

An Audit

# **Wisconsin Educational Communications Board Television Network**

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State Auditor – Janice Mueller

### **Audit Prepared by**

Diann Allsen, *Director and Contact Person*

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Jenna Lenz

Rachael Runde

# 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 Television Network	
<b>Management's Discussion and Analysis</b>	<b>5</b>
<b>Financial Statements</b>	<b>9</b>
Balance Sheet as of June 30, 2010	10
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2010	11
Statement of Cash Flows for the Year Ended June 30, 2010	12
Balance Sheet as of June 30, 2009	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2009	15
Statement of Cash Flows for the Year Ended June 30, 2009	16
<b>Notes to the Financial Statements</b>	<b>19</b>
<b>Report on Internal Control and Compliance</b>	<b>35</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 17, 2010

Senator Kathleen Vinehout and  
Representative Peter Barca, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

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

Dear Senator Vinehout, Representative Barca, and Mr. Purcell:

We have completed a financial audit of the State of Wisconsin Educational Communications Board (ECB) Television 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 television network of 5 digital stations, as well as a radio network of 14 FM stations and 1 AM station. The ECB Television Network reported \$10.0 million in support and revenue during fiscal year 2009-10, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains the ECB Television Network's financial statements and related notes as of and for the periods ending June 30, 2010, and June 30, 2009. We were able to issue an unqualified independent auditor's report on these statements. However, our report on internal control and compliance includes recommendations that ECB implement additional steps to simplify its financial reporting process to prevent and detect financial statement errors and take steps to improve program change controls over its invoice system.

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 Television Network***

We have audited the accompanying financial statements of the Wisconsin Educational Communications Board (ECB) Television Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Television Fund as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of ECB'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 Friends of Wisconsin Public Television, Inc., of which net assets of (\$40,139) as of June 30, 2010, are allocated to the ECB Television Network and are reflected in the accompanying financial data contained in Note 14B. Assets and revenues of the Friends of Wisconsin Public Television, Inc., included in the accompanying financial statements as of and for the fiscal year ended June 30, 2010, represent 1.8 percent of the ECB Television Network's total assets as of June 30, 2010, and 29.9 percent of the ECB Television Network's total revenue during fiscal year (FY) 2009-10. The financial statements of the Friends of Wisconsin Public Television, 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 Friends of Wisconsin Public Television, 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 Friends of Wisconsin Public Television, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *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 ECB Television 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 ECB Television Network's Operating Fund and the Wisconsin Public Broadcasting Foundation Inc.'s Television Fund as of June 30, 2010 and 2009, and the respective changes in their financial positions and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 14B, effective July 1, 2009, the Friends of WHA-TV, Inc., a not-for-profit corporation, changed its name to Friends of Wisconsin Public Television, Inc., and assumed responsibility for the fund-raising efforts for both WHA-TV and ECB Television Network to support public television in Wisconsin. As a result, beginning in FY 2009-10, the ECB Television Network's financial statements include its allocated share of the assets, liabilities, revenues, and expenses of the Friends of Wisconsin Public Television, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the ECB Television 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, 2010, on our consideration of ECB'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, 2010

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 television network of 5 digital stations, as well as a public radio network of 14 FM stations and 1 AM station. (13 of the FM sites and the AM site are currently broadcasting a digital radio signal in addition to analog.) 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 Television Network. The Balance Sheets provide information on the assets and the liabilities of the ECB Television 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 ECB Television 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. Condensed financial information relating to the ECB Television Network as of and for the fiscal years ended June 30, 2010, June 30, 2009, and June 30, 2008, is as follows:

## ECB Television Network Condensed Financial Information

	June 30, 2010	Change from Previous Year	June 30, 2009	Change from Previous Year	June 30, 2008
Capital Assets	\$ 12,490,895	(9)%	\$ 13,713,989	(5)%	\$14,455,878
Other Assets	9,851,287	<1	9,820,363	5	9,361,338
Total Assets	<u>22,342,182</u>		<u>23,534,352</u>		<u>23,817,216</u>
Current Liabilities	1,474,929	65	894,503	19	750,493
Noncurrent Liabilities	176,253	(23)	228,184	20	190,940
Total Liabilities	<u>1,651,182</u>		<u>1,122,687</u>		<u>941,433</u>
Invested in Capital Assets	12,490,895	(9)	13,713,989	(5)	14,455,878
Restricted for Grants	145,636	35	107,500	1,088	9,047
Unrestricted	<u>8,054,469</u>	(6)	<u>8,590,176</u>	2	<u>8,410,858</u>
Total Net Assets	<u>\$20,691,000</u>		<u>\$22,411,665</u>		<u>\$22,875,783</u>

	FY 2009-10	Change from Previous Year	FY 2008-09	Change from Previous Year	FY 2007-08
Operating Revenues	\$ 5,292,988	6%	\$ 5,004,817	3%	\$4,836,428
Operating Expenses	10,771,998	7	10,073,326	3	9,753,252
Net Operating Loss	(5,479,010)		(5,068,509)		(4,916,824)
Nonoperating Revenues (Expenses)	3,198,616	(12)	3,637,345	(4)	3,795,623
Capital Contributions	<u>559,729</u>	(42)	<u>967,046</u>	1	<u>956,295</u>
Changes in Net Assets	<u>\$(1,720,665)</u>		<u>\$ (464,118)</u>		<u>\$ (164,906)</u>

A major change during FY 2009-10 was the establishment of a not-for-profit fund-raising group for all of Wisconsin Public Television. Effective July 1, 2009, the Friends of WHA-TV, Inc., changed its name to Friends of Wisconsin Public Television, Inc., and assumed responsibility for the fund-raising efforts for both WHA-TV and ECB Television Network to support public television in Wisconsin. As a result, beginning in FY 2009-10, ECB Television Network's financial statements include an allocated share of the assets, liabilities, revenues, and expenses of the Friends. Prior to the blending of the Friends' financial statements, all of the contribution and major gift revenue received for the ECB Television Network was received directly by WPBF.

State of Wisconsin General Fund revenues, which are a significant source of funding for the ECB Television Network, are reported as nonoperating revenues under governmental accounting standards. The result of this accounting treatment is a reported net operating loss. This loss is offset, in part, by nonoperating revenues, primarily State of Wisconsin General Fund revenues and capital contributions, resulting in the overall change in net assets.

ECB Television Network's capital assets of \$12.5 million as of June 30, 2010, are presented at historical cost less depreciation. Capital assets decreased 9 percent in FY 2009-10 and 5 percent in FY 2008-09, because of the depreciation of existing assets and the retirement of the obsolete analog television assets, several of which had been on the prior years' Balance Sheets at salvage value.

ECB Television Network's share of the replacement cost of buildings and equipment, using the Builders Cost Index, is over \$37 million. The replacement cost of the combined statewide public television and radio networks is approximately \$55 million.

In FY 2008-09, the value of other assets increased by 5 percent. This was largely because of an increase in cash, resulting from differences in timing of payment of liabilities. Other assets were virtually unchanged from FY 2008-09 to FY 2009-10.

Current liabilities increased 65 percent in FY 2009-10. The majority of this increase resulted from blending ECB's allocated share of the Friends' financial statements into the Television Network's financial statements for the first time in FY 2009-10. The remainder of the increase of current liabilities in FY 2009-10 and the increase of current liabilities by 19 percent in FY 2008-09 resulted from differences in timing of vendor invoices. The value of noncurrent liabilities decreased 23 percent in FY 2009-10 because of a decrease in the liability for compensated absences as several employees retired during FY 2009-10 and received payment for their unused leave balances. The noncurrent liabilities account increased by 20 percent in FY 2008-09 because of increased liabilities to employees for compensated absences as employees accumulate unused leave time. The noncurrent liability portion of the compensated absences liability generally is paid out after retirement.

Operating revenues increased by 6 percent primarily because the Television Network included the operating revenues of the Friends for the first time in FY 2009-10. Operating revenues increased by 3 percent in FY 2008-09 because of an increase in major gifts. Blending ECB's allocated share of the Friends' statements into the Television Network's financial statements also caused an increase in operating expenses of 7 percent during FY 2009-10. Operating expenses increased by 3 percent during FY 2008-09 due to normal variation in activities.

Nonoperating revenues consist of investment earnings and losses, both realized and unrealized, and gains or losses 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 a decrease of 12 percent in FY 2009-10 because less of ECB's General Fund revenue

was allocated to the ECB Television Network for the fiscal year. In addition, the ECB Television Network retired several obsolete analog assets, resulting in an increased loss on disposal. The same account decreased 4 percent in FY 2008-09 primarily because of changes in investment income that corresponded with changes in market conditions.

Capital contributions decreased 42 percent in FY 2009-10 because an ECB Television Network capital project that converted analog television to digital was completed during the fiscal year, and the majority of the project expenditures occurred prior to FY 2009-10. Capital contributions were virtually unchanged in FY 2008-09. The net results of all operations for the year are summarized in the line titled Changes in Net Assets.

This financial report is designed to provide a general overview of ECB'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 [gene.purcell@ecb.org](mailto:gene.purcell@ecb.org) or to ECB in care of the Executive Director, 3319 West Beltline Highway, Madison, WI 53713-4296.

General information relating to ECB can be found at its Web site, [www.ecb.org](http://www.ecb.org).

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## **Financial Statements ■**

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## Balance Sheet

### June 30, 2010

	Operating Fund	WPBF (Note 13)	Total June 30, 2010
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents (Notes 1D and 2)	\$ 722,178	\$ 3,739,089	\$ 4,461,267
Investments (Notes 1E and 2)	0	3,377,128	3,377,128
Receivable—state general appropriations (Note 1G)	211,859	0	211,859
Grants and contracts receivable	16,716	0	16,716
Interest receivable	0	4,531	4,531
Pledges receivable	0	64,736	64,736
Accounts receivable—instructional material	3,218	0	3,218
Receivable—due from affiliates	82,443	177,998	260,441
Other receivables	41,776	5,165	46,941
Inventory—instructional material	19,623	0	19,623
Costs incurred for programs not yet broadcast (Note 1F)	303,667	0	303,667
Prepaid expenses (Note 6)	68,680	39,376	108,056
Total Current Assets	<u>1,470,160</u>	<u>7,408,023</u>	<u>8,878,183</u>
Noncurrent Assets:			
Prepaid expenses (Note 6)	359,008	0	359,008
Costs incurred for programs not yet broadcast (Note 1F)	614,096	0	614,096
Land (Note 4)	77,689	0	77,689
Buildings, net of accumulated depreciation (Note 4)	2,902,809	0	2,902,809
Equipment, net of accumulated depreciation (Note 4)	9,510,397	0	9,510,397
Total Noncurrent Assets	<u>13,463,999</u>	<u>0</u>	<u>13,463,999</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 14,934,159</u></b>	<b><u>\$ 7,408,023</u></b>	<b><u>\$ 22,342,182</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 936,166	\$ 343,350	\$ 1,279,516
Accrued liabilities due to affiliates	16,520	79,762	96,282
Deferred revenue	0	99,131	99,131
Total Current Liabilities	<u>952,686</u>	<u>522,243</u>	<u>1,474,929</u>
Noncurrent Liabilities:			
Compensated absences payable (Note 5)	176,253	0	176,253
Total Noncurrent Liabilities	<u>176,253</u>	<u>0</u>	<u>176,253</u>
Net Assets:			
Invested in capital assets	12,490,895	0	12,490,895
Restricted for grants (Note 1J)	60,900	84,736	145,636
Unrestricted	1,253,425	6,801,044	8,054,469
<b>Total Net Assets</b>	<b><u>13,805,220</u></b>	<b><u>6,885,780</u></b>	<b><u>20,691,000</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 14,934,159</u></b>	<b><u>\$ 7,408,023</u></b>	<b><u>\$ 22,342,182</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, 2010

	Operating Fund	WPBF (Note 13)	Total FY 2009-10
<b>OPERATING REVENUES</b>			
Contributed Support (Notes 1B and 14B)	\$ 0	\$ 1,968,420	\$ 1,968,420
Corporation for Public Broadcasting Grants	62,211	1,118,360	1,180,571
Underwriting Grants	0	181,910	181,910
Other Grants	330,373	0	330,373
Contributed In-Kind Support (Note 10)	287,113	0	287,113
Major Gifts	0	510,466	510,466
Instructional Projects and Materials	16,826	0	16,826
Royalties and Other Income	319,389	497,920	817,309
<b>Total Operating Revenues</b>	<b>1,015,912</b>	<b>4,277,076</b>	<b>5,292,988</b>
<b>OPERATING EXPENSES</b>			
Program Services:			
Programming and production	3,413,546	259,582	3,673,128
Broadcasting	4,535,807	0	4,535,807
Program information	(9,760)	82,626	72,866
Total Program Services	<u>7,939,593</u>	<u>342,208</u>	<u>8,281,801</u>
Support Services:			
Management and general	767,347	72,776	840,123
Fund-raising and membership development	75,336	1,397,156	1,472,492
Underwriting	170,255	7,327	177,582
Total Support Services	<u>1,012,938</u>	<u>1,477,259</u>	<u>2,490,197</u>
<b>Total Operating Expenses</b>	<b>8,952,531</b>	<b>1,819,467</b>	<b>10,771,998</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(7,936,619)</b>	<b>2,457,609</b>	<b>(5,479,010)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State General Fund Revenue for Operations	3,830,356	0	3,830,356
Loss on Disposal of Capital Assets	(344,294)	0	(344,294)
Capital Debt Interest Expense (Note 7)	(581,446)	0	(581,446)
State Insurance Funds	0	0	0
Investment Income	0	294,000	294,000
<b>Total Nonoperating Revenues (Expenses)</b>	<b>2,904,616</b>	<b>294,000</b>	<b>3,198,616</b>
Income (Loss) Before Capital Contributions and Transfers	(5,032,003)	2,751,609	(2,280,394)
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Capital Contributions (Note 9)	559,729	0	559,729
Interfund Transfers (Note 3)	2,796,580	(2,796,580)	0
<b>CHANGE IN NET ASSETS</b>	<b>(1,675,694)</b>	<b>(44,971)</b>	<b>(1,720,665)</b>
Total Net Assets—Beginning of the Year	15,480,914	6,930,751	22,411,665
Total Net Assets—End of the Year	<u>\$ 13,805,220</u>	<u>\$ 6,885,780</u>	<u>\$ 20,691,000</u>

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Year Ended June 30, 2010

	Operating Fund	WPBF (Note 13)	Total FY 2009-10
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Contributed Support	\$ 0	\$ 2,695,191	\$ 2,695,191
Receipts from Grants	372,630	1,118,360	1,490,990
Receipts from Instructional Projects and Materials	14,370	0	14,370
Receipts from Royalties and Other Income	377,803	338,958	716,761
Payments to Suppliers	(4,073,233)	(1,525,656)	(5,598,889)
Payments to Employees	(3,228,048)	0	(3,228,048)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(6,536,478)</b>	<b>2,626,853</b>	<b>(3,909,625)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Receipts from State Government	3,826,073	0	3,826,073
Interfund Transfers	2,796,580	(2,796,580)	0
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>6,622,653</b>	<b>(2,796,580)</b>	<b>3,826,073</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Contributions	565,771	0	565,771
Purchases of Capital Assets	(259,358)	0	(259,358)
Interest Paid on Capital Debt	(581,446)	0	(581,446)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(275,033)</b>	<b>0</b>	<b>(275,033)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases, Sales, and Maturities of Investments	0	(307,513)	(307,513)
Interest and Dividends	0	97,312	97,312
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>0</b>	<b>(210,201)</b>	<b>(210,201)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(188,858)</b>	<b>(379,928)</b>	<b>(568,786)</b>
Balances—Beginning of the Year	911,036	4,119,017	5,030,053
Balances—End of the Year	<u>\$ 722,178</u>	<u>\$ 3,739,089</u>	<u>\$ 4,461,267</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	WPBF (Note 13)	Total FY 2009-10
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ (7,936,619)	\$ 2,457,609	\$ (5,479,010)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation expense	1,138,158	0	1,138,158
Change in assets and liabilities:			
Receivables, net	42,048	(223,698)	(181,650)
Inventories	18,285	0	18,285
Accounts and other payables	90,134	333,187	423,321
Prepaid expenses	111,516	(39,376)	72,140
Deferred revenue	0	99,131	99,131
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (6,536,478)</u></b>	<b><u>\$ 2,626,853</u></b>	<b><u>\$ (3,909,625)</u></b>

Noncash Activities:

Contributed in-kind support totaled \$287,113.

The net increase in the fair value of investments was \$167,671.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$344,294.

**Balance Sheet**  
**June 30, 2009**

	Operating Fund	WPBF (Note 13)	Total June 30, 2009
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents (Notes 1D and 2)	\$ 911,036	\$ 4,119,017	\$ 5,030,053
Investments (Notes 1E and 2)	0	2,872,883	2,872,883
Receivable—state general appropriations (Note 1G)	207,576	0	207,576
Grants and contracts receivable	2,805	0	2,805
Interest receivable	0	4,575	4,575
Accounts receivable—instructional material	762	0	762
Receivable—due from affiliates	77,912	0	77,912
Other receivables	104,721	24,201	128,922
Inventory—instructional material	37,908	0	37,908
Costs incurred for programs not yet broadcast (Note 1F)	322,076	0	322,076
Prepaid expenses (Note 6)	79,306	0	79,306
Total Current Assets	<u>1,744,102</u>	<u>7,020,676</u>	<u>8,764,778</u>
Noncurrent Assets:			
Prepaid expenses (Note 6)	391,158	0	391,158
Costs incurred for programs not yet broadcast (Note 1F)	664,427	0	664,427
Land (Note 4)	77,689	0	77,689
Buildings, net of accumulated depreciation (Note 4)	3,098,534	0	3,098,534
Equipment, net of accumulated depreciation (Note 4)	10,537,766	0	10,537,766
Total Noncurrent Assets	<u>14,769,574</u>	<u>0</u>	<u>14,769,574</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 16,513,676</u></b>	<b><u>\$ 7,020,676</u></b>	<b><u>\$ 23,534,352</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 801,878	\$ 33,719	\$ 835,597
Accrued liabilities due to affiliates	2,700	56,206	58,906
Total Current Liabilities	<u>804,578</u>	<u>89,925</u>	<u>894,503</u>
Noncurrent Liabilities:			
Compensated absences payable (Note 5)	228,184	0	228,184
Total Noncurrent Liabilities	<u>228,184</u>	<u>0</u>	<u>228,184</u>
Net Assets:			
Invested in capital assets	13,713,989	0	13,713,989
Restricted for grants (Note 1J)	107,500	0	107,500
Unrestricted	1,659,425	6,930,751	8,590,176
<b>Total Net Assets</b>	<b><u>15,480,914</u></b>	<b><u>6,930,751</u></b>	<b><u>22,411,665</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 16,513,676</u></b>	<b><u>\$ 7,020,676</u></b>	<b><u>\$ 23,534,352</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, 2009

	Operating Fund	WPBF (Note 13)	Total FY 2008-09
<b>OPERATING REVENUES</b>			
Contributed Support (Note 1B)	\$ 0	\$ 2,356,341	\$ 2,356,341
Corporation for Public Broadcasting Grants	1,085,568	0	1,085,568
Underwriting Grants	0	172,011	172,011
Other Grants	345,655	0	345,655
Contributed In-Kind Support (Note 10)	246,761	0	246,761
Major Gifts	0	368,880	368,880
Instructional Projects and Materials	31,710	0	31,710
Royalties and Other Income	395,265	2,626	397,891
<b>Total Operating Revenues</b>	<b>2,104,959</b>	<b>2,899,858</b>	<b>5,004,817</b>
<b>OPERATING EXPENSES</b>			
Program Services:			
Programming and production	3,518,204	222,374	3,740,578
Broadcasting	4,491,275	0	4,491,275
Program information	12,918	84,085	97,003
Total Program Services	8,022,397	306,459	8,328,856
Support Services:			
Management and general	624,516	15,171	639,687
Fund-raising and membership development	77,782	833,745	911,527
Underwriting	185,553	7,703	193,256
Total Support Services	887,851	856,619	1,744,470
<b>Total Operating Expenses</b>	<b>8,910,248</b>	<b>1,163,078</b>	<b>10,073,326</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(6,805,289)</b>	<b>1,736,780</b>	<b>(5,068,509)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State General Fund Revenue for Operations	4,493,786	0	4,493,786
Loss on Disposal of Capital Assets	(57,551)	0	(57,551)
Capital Debt Interest Expense (Note 7)	(620,644)	0	(620,644)
State Insurance Funds	3,383	0	3,383
Investment Income	0	(181,629)	(181,629)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>3,818,974</b>	<b>(181,629)</b>	<b>3,637,345</b>
Income (Loss) Before Capital Contributions and Transfers	(2,986,315)	1,555,151	(1,431,164)
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Capital Contributions (Note 9)	967,046	0	967,046
Interfund Transfers (Note 3)	1,175,954	(1,175,954)	0
<b>CHANGE IN NET ASSETS</b>	<b>(843,315)</b>	<b>379,197</b>	<b>(464,118)</b>
Total Net Assets—Beginning of the Year	16,324,229	6,551,554	22,875,783
Total Net Assets—End of the Year	<u>\$ 15,480,914</u>	<u>\$ 6,930,751</u>	<u>\$ 22,411,665</u>

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Year Ended June 30, 2009

	Operating Fund	WPBF (Note 13)	Total FY 2008-09
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Contributed Support	\$ 0	\$ 2,897,232	\$ 2,897,232
Receipts from Grants	1,568,027	0	1,568,027
Receipts from Instructional Projects and Materials	33,046	0	33,046
Receipts from Royalties and Other Income	378,650	(21,575)	357,075
Payments to Suppliers	(3,686,046)	(1,205,583)	(4,891,629)
Payments to Employees	(3,236,501)	0	(3,236,501)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(4,942,824)</b>	<b>1,670,074</b>	<b>(3,272,750)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Receipts from State Government	4,396,985	0	4,396,985
Interfund Transfers	1,187,954	(1,187,954)	0
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>5,584,939</b>	<b>(1,187,954)</b>	<b>4,396,985</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Contributions	894,936	0	894,936
Purchases of Capital Assets	(658,433)	0	(658,433)
Interest Paid on Capital Debt	(620,644)	0	(620,644)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(384,141)</b>	<b>0</b>	<b>(384,141)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases, Sales, and Maturities of Investments	0	158,233	158,233
Interest and Dividends	0	105,892	105,892
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>0</b>	<b>264,125</b>	<b>264,125</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>257,974</b>	<b>746,245</b>	<b>1,004,219</b>
Balances—Beginning of the Year	653,062	3,372,772	4,025,834
Balances—End of the Year	<u>\$ 911,036</u>	<u>\$ 4,119,017</u>	<u>\$ 5,030,053</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	WPBF (Note 13)	Total FY 2008-09
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ (6,805,289)	\$ 1,736,780	\$ (5,068,509)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation expense	1,342,771	0	1,342,771
Change in assets and liabilities:			
Receivables, net	149,005	(24,201)	124,804
Inventories	7,757	0	7,757
Accounts and other payables	251,239	(42,505)	208,734
Prepaid expenses	139,173	0	139,173
Deferred revenue	(27,480)	0	(27,480)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (4,942,824)</u></b>	<b><u>\$ 1,670,074</u></b>	<b><u>\$ (3,272,750)</u></b>

Noncash Activities:

Contributed in-kind support totaled \$246,761.

The net decrease in the fair value of investments was \$69,382.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$57,551.



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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 is an agency of the State of Wisconsin that operates a public television network consisting of 5 digital stations, as well as a public radio network of 14 FM stations and 1 AM station. (13 of the FM sites and the AM site are currently broadcasting a digital radio signal in addition to analog.) 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 Television 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.

ECB Television Network financial statements are combined with the Television 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 13 for further information regarding WPBF.

Beginning in FY 2009-10, the ECB Television Network's financial statements also include, in the WPBF fund, ECB's allocated share of the assets, liabilities, revenues, and expenses of the Friends of Wisconsin Public Television, Inc., a not-for-profit corporation that receives contributed funds for Wisconsin Public Television and provides

support to the ECB Television Network and to WHA-TV, which is a University of Wisconsin (UW) Board of Regents' licensed station. See Note 14B for further information regarding the Friends.

## **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. 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 Friends 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 telecommunications services. Nonoperating revenues and expenses, such as investment income, are indirectly associated with programming, production, development, and delivery of telecommunications services. Certain significant revenue streams, such as State of Wisconsin 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. Actual results may differ from those estimates.

**D. Cash and Cash Equivalents**

Cash and cash equivalents in the ECB Television 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 ECB Television Network's share of Friends cash.

**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. 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 reported as an 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 will be expensed in order to adjust program assets to net realizable value.

**G. 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.

**H. 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.

**I. 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 a 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.

**J. 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 Television 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 ECB Television Network's discretion.

**2. DEPOSITS AND INVESTMENTS**

The cash balances of the ECB Television Network'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), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. The Investment Board's trustees may specifically approve other prudent investments.

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 Television Network include publicly traded stocks, equity mutual funds, and fixed-income mutual funds and are managed by private trust companies. Friends cash balances are held in deposit accounts at one financial institution. 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, custodial credit risk, foreign currency risk, and interest rate 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. As of June 30, 2010, \$4,326,380 of the ECB Television Network’s bank balance of \$4,716,057 was not covered by the Federal Deposit Insurance Corporation (FDIC) and was exposed to custodial credit risk. As of June 30, 2009, \$4,086,114 of the ECB Television Network’s bank balance of \$4,294,884 was exposed to custodial credit risk.

**B. Investments**

Fair-market value of investment balances for the ECB Television Network as of June 30, 2010 and 2009, was as follows:

<u>Investment Type</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Equities	\$ 959,235	\$ 803,035
Equity Mutual Funds	921,495	852,793
Fixed-Income Mutual Funds	<u>1,496,398</u>	<u>1,217,055</u>
Total Investments	\$3,377,128	\$2,872,883

The investments of the ECB Television 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, 2010 and 2009, the ECB Television Network’s fixed-income mutual funds were all unrated.

*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 fixed-income investments maintain a weighted average maturity of less than ten years. As of June 30, 2010, the fixed-income investments for the ECB Television Network had the following average maturities:

<u>Fixed-Income Investment</u>	<u>Market Value</u>	<u>Average Maturity</u>
Dodge and Cox Income Fund	\$ 440,812	6.9 years
Vanguard Total Bond Index Fund	304,156	6.6 years
Vanguard Fixed Income Short-Term	<u>751,430</u>	3.3 years
Total Fixed-Income Investments	\$1,496,398	

As of June 30, 2009, fixed-income investments for the ECB Television Network had the following average maturities:

<u>Fixed-Income Investment</u>	<u>Market Value</u>	<u>Average Maturity</u>
Dodge and Cox Income Fund	\$ 353,551	5.6 years
Vanguard Total Bond Index Fund	354,859	5.7 years
Vanguard Fixed Income Short-Term	<u>508,645</u>	2.6 years
Total Fixed-Income Investments	\$1,217,055	

*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, 2010 and 2009, WPBF had exposure to foreign currency risk in its investments of \$447,095 and \$234,369, respectively, in international equity securities and mutual funds. WPBF's investment guidelines related to foreign currency risk indicate that international equity mutual funds held by WPBF will not constitute more than 20 percent of the equity portion of the investment portfolio.

### 3. INTERFUND TRANSFERS

WPBF transfers funds monthly to the ECB Television Network'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 may result in an interfund payable and a receivable at year-end, which are reflected in the Balance Sheets.

### 4. CAPITAL ASSETS

<u>FY 2009-10</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 77,689	\$ 0	\$ 0	\$ 77,689
Capital Assets Being Depreciated:				
Buildings	5,722,676	23,269	(37,067)	5,708,878
Equipment	<u>20,672,779</u>	<u>236,089</u>	<u>(2,961,483)</u>	<u>17,947,385</u>
Total Capital Assets at Historical Cost	<u>26,395,455</u>	<u>259,358</u>	<u>(2,998,550)</u>	<u>23,656,263</u>
Less Accumulated Depreciation for:				
Buildings	(2,624,142)	(214,214)	32,287	(2,806,069)
Equipment	<u>(10,135,013)</u>	<u>(923,944)</u>	<u>2,621,969</u>	<u>(8,436,988)</u>
Total Accumulated Depreciation	<u>(12,759,155)</u>	<u>(1,138,158)</u>	<u>2,654,256</u>	<u>(11,243,057)</u>
Total Capital Assets Being Depreciated, Net	<u>13,636,300</u>	<u>(878,800)</u>	<u>(344,294)</u>	<u>12,413,206</u>
Total Capital Assets, Net	<u>\$13,713,989</u>	<u>\$ (878,800)</u>	<u>\$(344,294)</u>	<u>\$12,490,895</u>

<u>FY 2008-09</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 77,689	\$ 0	\$ 0	\$ 77,689
Capital Assets Being Depreciated:				
Buildings	5,713,802	20,874	(12,000)	5,722,676
Equipment	<u>20,581,242</u>	<u>637,559</u>	<u>(546,022)</u>	<u>20,672,779</u>
Total Capital Assets at Historical Cost	<u>26,295,044</u>	<u>658,433</u>	<u>(558,022)</u>	<u>26,395,455</u>
Less Accumulated Depreciation for:				
Buildings	(2,417,739)	(216,663)	10,260	(2,624,142)
Equipment	<u>(9,499,116)</u>	<u>(1,126,108)</u>	<u>490,211</u>	<u>(10,135,013)</u>
Total Accumulated Depreciation	<u>(11,916,855)</u>	<u>(1,342,771)</u>	<u>500,471</u>	<u>(12,759,155)</u>
Total Capital Assets Being Depreciated, Net	<u>14,378,189</u>	<u>(684,338)</u>	<u>(57,551)</u>	<u>13,636,300</u>
Total Capital Assets, Net	<u>\$14,455,878</u>	<u>\$ (684,338)</u>	<u>\$(57,551)</u>	<u>\$13,713,989</u>

Depreciation expense was charged to functions as follows:

	<u>FY 2009-10</u>	<u>FY 2008-09</u>
Programming and Production	\$ 979	\$ 1,152
Broadcasting	1,121,624	1,327,963
Management and General	<u>15,555</u>	<u>13,656</u>
Total Depreciation Expense	\$1,138,158	\$1,342,771

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 Television Network between FY 1999-2000 and FY 2009-10. The book value of equipment purchased with NTIA funds is \$1,285,250 as of June 30, 2010, and \$1,430,484 as of June 30, 2009.

## 5. NONCURRENT LIABILITIES

Compensated absences are the only noncurrent liabilities for the year ended June 30, 2010. Activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Noncurrent Compensated Absences	\$228,184	\$20,099	\$(72,030)	\$176,253

Noncurrent compensated absences liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Noncurrent Compensated Absences	\$190,940	\$41,111	\$(3,867)	\$228,184

The noncurrent liabilities from compensated absences are generally funded with operating subsidies received from the State of Wisconsin. Compensated absences expected to be paid within one year are reflected in the current liabilities on the Balance Sheet and equaled \$121,102 on June 30, 2010, and \$141,778 on June 30, 2009.

## 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 a contract period of 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 \$643,000 was allocated to the ECB Television 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 20-year life of the lease. The amount paid in excess of the amount recognized is reported as a prepaid expense on the Balance Sheets and totals \$391,158 as of June 30, 2010, and \$423,308 as of June 30, 2009.

In addition to the rent prepayment, ECB is required to make an annual rent payment 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 ECB Television Network and 40 percent to the ECB Radio Network. Payments made related to the ECB Television Network were \$7,379 for FY 2009-10 and \$7,164 for FY 2008-09.

The following is a schedule of future minimum obligations under this operating lease as of June 30, 2010:

<u>Fiscal Year Ended June 30</u>	<u>Television Network</u>	<u>Radio Network</u>	<u>Total</u>
2011	\$ 7,601	\$ 5,067	\$ 12,668
2012	7,829	5,219	13,048
2013	8,064	5,375	13,439
2014	8,305	5,537	13,842
2015	8,555	5,703	14,258
2016-2020	46,780	31,186	77,966
2021-2022	<u>20,736</u>	<u>13,824</u>	<u>34,560</u>
Total	<u>\$107,870</u>	<u>\$71,911</u>	<u>\$179,781</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 appropriations is reported in the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) rather than 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, 2010 and 2009, is \$12,970,466 and \$12,272,795, respectively, in general obligation bonds, and \$1,223,074 in commercial paper notes in both years. ECB is responsible for the repayment of interest on these obligations; therefore, interest expense of \$581,446 and \$620,644 is included in nonoperating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets for FY 2009-10 and FY 2008-09, respectively.

## 8. ENDOWMENT

The management of WPBF established a television endowment during FY 1992-93 to support the operations of the ECB Television Network, as determined necessary by ECB staff, with oversight by the WPBF board. The value is \$1,046,343 as of June 30, 2010, and \$985,128 as of June 30, 2009, and is included in the investments and cash and cash equivalents accounts in the Balance Sheets. Investment income earned on the endowment is used for operations. None of the assets in the endowment as of June 30, 2010 and 2009, 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 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 disbursements are made.

### B. Grants

Federal grant funds received from the U.S. Department of Commerce to purchase capital equipment are recorded as support when the

disbursements are made. The Digital Distribution Fund grant received from the Corporation for Public Broadcasting through the Public Broadcasting Service was recorded as support when received.

**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 television services, and donated facilities. In-kind support is reported both as revenue and as 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.

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

	<u>FY 2009-10</u>	<u>FY 2008-09</u>
Professional Services	\$ 58,508	\$ 56,379
Operational Services	6,943	9,566
Instructional Television Services	<u>221,662</u>	<u>180,816</u>
Total In-Kind Support	\$287,113	\$246,761

**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 ch. 40, Wis. Stats. 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 Funds' 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 Television Network's contribution to the plan, including employer and employee contributions, was \$297,356 for FY 2009-10 and \$308,347 for FY 2008-09. Of these amounts, \$61,968 in FY 2009-10 and \$59,806 in FY 2008-09 were used to fund payments on bonds issued to liquidate the prior service liability balance. The relative position of the ECB Television Network in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

## 12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the provisions of GASB Statement Number 45, state and local governmental employers are required to display in financial reports other postemployment benefits (OPEB) expenses and related liabilities; note disclosures; and, if applicable, required supplementary information. The employees of ECB are employees of the State. The financial statements of the ECB Television Network do not include OPEB expenses or the related liabilities other than those actually paid, which are allocated to various functional expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

*Health Insurance*—The State's Health Insurance Program, a cost-sharing, multiple-employer, defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State created under ch. 40, Wis. Stats. The Wisconsin Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under ss. 15.165(2) and 40.03(6), Wis. Stats. Under this plan, retired employees of the State

contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as an OPEB.

The State's net OPEB obligation as of June 30, 2010, was \$291.9 million and as of June 30, 2009, was \$214.1 million. The estimated portion of this obligation related to ECB employees was \$272,386 as of June 30, 2010, and \$210,426 as of June 30, 2009. This obligation is included in the State's CAFR but is not included in the ECB Television Network's financial statements.

The State's CAFR includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at [www.doa.wi.gov](http://www.doa.wi.gov) or may be obtained upon request from:

State Controller's Office  
Department of Administration  
101 East Wilson Street  
Madison, WI 53703

*Life Insurance*—The State's Life Insurance program, a cost-sharing, multiple-employer, defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under s. 40.70, Wis. Stats. Beginning at age 65, retirees and terminating members continue to receive, at no cost to them, basic life insurance coverage. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage. The relative portion of the State's contributions to the Life Insurance OPEB plan attributable to ECB is not readily available.

The Department of Employee Trust Funds issues a publicly available financial report that includes financial statements, additional note disclosures, and required supplementary information for the Life Insurance OPEB plan. That report is available at [www.etf.wi.gov](http://www.etf.wi.gov) or may be obtained upon request from:

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

The State's CAFR also includes additional employer note disclosures for the plan.

### 13. WISCONSIN PUBLIC BROADCASTING FOUNDATION, INC.

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. WPBF accounts pertaining to television are included in the ECB Television Network's financial statements, and accounts pertaining to radio are included in the ECB Radio 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, 2010</u>	<u>June 30, 2009</u>
Cash and Investments	\$11,870,686	\$11,210,799
Other Assets	532,885	269,416
Liabilities	<u>(812,306)</u>	<u>(295,722)</u>
Net Assets	<u>\$11,591,265</u>	<u>\$11,184,493</u>

	Fiscal Year Ended <u>June 30, 2010</u>	Fiscal Year Ended <u>June 30, 2009</u>
Operating Revenues	\$10,529,510	\$8,915,266
Operating Expenses	(2,800,948)	(2,073,947)
Nonoperating Income (Loss)	<u>511,857</u>	<u>(264,094)</u>
Income (Loss) Before Transfers	8,240,419	6,577,225
Transfers to ECB	<u>(7,833,647)</u>	<u>(6,153,473)</u>
Change in Net Assets	<u>\$ 406,772</u>	<u>\$ 423,752</u>

## 14. RELATED ENTITIES

### A. WHA Television

WHA Television is a public telecommunications entity licensed to the University of Wisconsin 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 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 Sheets. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

**B. Friends of Wisconsin Public Television, Inc.**

Effective July 1, 2009, the Friends of WHA-TV, Inc., changed its name to Friends of Wisconsin Public Television, Inc., and assumed responsibility for the fund-raising efforts of both the former Friends of WHA-TV and WPBF to support public television in Wisconsin. Amended Articles of Incorporation to reflect the change in name and responsibilities were filed on July 15, 2009. The Friends solicit 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 Friends Board of Directors, approve the Friends' budget. The licensees have access to the Friends' net resources and retain an ongoing legal allocated interest in the Friends' net assets. ECB's and the UW Board of Regents' allocated interests in the Friends are calculated in accordance with an affiliation agreement, which is renegotiated annually based upon membership proportion.

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

	<u>June 30, 2010</u>
Cash and Investments	\$233,312
Other Assets	<u>169,030</u>
Total Assets	402,342
Total Liabilities	<u>(442,481)</u>
Net Assets	<u>\$ (40,139)</u>

	<u>Fiscal Year Ended June 30, 2010</u>
Contributed Support and Revenue	\$2,987,190
Expenses:	
Programming and production	\$ 130,500
Program information	82,626
Management and general	35,747
Fund-raising	<u>1,397,604</u>
Total Expenses	\$1,646,477

The Friends issue separate financial statements, which are audited by other auditors. A summary of significant Friends financial data follows. Copies of the Friends' separately issued financial statements may be obtained by contacting the Financial Manager of the Friends of Wisconsin Public Television, Inc., at 821 University Avenue, Madison, WI 53706.

	<u>June 30, 2010</u>
Cash and Investments	\$2,684,869
Other Assets	<u>223,369</u>
Total Assets	2,908,238
Total Liabilities	<u>(1,259,085)</u>
Net Assets	<u>\$1,649,153</u>

	<u>Fiscal Year Ended June 30, 2010</u>
Contributed Support and Revenue	\$7,371,871
Expenses:	
Programming and production	\$ 261,000
Program information	165,251
Management and general	71,493
Fund-raising	2,817,163
Payments to ECB and WHA	<u>3,933,401</u>
Total Expenses	<u>7,248,308</u>
Net Change in Assets	<u>\$ 123,563</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 based on tower use. 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.

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# Report on Internal 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 Television Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Television Fund as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 7, 2010. Our report includes a reference to 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. Other auditors audited the financial statements of the Friends of Wisconsin Public Television, Inc., as described in our opinion on the ECB Television Network. While the financial statements of the Friends of Wisconsin Public Television, Inc., were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards*.

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

In planning and performing our audits, we considered ECB's internal control over financial reporting (internal control) 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 ECB's internal control. Accordingly, we do not express an opinion on the effectiveness of ECB's internal control.

A *deficiency* in internal control 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 to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the ECB Television Network's financial statements will not be prevented or will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined in the preceding paragraph. However, as discussed in the following paragraphs, we identified two deficiencies in internal control over financial reporting that we consider to be significant deficiencies. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### *Errors in Financial Reporting*

During the last several years, ECB has taken steps to improve the accuracy of its financial reporting process. However, ECB's financial reporting process is complex and involves many allocation estimates. During the FY 2009-10 audit, we again identified several errors that required adjustments to both the Television and the Radio Networks' financial statements. The most significant errors that affected the ECB Television Network's financial statements included:

- a \$99,131 misclassification of receipts in the ECB Television Network's Cash Flow Statement. Prepayments received by Friends of Wisconsin Public Television, Inc., in FY 2009-10 for events occurring in subsequent years were improperly classified as payments to suppliers and prepaid expenses, rather than contributed support and deferred revenue;
- a misclassification of net assets as restricted net assets. ECB incorrectly reported a fiscal stabilization grant of \$79,180 from the Corporation of Public Broadcasting (CPB) as restricted rather than unrestricted net assets on the ECB Television Network's Balance Sheet. CPB instructions clearly indicate that the stabilization grant was considered unrestricted in its use; and
- a \$50,191 misallocation of expenses between the Television and Radio Networks, which resulted in an understatement of expenses in the ECB Television Network's financial statements and an overstatement of expenses in the ECB Radio Network's financial statements. Cash and general purpose revenue (GPR) were also reported incorrectly in the financial statements because of the error.

ECB corrected the financial statements for these errors, and neither the individual errors nor the cumulative net effect of the errors resulted in a material misstatement of the financial statements. We recommend ECB take additional steps to prevent or detect errors in the compilation of its financial statements, including steps to simplify its allocation and financial compilation processes.

ECB agreed that misallocations and misclassifications occurred and adjusted its financial statements as recommended. However, it notes that the amounts included in the sets of financial statements taken as a whole for ECB were not misstated. ECB agrees with the recommendation and indicates that it is considering several steps to simplify the financial compilation process. Most significantly, ECB plans to prepare one set of statements for the agency as a whole in the future, rather than preparing separate sets of statements for the Radio and Television Networks. It believes one set of statements will streamline the financial reporting process and create a process that is less prone to errors.

#### *Program Change Controls over the Invoice System*

ECB relies on information from several information technology systems in its financial reporting process, including its internally developed invoice system. To reduce the risk of inappropriate transactions, changes to ECB's critical financial systems should go through a systematic, controlled process that ensures that all changes are authorized, documented, tested by information technology staff and users, and comply with industry standards. While ECB has procedures in place to ensure program changes are properly controlled for its other internally generated systems—the fixed asset system and accounts receivable program—it does not have adequate controls over program changes to its invoice system. ECB's programmer has access to the invoice system and has the ability to make changes without detection by others. Further, ECB does not maintain any record or audit trail of changes made to the invoice system. We recommend ECB implement controls over its invoice system by removing programmer access to the system and developing procedures to ensure changes to the system are logged, reviewed, and placed into operation by someone other than the programmer.

ECB believes that because various reconciliations are performed, its financial statements have not been misstated as a result of the lack of access controls over the invoice system. However, it agrees that program change controls are an important part of the overall control environment and that additional controls should be added to ECB's invoice system. It is currently considering options to address the concern and plans to have changes in place before the end of FY 2010-11.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the ECB Television 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*.

ECB's written responses to the findings identified in our audit are summarized in the preceding narrative. We did not audit ECB's responses and, accordingly, express no opinion on them.

This independent auditor's report is intended for the information and use of ECB, the Wisconsin Legislature, and the Corporation for Public Broadcasting. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of ECB's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

December 7, 2010

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director