
2018-2022	<u>49,629</u>	<u>33,086</u>	<u>82,715</u>
Total	<u>\$129,368</u>	<u>\$86,245</u>	<u>\$215,613</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.

The general obligation bonds repaid by the State’s general purpose revenue are not considered debt of ECB because their repayment is from general purpose revenue. Therefore, the debt financed through general purpose revenue appropriation is reported in the State of Wisconsin Comprehensive Annual Financial Report rather than 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, 2007 and 2006, is \$5,096,903 and \$4,821,873, respectively, in general obligation bonds and \$366,017 and \$192,943, respectively, in commercial paper notes. ECB is responsible for the repayment of interest on these obligations; therefore, interest expense of \$213,586 and \$211,858 is included in the nonoperating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets for FY 2006-07 and FY 2005-06, respectively.

In addition to general obligations financed by general purpose revenue, six 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 indebtedness during FY 2006-07 and FY 2005-06 is \$13,021 and \$13,081, respectively, which consisted of a principal payment of \$6,103 and \$5,822, respectively, and interest payment of \$6,918 and \$7,259, respectively. The principal payment is recorded as a reduction of the current bonds payable, while the interest payment is included in the nonoperating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

As of June 30, 2007, debt service requirements for principal and interest in future years for program revenue–funded bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2008	6,392	6,644	13,036
2009	6,894	6,325	13,219
2010	7,540	5,917	13,457
2011	8,009	5,449	13,458
2012	8,971	5,048	14,019
2013 to 2017	51,301	17,744	69,045
2018 to 2021	<u>38,154</u>	<u>3,959</u>	<u>42,113</u>
Total	<u>\$127,261</u>	<u>\$51,086</u>	<u>\$178,347</u>

**8. ENDOWMENT**

The management of WPBF established a radio endowment during FY 2004-05. The balance is \$276,838 as of June 30, 2007, and \$232,958 as of June 30, 2006. Investment income earned on the endowment is used for operations. None of the assets in the endowment at June 30, 2007 and 2006, are donor-restricted. Assets in the endowment follow the investment policy disclosed in Notes 1 and 2.

**9. CAPITAL CONTRIBUTIONS**

The capital contributions 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 disbursements are made.

**B. Grants**

Federal grant funds received from the U.S. Department of Commerce and U.S. Department of Homeland Security used to purchase capital equipment are recorded as support when the disbursements are made. Grant funds received from the Corporation for Public Broadcasting and used to purchase capital equipment for the conversion to high definition radio are recorded as support when the disbursement is made.

**C. Donated Capital Assets**

The fair-market value of donated capital assets is recorded as revenue in the period of acquisition.

**10. CONTRIBUTED IN-KIND SUPPORT**

Contributed in-kind support includes donated professional services, donated general operational services, donated materials, donated instructional radio services, and donated facilities. In-kind support is reported both as revenues and expenses and, therefore, has no effect on net assets.

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 the cost of providing the service. Donated facilities are reported at fair value at the date of contribution and are reported as capital contributions.

In-kind support included in the financial statements was as follows:

	<u>FY 2006-07</u>	<u>FY 2005-06</u>
Professional Services	\$ 18,976	\$ 22,840
Operational	292,709	224,459
Instructional Radio	1,008	11,302
Materials	<u>0</u>	<u>9,410</u>
Total Donated Services and Materials	<u>312,693</u>	<u>268,011</u>
Facilities	0	72,000
Total In-Kind Support	<u>\$312,693</u>	<u>\$340,011</u>

**11. 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 of the Wisconsin Retirement System may be obtained by writing to:

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

The most current financial report is also available on the Department of Employee Trust Fund's Web site, [www.etf.wi.gov](http://www.etf.wi.gov).

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. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments.

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, including employer and employee contributions, was \$124,587 for FY 2006-07 and \$112,134 for FY 2005-06. 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.

## 12. WISCONSIN PUBLIC BROADCASTING FOUNDATION, INC. (WPBF)

WPBF is a statutorily defined not-for-profit corporation (s. 39.12, Wis. Stats.) wholly owned by ECB that solicits funds in the name of, and with the approval of, ECB. WPBF's funds are managed by a statutorily defined five-member board of trustees consisting of the Executive Director of ECB and four members of the ECB Board. Because the State has fiscal accountability for and can influence WPBF operations through legislation, WPBF is considered a blended component unit of the State of Wisconsin. The WPBF accounts pertaining to radio are included in the ECB Radio Network's financial statements, and the accounts pertaining to television are included in the ECB Television Network's financial statements. A summary of significant financial data relating to WPBF, which includes radio, television, and other nonbroadcasting activities of WPBF, follows. Copies of WPBF's separately issued financial statements may be obtained by contacting ECB at 3319 West Beltline Highway, Madison, WI 53713-4296.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash and Investments	\$10,928,416	\$9,681,776
Other Assets	292,401	293,492
Liabilities	<u>(562,384)</u>	<u>(374,187)</u>
Net Assets	<u>\$10,658,433</u>	<u>\$9,601,081</u>

	Fiscal Year Ended <u>June 30, 2007</u>	Fiscal Year Ended <u>June 30, 2006</u>
Operating Revenues	\$ 9,223,097	\$ 9,011,260
Operating Expenses	(1,792,828)	(1,627,352)
Nonoperating Income (Loss)	<u>965,104</u>	<u>425,469</u>
Income (Loss) Before Transfers	8,395,373	7,809,377
Transfers to ECB	<u>(7,338,021)</u>	<u>(7,038,080)</u>
Change in Net Assets	<u>\$1,057,352</u>	<u>\$ 771,297</u>

### 13. RELATED ENTITIES

#### A. Wisconsin Public Radio—University of Wisconsin Board of Regents Stations

WHA Radio and some other Wisconsin Public Radio stations are public telecommunications entities licensed to the UW Board of Regents and operated by UW-Extension. In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the UW Board of Regents developed partnerships called Wisconsin Public Radio and Wisconsin Public Television to manage and operate 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 Sheets. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

#### B. Wisconsin Public Radio Association, Inc. (WPRA)

WPRA is a publicly supported not-for-profit corporation whose purpose is to administer various fund-raising and membership duties of Wisconsin Public Radio and to provide support to the ECB Radio Network and radio stations licensed to the UW Board of Regents. WPRA solicits funds in the name of, and with the approval of the licensees, ECB and the UW Board of Regents. Under the affiliation agreement, ECB and UW staff, along with the WPRA Board of Directors, approve WPRA's budget. The licensees have access to WPRA's net resources and retain an

ongoing legal allocated interest in WPRA’s net assets. ECB’s and the UW Board of Regents’ allocated interests in WPRA are calculated in accordance with an affiliation agreement, which currently provides ECB with 76 percent of WPRA net resources and the UW Board of Regents with 24 percent. This agreement is renegotiated annually based upon membership proportion.

ECB includes in the WPBF fund its allocated share of WPRA assets, liabilities, revenues, and expenses. A summary of amounts related to WPRA included in the accompanying financial statements follows:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash and Investments	\$ 805,329	\$ 1,014,606
Receivables and Other Assets	<u>285,304</u>	<u>287,016</u>
Total Assets	1,090,633	1,301,622
Payables and Other Current Liabilities	<u>(25,712)</u>	<u>(44,115)</u>
Net Assets	<u>\$1,064,921</u>	<u>\$1,257,507</u>

	<u>Fiscal Year Ended June 30, 2007</u>	<u>Fiscal Year Ended June 30, 2006</u>
Contributed Support and Revenue	\$4,334,432	\$4,084,585
Expenses:		
Program information	\$147,583	\$151,942
Management and general	90,769	106,804
Fund-raising	<u>502,906</u>	<u>399,201</u>
Total Expenses	741,258	657,947

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data follows. Copies of WPRA’s separately issued financial statements may be obtained by contacting the Financial Manager of the Wisconsin Public Radio Association, Inc., at 821 University Avenue, Madison, WI 53706.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash and Investments	\$2,108,372	\$2,125,601
Receivables and Other Assets	<u>375,400</u>	<u>377,653</u>
Total Assets	2,483,772	2,503,254
Payables and Other Current Liabilities	<u>(449,487)</u>	<u>(278,161)</u>
Net Assets	<u>\$2,034,285</u>	<u>\$2,225,093</u>

	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2006
Contributed Support and Revenue	\$5,740,700	\$5,395,556
Expenses:		
Program information	\$ 194,188	\$ 199,924
Management and general	119,433	140,532
Fund-raising	661,718	525,264
Payments to ECB and WHA	<u>4,956,169</u>	<u>4,420,457</u>
Total Expenses	<u>5,931,508</u>	<u>5,286,177</u>
Net Change in Assets	<u>\$ (190,808)</u>	<u>\$ 109,379</u>

**C. Rib Mountain Communications**

ECB entered into a joint ownership agreement on November 1, 2001, to erect, operate, and maintain a 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 ownership to determine respective amounts of maintenance due from each party. ECB allocates assets and expenses between the radio and television networks.

**14. 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 Statements of Revenues, Expenses, and Changes in Fund Net Assets attributable to Ideas Network stations' revenues, direct expenses, and related readily allocable indirect expenses is identified in the following tables. 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:

<u>FY 2006-07</u>	<u>WERN-FM and Affiliates</u>	<u>WHAD-FM and Affiliates</u>	<u>ECB Radio Total</u>
<b>Operating Revenues</b>			
Contributed Support Corporation for Public Broadcasting Grants	\$2,294,628	\$1,696,071	\$3,990,699
Underwriting Grants	305,912	312,085	617,997
Other Grants and Contracts	411,536	315,862	727,398
Major Gifts	295,838	0	295,838
Contributed In-Kind Support	111,657	0	111,657
Royalties and Other Income	312,693	0	312,693
	<u>269,457</u>	<u>0</u>	<u>269,457</u>
Total Operating Revenues	<u>4,001,721</u>	<u>2,324,018</u>	<u>6,325,739</u>
<b>Operating Expenses</b>			
Program Services:			
Programming and production Broadcasting	1,805,029	2,553,189	4,358,218
Program information	1,721,893	342,857	2,064,750
	<u>147,583</u>	<u>0</u>	<u>147,583</u>
Total Program Services	<u>3,674,505</u>	<u>2,896,046</u>	<u>6,570,551</u>
Support Services:			
Management and general Fund-raising and membership development	370,558	225,110	595,668
Underwriting	559,520	0	559,520
	<u>5,458</u>	<u>0</u>	<u>5,458</u>
Total Support Services	<u>935,536</u>	<u>225,110</u>	<u>1,160,646</u>
Total Operating Expenses	<u>4,610,041</u>	<u>3,121,156</u>	<u>7,731,197</u>
Operating Income (Loss)	<u>(608,320)</u>	<u>(797,138)</u>	<u>(1,405,458)</u>
<b>Nonoperating Revenues (Expenses)</b>			
State General Fund Revenue	\$1,151,476	\$ 508,929	\$1,660,405
Loss on Disposal of Capital Assets	(22,594)	0	(22,594)
Capital Debt Interest Expense	(220,504)	0	(220,504)
Investment Income	<u>434,920</u>	<u>0</u>	<u>434,920</u>
Total Nonoperating Revenues (Expenses)	<u>1,343,298</u>	<u>508,929</u>	<u>1,852,227</u>
Income (Loss) Before Contributions and Transfers	734,978	(288,209)	446,769
<b>Capital Contributions and Transfers</b>			
Capital Contributions	<u>472,691</u>	<u>19,795</u>	<u>492,486</u>
Change in Net Assets	<u>\$1,207,669</u>	<u>\$ (268,414)</u>	<u>\$ 939,255</u>

<b><u>FY 2005-06</u></b>	<b>WERN-FM and Affiliates</b>	<b>WHAD-FM and Affiliates</b>	<b>ECB Radio Total</b>
<b>Operating Revenues</b>			
Contributed Support Corporation for Public Broadcasting Grants	\$2,351,623	\$1,470,612	\$3,822,235
Underwriting Grants	481,462	273,539	755,001
Other Grants and Contracts	354,782	292,299	647,081
Major Gifts	304,244	0	304,244
Contributed In-Kind Support	63,498	0	63,498
Royalties and Other Income	268,011	0	268,011
	<u>228,276</u>	<u>0</u>	<u>228,276</u>
<b>Total Operating Revenues</b>	<b><u>4,051,896</u></b>	<b><u>2,036,450</u></b>	<b><u>6,088,346</u></b>
<b>Operating Expenses</b>			
Program Services:			
Programming and production Broadcasting	1,827,435	2,066,798	3,894,233
Program information	2,560,813	442,413	3,003,226
	<u>151,942</u>	<u>0</u>	<u>151,942</u>
<b>Total Program Services</b>	<b><u>4,540,190</u></b>	<b><u>2,509,211</u></b>	<b><u>7,049,401</u></b>
Support Services:			
Management and general Fund-raising and membership development	373,444	182,154	555,598
Underwriting	452,823	0	452,823
	<u>1,208</u>	<u>0</u>	<u>1,208</u>
<b>Total Support Services</b>	<b><u>827,475</u></b>	<b><u>182,154</u></b>	<b><u>1,009,629</u></b>
<b>Total Operating Expenses</b>	<b><u>5,367,665</u></b>	<b><u>2,691,365</u></b>	<b><u>8,059,030</u></b>
<b>Operating Income (Loss)</b>	<b><u>(1,315,769)</u></b>	<b><u>(654,915)</u></b>	<b><u>(1,970,684)</u></b>
<b>Nonoperating Revenues (Expenses)</b>			
State General Fund Revenue	\$1,131,510	\$ 451,497	\$1,583,007
Required Lapse to the State General Fund	(1,227)	0	(1,227)
Loss on Disposal of Capital Assets	(172,749)	0	(172,749)
Capital Debt Interest Expense	(219,117)	0	(219,117)
Investment Income	<u>202,791</u>	<u>0</u>	<u>202,791</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>941,208</u></b>	<b><u>451,497</u></b>	<b><u>1,392,705</u></b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>(374,561)</b>	<b>(203,418)</b>	<b>(577,979)</b>
<b>Capital Contributions and Transfers</b>			
Capital Contributions	<u>1,011,922</u>	<u>140,067</u>	<u>1,151,989</u>
<b>Change in Net Assets</b>	<b><u>\$ 637,361</u></b>	<b><u>\$ (63,351)</u></b>	<b><u>\$ 574,010</u></b>

**15. PRIOR-PERIOD RESTATEMENTS**

The beginning net asset balance for FY 2005-06 was adjusted to reflect the adjustment of prior-year expenses resulting from recognizing a prepaid expense as an expense during FY 2004-05. The effect was to increase the FY 2005-06 beginning fund balance by \$126,548.

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# Report on Control and Compliance ■

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## ***Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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 Radio Network as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated December 7, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Wisconsin Public Radio Association, Inc., as described in our opinion on the Wisconsin Educational Communications Board Radio Network. The financial statements of the Wisconsin Public Radio Association, Inc., were audited 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*.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits, we considered the Educational Communications Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Communications Board's internal control over

financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Educational Communications Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

## COMPLIANCE AND OTHER MATTERS

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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 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 the effectiveness of the Educational Communications Board's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

December 7, 2007

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director