

An Audit

Wisconsin Educational Communications Board Radio Network

2009-2010 Joint Legislative Audit Committee Members

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State Auditor – Janice Mueller

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STATE OF WISCONSIN
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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) 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 14 FM stations and 1 AM station, as well as a television network of 5 digital stations. The ECB Radio Network reported \$11.2 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 Radio 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

Audit Opinion ■

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

We have audited the accompanying financial statements of the Wisconsin Educational Communications Board (ECB) Radio Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Radio 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 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 \$986,955 as of June 30, 2010, and \$895,426 as of June 30, 2009, are allocated to ECB Radio Network and are reflected in the accompanying financial data contained in Note 14B. Assets and revenues of the Wisconsin Public Radio Association, Inc., included in the accompanying financial statements represent 7.1 percent of the ECB Radio Network's total assets as of June 30, 2010, and 7.2 percent of its total assets as of June 30, 2009, and 44.7 percent of the ECB Radio Network's total revenue during fiscal year (FY) 2009-10 and 50.1 percent of its total revenue during FY 2008-09. 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 *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 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 ECB Radio Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Radio 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the ECB 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, 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

Management's Discussion and Analysis ■

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 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), as well as a public television network of 5 digital 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 assets and the liabilities of the ECB 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 ECB 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

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additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed financial information relating to the ECB Radio Network as of and for the fiscal years ended June 30, 2010, June 30, 2009, and June 30, 2008, is as follows:

ECB Radio Network Condensed Financial Information

| | June 30, 2010 | Change from Previous Year | June 30, 2009 | Change from Previous Year | June 30, 2008 |
|--|----------------------------|------------------------------|----------------------------|------------------------------|----------------------------|
| Capital Assets | \$ 8,581,175 | 14% | \$ 7,533,344 | (3)% | \$ 7,790,438 |
| Other Assets | 5,736,180 | 11 | 5,153,663 | (7) | 5,557,310 |
| Total Assets | <u>14,317,355</u> | | <u>12,687,007</u> | | <u>13,347,748</u> |
| Current Liabilities | 1,368,202 | 56 | 879,556 | (50) | 1,755,306 |
| Noncurrent Liabilities | 210,015 | (5) | 221,745 | 9 | 203,383 |
| Total Liabilities | <u>1,578,217</u> | | <u>1,101,301</u> | | <u>1,958,689</u> |
| Invested in Capital Assets, Net of Related Debt | 8,474,740 | 14 | 7,419,369 | (3) | 7,669,569 |
| Restricted by Grants or Donors | 270,442 | 71 | 158,321 | 81 | 87,455 |
| Unrestricted | 3,993,956 | >(1) | 4,008,016 | 10 | 3,632,035 |
| Total Net Assets | <u>\$12,739,138</u> | | <u>\$11,585,706</u> | | <u>\$11,389,059</u> |

| | FY 2009-10 | Change from Previous Year | FY 2008-09 | Change from Previous Year | FY 2007-08 |
|-------------------------------------|---------------------------|------------------------------|--------------------------------|------------------------------|--------------------------|
| Operating Revenues | \$7,001,386 | 3% | \$6,810,864 ¹ | 4% ¹ | \$6,554,577 |
| Operating Expenses | 9,760,323 | 10 | 8,889,655 | 4 | 8,512,342 |
| Net Operating Loss | (2,758,937) | | (2,078,791)¹ | | (1,957,765) |
| Nonoperating Revenues (Expenses) | 1,871,780 | 26 | 1,484,924 ¹ | 1 ¹ | 1,467,484 |
| Capital Contributions | 2,040,589 | 158 | 790,514 | (14) | 920,678 |
| Changes in Net Assets | <u>\$1,153,432</u> | | <u>\$ 196,647</u> | | <u>\$ 430,397</u> |

¹ Amounts adjusted from prior year's report to reflect a prior-period adjustment.

State of Wisconsin General Fund revenues, which are a significant source of funding for the ECB Radio 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 by nonoperating revenues, primarily State of Wisconsin General Fund revenues and capital contributions, resulting in an overall increase in net assets.

ECB Radio Network's capital assets of \$8.6 million as of June 30, 2010, are presented at historical cost less depreciation. Capital assets increased 14 percent in FY 2009-10, primarily because of additional assets purchased for the new radio station in Coloma, Wisconsin. ECB received funding for this project from the federal National Telecommunications and Information Administration (NTIA) and from listener contributions.

Capital assets decreased 3 percent in FY 2008-09 because of depreciation of existing assets. ECB Radio Network's share of the replacement cost of buildings and equipment, using the Builder's Cost Index, is over \$18 million. The replacement cost of the combined statewide public television and radio networks is approximately \$55 million.

Other assets increased 11 percent in FY 2009-10 and decreased 7 percent in FY 2008-09 because of changes in investment balances fluctuating with market conditions. Increases in listener contributions also provided for the increase in other assets in FY 2009-10.

An increase in the amount owed to the State Building Fund pending reimbursement from grantors at the end of the year and timing of affiliate invoices caused the 56 percent increase in current liabilities in FY 2009-10. The decrease of current liabilities by 50 percent in FY 2008-09 occurred because of timing of vendor invoices. The value of noncurrent liabilities decreased by 5 percent in FY 2009-10 primarily 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. In FY 2008-09, noncurrent liabilities increased by 9 percent because of an increase in the liability 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 3 percent in FY 2009-10 and 4 percent in FY 2008-09 because of an increase in contributions from individuals and Corporation for Public Broadcasting (CPB) grants. Operating expenses increased by 10 percent in FY 2009-10 because of increased depreciation and costs to maintain the additional capital assets owned by the Radio Network. Operating expenses increased 4 percent in FY 2008-09 primarily because of increasing costs to maintain broadcast facilities.

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 26 percent in FY 2009-10 because of an increase in the ECB Radio Network's allocation of ECB's General Fund revenue, and an increase in investment earnings. The 1 percent increase in FY 2008-09 occurred because of an increase in the ECB Radio Network's allocation of ECB's General Fund revenue for the year.

Capital contributions increased 158 percent in FY 2009-10 and decreased 14 percent in FY 2008-09. In FY 2008-09, the ECB Radio Network received fewer contributions from the CPB and the State Building Fund for the construction of high definition radio transmission facilities than it received in FY 2007-08. In FY 2009-10, the ECB Radio Network began additional projects for the construction of high definition radio transmission facilities and, therefore, received additional funds both from the State Building Fund and from the CPB. The ECB Radio Network also received a grant from the NTIA for the construction of a new radio station in Coloma. 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 radio. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to *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*.

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Financial Statements ■

Balance Sheet

June 30, 2010

| | Operating Fund | WPBF (Note 13) | Total June 30, 2010 |
|---|----------------------------|----------------------------|-----------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents (Notes 1D and 2) | \$ 405,510 | \$ 2,091,003 | \$ 2,496,513 |
| Investments (Notes 1E and 2) | 0 | 2,663,466 | 2,663,466 |
| Receivable—state general appropriations (Note 1F) | 59,262 | 0 | 59,262 |
| Grants and contracts receivable | 40,737 | 0 | 40,737 |
| Pledges receivable | 0 | 187,846 | 187,846 |
| Interest receivable | 0 | 3,326 | 3,326 |
| Other receivables | 5,428 | 18,464 | 23,892 |
| Receivable—due from affiliates | 30,928 | 0 | 30,928 |
| Restricted grants receivable | 0 | 0 | 0 |
| Prepaid expenses (Note 6) | 153,761 | 13,819 | 167,580 |
| Inventory | 0 | 6,797 | 6,797 |
| Total Current Assets | <u>695,626</u> | <u>4,984,721</u> | <u>5,680,347</u> |
| Noncurrent Assets: | | | |
| Prepaid expenses (Note 6) | 55,833 | 0 | 55,833 |
| Land (Note 4) | 85,518 | 0 | 85,518 |
| Buildings, net of accumulated depreciation (Note 4) | 3,146,688 | 0 | 3,146,688 |
| Equipment, net of accumulated depreciation (Note 4) | 5,338,142 | 10,827 | 5,348,969 |
| Total Noncurrent Assets | <u>8,626,181</u> | <u>10,827</u> | <u>8,637,008</u> |
| TOTAL ASSETS | <u>\$ 9,321,807</u> | <u>\$ 4,995,548</u> | <u>\$ 14,317,355</u> |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 532,114 | \$ 24,262 | \$ 556,376 |
| Accrued liabilities due to affiliates | 538,016 | 262,001 | 800,017 |
| Deferred revenue | 0 | 3,800 | 3,800 |
| Bonds payable (Note 7) | 8,009 | 0 | 8,009 |
| Total Current Liabilities | <u>1,078,139</u> | <u>290,063</u> | <u>1,368,202</u> |
| Noncurrent Liabilities: | | | |
| Compensated absences payable (Note 5) | 111,589 | 0 | 111,589 |
| Bonds payable (Notes 5 and 7) | 98,426 | 0 | 98,426 |
| Total Noncurrent Liabilities | <u>210,015</u> | <u>0</u> | <u>210,015</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt paid by ECB | 8,463,913 | 10,827 | 8,474,740 |
| Restricted by grants or donors (Note 11) | 96,142 | 52,413 | 148,555 |
| Restricted—nonexpendable (Note 11 and 8) | 0 | 121,887 | 121,887 |
| Unrestricted | (526,402) | 4,520,358 | 3,993,956 |
| Total Net Assets | <u>8,033,653</u> | <u>4,705,485</u> | <u>12,739,138</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 9,321,807</u> | <u>\$ 4,995,548</u> | <u>\$ 14,317,355</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, 2010**

| | Operating Fund | WPBF (Note 13) | Total FY 2009-10 |
|--|---------------------|---------------------|----------------------|
| OPERATING REVENUES | | | |
| Contributed Support (Notes 1B and 14B) | \$ 0 | \$ 4,704,600 | \$ 4,704,600 |
| Corporation for Public Broadcasting Grants | 0 | 673,366 | 673,366 |
| Underwriting Grants | 0 | 608,526 | 608,526 |
| Other Grants and Contracts | 308,946 | 0 | 308,946 |
| Major Gifts | 0 | 104,534 | 104,534 |
| Contributed In-Kind Support (Note 10) | 323,079 | 16,442 | 339,521 |
| Royalties and Other Income | 116,927 | 144,966 | 261,893 |
| Total Operating Revenues | 748,952 | 6,252,434 | 7,001,386 |
| OPERATING EXPENSES | | | |
| Program Services: | | | |
| Programming and production | 4,436,750 | 73,550 | 4,510,300 |
| Broadcasting | 3,461,264 | 0 | 3,461,264 |
| Program information | 0 | 113,761 | 113,761 |
| Total Program Services | <u>7,898,014</u> | <u>187,311</u> | <u>8,085,325</u> |
| Support Services: | | | |
| Management and general | 824,348 | 123,919 | 948,267 |
| Fund-raising and membership development | 56,480 | 662,481 | 718,961 |
| Underwriting | 0 | 7,770 | 7,770 |
| Total Support Services | <u>880,828</u> | <u>794,170</u> | <u>1,674,998</u> |
| Total Operating Expenses | 8,778,842 | 981,481 | 9,760,323 |
| OPERATING INCOME (LOSS) | (8,029,890) | 5,270,953 | (2,758,937) |
| NONOPERATING REVENUES (EXPENSES) | | | |
| State General Fund Revenue for Operations | 1,931,099 | 0 | 1,931,099 |
| Required lapse to the State General Fund | (9,400) | 0 | (9,400) |
| Loss on Disposal of Capital Assets | (10,450) | 0 | (10,450) |
| State Insurance Funds | 1,118 | 0 | 1,118 |
| Capital Debt Interest Expense (Note 7) | (258,444) | 0 | (258,444) |
| Investment Income | 0 | 217,857 | 217,857 |
| Total Nonoperating Revenues (Expenses) | 1,653,923 | 217,857 | 1,871,780 |
| Income (Loss) Before Capital Contributions and Transfers | (6,375,967) | 5,488,810 | (887,157) |
| CAPITAL CONTRIBUTIONS AND TRANSFERS | | | |
| Capital Contributions (Note 9) | 2,040,589 | 0 | 2,040,589 |
| Interfund Transfers (Note 3) | 5,037,067 | (5,037,067) | 0 |
| CHANGE IN NET ASSETS | 701,689 | 451,743 | 1,153,432 |
| Total Net Assets—Beginning of the Year | 7,331,964 | 4,253,742 | 11,585,706 |
| Total Net Assets—End of the Year | <u>\$ 8,033,653</u> | <u>\$ 4,705,485</u> | <u>\$ 12,739,138</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 |
|---|--------------------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Contributed Support | \$ 0 | \$ 5,406,688 | \$ 5,406,688 |
| Receipts from Grants | 820,750 | 671,466 | 1,492,216 |
| Receipts from Royalties and Other Income | 88,845 | 147,753 | 236,598 |
| Payments to Suppliers | (5,926,982) | (871,111) | (6,798,093) |
| Payments to Employees | (1,431,688) | 0 | (1,431,688) |
| Net Cash Provided (Used) by Operating Activities | (6,449,075) | 5,354,796 | (1,094,279) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Receipts from State Government | 1,913,096 | 0 | 1,913,096 |
| Required Lapse to State General Fund | (9,400) | 0 | (9,400) |
| Interfund Transfers | 5,037,067 | (5,037,067) | 0 |
| Net Cash Provided (Used) for Noncapital Financing Activities | 6,940,763 | (5,037,067) | 1,903,696 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Capital Contributions | 1,537,620 | 0 | 1,537,620 |
| Purchases of Capital Assets | (1,769,327) | 0 | (1,769,327) |
| Principal Paid on Capital Debt | (7,540) | 0 | (7,540) |
| Interest Paid on Capital Debt | (258,444) | 0 | (258,444) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (497,691) | 0 | (497,691) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net Purchases, Sales, and Maturities of Investments | 0 | (463,752) | (463,752) |
| Interest and Dividends | 0 | 98,349 | 98,349 |
| Net Cash Used for Investing Activities | 0 | (365,403) | (365,403) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (6,003) | (47,674) | (53,677) |
| Balances—Beginning of the Year | 411,513 | 2,138,677 | 2,550,190 |
| Balances—End of the Year | <u>\$ 405,510</u> | <u>\$ 2,091,003</u> | <u>\$ 2,496,513</u> |

The accompanying notes are an integral part of this statement.

| | Operating Fund | WPBF (Note 13) | Total FY 2009-10 |
|---|-----------------------|---------------------|-----------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Operating Income (Loss) | \$ (8,029,890) | \$ 5,270,953 | \$ (2,758,937) |
| Adjustments to Reconcile Operating Income (Loss) to Net | | | |
| Cash Provided by Operating Activities: | | | |
| Depreciation expense | 701,765 | 9,281 | 711,046 |
| Grant revenue reported as capital contributions | 502,969 | 0 | 502,969 |
| Change in assets and liabilities: | | | |
| Receivables, net | (19,247) | (8,185) | (27,432) |
| Inventories | 0 | 668 | 668 |
| Prepaid expense | (4,862) | (2,187) | (7,049) |
| Deferred revenue | 0 | (1,900) | (1,900) |
| Accounts and other payables | 400,190 | 86,166 | 486,356 |
| Net Cash Provided (Used) by Operating Activities | \$ (6,449,075) | \$ 5,354,796 | \$ (1,094,279) |

Noncash Activities:

Contributed in-kind support totaled \$339,521.

The net increase in the fair value of investments was \$86,157.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$10,450.

Balance Sheet

June 30, 2009

| | Operating Fund | WPBF (Note 13) | Total June 30, 2009 |
|---|----------------------------|----------------------------|-----------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents (Notes 1D and 2) | \$ 411,513 | \$ 2,138,677 | \$ 2,550,190 |
| Investments (Notes 1E and 2) | 0 | 2,080,222 | 2,080,222 |
| Receivable—state general appropriations (Note 1F) | 40,141 | 0 | 40,141 |
| Grants and contracts receivable | 40,737 | 0 | 40,737 |
| Pledges receivable | 0 | 176,874 | 176,874 |
| Interest receivable | 0 | 3,310 | 3,310 |
| Other receivables | 4,717 | 21,251 | 25,968 |
| Receivable—due from affiliates | 3,557 | 0 | 3,557 |
| Restricted grants receivable | 8,835 | 0 | 8,835 |
| Prepaid expenses (Note 6) | 143,899 | 11,632 | 155,531 |
| Inventory | 0 | 7,465 | 7,465 |
| Total Current Assets | <u>653,399</u> | <u>4,439,431</u> | <u>5,092,830</u> |
| Noncurrent Assets: | | | |
| Prepaid expenses (Note 6) | 60,833 | 0 | 60,833 |
| Land (Note 4) | 85,518 | 0 | 85,518 |
| Buildings, net of accumulated depreciation (Note 4) | 2,464,670 | 0 | 2,464,670 |
| Equipment, net of accumulated depreciation (Note 4) | 4,963,048 | 20,108 | 4,983,156 |
| Total Noncurrent Assets | <u>7,574,069</u> | <u>20,108</u> | <u>7,594,177</u> |
| TOTAL ASSETS | <u>\$ 8,227,468</u> | <u>\$ 4,459,539</u> | <u>\$ 12,687,007</u> |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 273,887 | \$ 11,989 | \$ 285,876 |
| Accrued liabilities due to affiliates | 392,332 | 188,108 | 580,440 |
| Deferred revenue | 0 | 5,700 | 5,700 |
| Bonds payable (Note 7) | 7,540 | 0 | 7,540 |
| Total Current Liabilities | <u>673,759</u> | <u>205,797</u> | <u>879,556</u> |
| Noncurrent Liabilities: | | | |
| Compensated absences payable (Note 5) | 115,310 | 0 | 115,310 |
| Bonds payable (Notes 5 and 7) | 106,435 | 0 | 106,435 |
| Total Noncurrent Liabilities | <u>221,745</u> | <u>0</u> | <u>221,745</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt paid by ECB | 7,399,261 | 20,108 | 7,419,369 |
| Restricted by grants or donors (Note 11) | 54,912 | 35,009 | 89,921 |
| Restricted—nonexpendable (Note 11 and 8) | 0 | 68,400 | 68,400 |
| Unrestricted | (122,209) | 4,130,225 | 4,008,016 |
| Total Net Assets | <u>7,331,964</u> | <u>4,253,742</u> | <u>11,585,706</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 8,227,468</u> | <u>\$ 4,459,539</u> | <u>\$ 12,687,007</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, 2009**

| | Operating Fund | WPBF (Note 13) | Total FY 2008-09 |
|--|---------------------|---------------------|----------------------|
| OPERATING REVENUES | | | |
| Contributed Support (Notes 1B and 14B) | \$ 0 | \$ 4,425,136 | \$ 4,425,136 |
| Corporation for Public Broadcasting Grants | 0 | 581,618 | 581,618 |
| Underwriting Grants | 0 | 781,847 | 781,847 |
| Other Grants and Contracts | 322,074 | 9,600 | 331,674 |
| Major Gifts | 0 | 96,579 | 96,579 |
| Contributed In-Kind Support (Note 10) | 323,752 | 13,164 | 336,916 |
| Royalties and Other Income | 149,630 | 107,464 | 257,094 |
| Total Operating Revenues | 795,456 | 6,015,408 | 6,810,864 |
| OPERATING EXPENSES | | | |
| Program Services: | | | |
| Programming and production | 4,430,452 | 113,673 | 4,544,125 |
| Broadcasting | 2,966,614 | 0 | 2,966,614 |
| Program information | 0 | 75,389 | 75,389 |
| Total Program Services | <u>7,397,066</u> | <u>189,062</u> | <u>7,586,128</u> |
| Support Services: | | | |
| Management and general | 524,593 | 106,651 | 631,244 |
| Fund-raising and membership development | 57,127 | 607,432 | 664,559 |
| Underwriting | 0 | 7,724 | 7,724 |
| Total Support Services | <u>581,720</u> | <u>721,807</u> | <u>1,303,527</u> |
| Total Operating Expenses | 7,978,786 | 910,869 | 8,889,655 |
| OPERATING INCOME (LOSS) | (7,183,330) | 5,104,539 | (2,078,791) |
| NONOPERATING REVENUES (EXPENSES) | | | |
| State General Fund Revenue for Operations | 1,851,350 | 0 | 1,851,350 |
| Loss on Disposal of Capital Assets | (31,512) | 0 | (31,512) |
| Capital Debt Interest Expense (Note 7) | (252,449) | 0 | (252,449) |
| Investment Income | 0 | (82,465) | (82,465) |
| Total Nonoperating Revenues (Expenses) | 1,567,389 | (82,465) | 1,484,924 |
| Income (Loss) Before Capital Contributions and Transfers | (5,615,941) | 5,022,074 | (593,867) |
| CAPITAL CONTRIBUTIONS AND TRANSFERS | | | |
| Capital Contributions (Note 9) | 790,514 | 0 | 790,514 |
| Interfund Transfers (Note 3) | 4,977,519 | (4,977,519) | 0 |
| CHANGE IN NET ASSETS | 152,092 | 44,555 | 196,647 |
| Total Net Assets—Beginning of the Year | 7,179,872 | 4,209,187 | 11,389,059 |
| Total Net Assets—End of the Year | <u>\$ 7,331,964</u> | <u>\$ 4,253,742</u> | <u>\$ 11,585,706</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 |
|---|--------------------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Contributed Support | \$ 0 | \$ 5,332,753 | \$ 5,332,753 |
| Receipts from Grants | 497,502 | 594,498 | 1,092,000 |
| Receipts from Royalties and Other Income | 148,110 | 97,773 | 245,883 |
| Payments to Suppliers | (6,285,052) | (1,062,276) | (7,347,328) |
| Payments to Employees | (1,436,182) | 0 | (1,436,182) |
| Net Cash Provided (Used) by Operating Activities | (7,075,622) | 4,962,748 | (2,112,874) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Receipts from State Government | 1,901,680 | 0 | 1,901,680 |
| Interfund Transfers | 4,985,519 | (4,985,519) | 0 |
| Net Cash Provided (Used) for Noncapital Financing Activities | 6,887,199 | (4,985,519) | 1,901,680 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Capital Contributions | 678,314 | 0 | 678,314 |
| Purchases of Capital Assets | (398,446) | 0 | (398,446) |
| Principal Paid on Capital Debt | (6,894) | 0 | (6,894) |
| Interest Paid on Capital Debt | (252,449) | 0 | (252,449) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 20,525 | 0 | 20,525 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net Purchases, Sales, and Maturities of Investments | 0 | 80,662 | 80,662 |
| Interest and Dividends | 0 | 133,003 | 133,003 |
| Net Cash Used for Investing Activities | 0 | 213,665 | 213,665 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (167,898) | 190,894 | 22,996 |
| Balances—Beginning of the Year | 579,411 | 1,947,783 | 2,527,194 |
| Balances—End of the Year | <u>\$ 411,513</u> | <u>\$ 2,138,677</u> | <u>\$ 2,550,190</u> |

The accompanying notes are an integral part of this statement.

| | Operating Fund | WPBF (Note 13) | Total FY 2008-09 |
|---|------------------------------|----------------------------|------------------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Operating Income (Loss) | \$ (7,183,330) | \$ 5,104,539 | \$ (2,078,791) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | |
| Depreciation expense | 614,748 | 9,280 | 624,028 |
| Change in assets and liabilities: | | | |
| Receivables, net | 173,908 | 19,500 | 193,408 |
| Inventories | 0 | (1,480) | (1,480) |
| Prepaid expense | 1,392 | (937) | 455 |
| Deferred revenue | 0 | 3,280 | 3,280 |
| Accounts and other payables | (682,340) | (171,434) | (853,774) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (7,075,622)</u> | <u>\$ 4,962,748</u> | <u>\$ (2,112,874)</u> |

Noncash Activities:

Contributed in-kind support totaled \$336,916.

The net decrease in the fair value of investments was \$42,991.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$31,512.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Educational Communications Board is an agency of the State of Wisconsin that operates 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), as well as a public television network of 5 digital 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.

ECB 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 13 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 receives contributed 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 14B 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. 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 WPRAs 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 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 ECB Radio Network's share of WPRA 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. 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. Restricted nonexpendable net assets are restricted by donors to be maintained in perpetuity. Unrestricted net assets may be used at the ECB Radio Network's discretion.

2. DEPOSITS AND INVESTMENTS

The cash balances of the ECB Radio 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 Radio Network include publicly traded stocks, equity mutual funds, and fixed-income mutual funds and are managed by private trust companies. WPRA cash balances are held in deposit and money market accounts at one financial institution. WPRA investments include certificates of deposit, equity mutual funds, and fixed-income mutual funds. However, the certificates of deposit 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 and WPRA have 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, \$2,669,807 of the ECB Radio Network's bank balance of \$ 3,374,816 was not covered by the Federal Deposit Insurance Corporation (FDIC) and was exposed to custodial credit risk. As of June 30, 2009, \$2,161,537 of the ECB Radio Network's bank balance of \$2,886,672 was exposed to custodial credit risk.

B. Investments

Fair-market value of investment balances for the ECB Radio Network and its share of WPRA investment balances 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 | \$ 574,419 | \$ 422,824 |
| Equity Mutual Funds | 634,270 | 437,572 |
| Fixed-Income Mutual Funds | 760,057 | 544,041 |
| Certificate of Deposit | <u>694,720</u> | <u>675,785</u> |
| Total Investments | \$2,663,466 | \$2,080,222 |

ECB Radio Network investments and its share of WPRA investments 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. WPRA’s investment guidelines require an average of at least an Aa by Moody’s or at least an AA by Standard & Poor’s. As of June 30, 2010 and 2009, all the ECB Radio Network and WPRA fixed-income mutual funds were 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 the fixed-income investments maintain a weighted average maturity of less than ten years. WPRA investment guidelines require that the fixed-income investments contain a duration within 20 percent of the effective duration of the benchmark index under normal conditions. As of June 30, 2010, the fixed-income investments for the ECB Radio Network and its share of WPRA had the following average maturities:

| <u>Fixed-Income Investment</u> | <u>Market Value</u> | <u>Average Maturity</u> |
|--|---------------------|-------------------------|
| Dodge and Cox Income Fund | \$218,214 | 6.9 years |
| Vanguard Total Bond Index Fund | 152,709 | 6.6 years |
| Vanguard Fixed Income Short-Term | 372,297 | 3.3 years |
| Metropolitan West Total Return Bond Fund | 6,300 | 6.1 years |
| PIMCO Total Return Fund | 6,326 | 6.6 years |
| PIMCO Unconstrained Bond Fund | <u>4,211</u> | 4.3 years |
| Total Fixed-Income Investments | \$760,057 | |

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

| <u>Fixed-Income Investment</u> | <u>Market Value</u> | <u>Average Maturity</u> |
|----------------------------------|---------------------|-------------------------|
| Dodge and Cox Income Fund | \$161,713 | 5.6 years |
| Vanguard Total Bond Index Fund | 163,232 | 5.7 years |
| Vanguard Fixed Income Short-Term | <u>219,096</u> | 2.6 years |
| Total Fixed-Income Investments | \$544,041 | |

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 \$238,263 and \$113,490, respectively, in international equity securities and mutual funds. As of June 30, 2010, ECB Radio Network’s share of WPRA’s exposure to foreign currency risk is its investments of \$9,917 in international equity investments. 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. WPRA’s investment guidelines related to foreign currency risk indicate that international equity investments held by WPRA 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 Radio 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 | <u>\$ 85,518</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 85,518</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 4,032,771 | 881,225 | (23,211) | 4,890,785 |
| Equipment | <u>8,515,045</u> | <u>888,102</u> | <u>(57,263)</u> | <u>9,345,884</u> |
| Total Capital Assets at Historical Cost | <u>12,547,816</u> | <u>1,769,327</u> | <u>(80,474)</u> | <u>14,236,669</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | (1,568,101) | (196,886) | 20,890 | (1,744,097) |
| Equipment | <u>(3,531,889)</u> | <u>(514,160)</u> | <u>49,134</u> | <u>(3,996,915)</u> |
| Total Accumulated Depreciation | <u>(5,099,990)</u> | <u>(711,046)</u> | <u>70,024</u> | <u>(5,741,012)</u> |
| Total Capital Assets Being Depreciated, Net | <u>7,447,826</u> | <u>1,058,281</u> | <u>(10,450)</u> | <u>8,495,657</u> |
| Total Capital Assets, Net | <u>\$7,533,344</u> | <u>\$1,058,281</u> | <u>\$(10,450)</u> | <u>\$8,581,175</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 | \$ 85,518 | \$ 0 | \$ 0 | \$ 85,518 |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 3,951,217 | 81,554 | 0 | 4,032,771 |
| Equipment | <u>8,349,223</u> | <u>316,892</u> | <u>(151,070)</u> | <u>8,515,045</u> |
| Total Capital Assets at Historical Cost | <u>12,300,440</u> | <u>398,446</u> | <u>(151,070)</u> | <u>12,547,816</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | (1,409,258) | (158,843) | 0 | (1,568,101) |
| Equipment | <u>(3,186,262)</u> | <u>(465,185)</u> | <u>119,558</u> | <u>(3,531,889)</u> |
| Total Accumulated Depreciation | <u>(4,595,520)</u> | <u>(624,028)</u> | <u>119,558</u> | <u>(5,099,990)</u> |
| Total Capital Assets Being Depreciated, Net | <u>7,704,920</u> | <u>(225,582)</u> | <u>(31,512)</u> | <u>7,447,826</u> |
| Total Capital Assets, Net | <u>\$7,790,438</u> | <u>\$(225,582)</u> | <u>\$(31,512)</u> | <u>\$7,533,344</u> |

Depreciation expense was charged to functions as follows:

| | <u>FY 2009-10</u> | <u>FY 2008-09</u> |
|--|-------------------|-------------------|
| Programming and Production | \$ 854 | \$ 608 |
| Broadcasting | 693,186 | 607,229 |
| Management and General | 7,725 | 6,911 |
| Fund-raising and Membership Development | <u>9,281</u> | <u>9,280</u> |
| Total Depreciation Expense | \$711,046 | \$624,028 |

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 four NTIA capital equipment grants related to the ECB Radio Network between FY 1998-99 and FY 2009-10. The book value of equipment with an NTIA priority lien is \$277,586 as of June 30, 2010, and \$316,522 as of June 30, 2009.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2010, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|-------------------------|------------------------------|------------------|------------------|---------------------------|
| Compensated Absences | \$115,310 | \$20,571 | \$(24,292) | \$111,589 |
| Bonds Payable | <u>106,435</u> | <u>0</u> | <u>(8,009)</u> | <u>98,426</u> |
| Noncurrent Liabilities | \$221,745 | \$20,571 | \$(32,301) | \$210,015 |

Noncurrent 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> |
|------------------------|------------------------------|------------------|------------------|---------------------------|
| Compensated Absences | \$ 89,408 | \$27,290 | \$(1,388) | \$115,310 |
| Bonds Payable | <u>113,975</u> | <u>0</u> | <u>(7,540)</u> | <u>106,435</u> |
| Noncurrent Liabilities | \$203,383 | \$27,290 | \$(8,928) | \$221,745 |

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 and total \$77,388 for compensated absences on June 30, 2010, and \$71,351 for compensated absences on June 30, 2009, and \$8,009 for bonds payable on June 30, 2010, and \$7,540 for bonds payable 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 \$100,000 was allocated to the ECB 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 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 \$60,833 as of June 30, 2010, and \$65,833 as of June 30, 2009.

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 ECB Television Network and 40 percent to the ECB Radio Network. Payments related to the ECB Radio Network were \$4,920 for FY 2009-10 and \$4,776 for FY 2008-09.

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

| Fiscal Year Ended June 30 | Television Network | Radio Network | Total |
|------------------------------|-----------------------|------------------|------------------|
| 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 appropriation is reported in the State of Wisconsin’s Comprehensive Annual Financial Report (CAFR) 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, 2010 and 2009, is \$6,880,531 and \$5,474,002, respectively, in general obligation bonds and \$386,374 in commercial paper notes in both years. ECB is responsible for the repayment of interest on these obligations; therefore, interest expense of \$252,537 and \$246,170 is included in the nonoperating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets for FY 2009-10 and FY 2008-09, respectively.

In addition to general obligations financed by general purpose revenue, five 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 amounts provided through program revenue for indebtedness during FY 2009-10 and FY 2008-09 are \$13,447 and \$13,173, respectively, which consisted of principal payments of \$7,540 and \$6,894, respectively, and interest payments of \$5,907 and \$6,279, respectively. The principal payments are recorded as reductions of the current bonds payable, while the interest payments are included in the nonoperating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

As of June 30, 2010, debt service requirements for principal and interest in future years for program revenue-funded bonds are as follows:

| Fiscal Year Ended June 30 | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|------------------------------|------------------|-----------------|---------------------|
| 2011 | \$ 8,009 | \$ 5,449 | \$ 13,458 |
| 2012 | 8,971 | 5,048 | 14,019 |
| 2013 | 9,190 | 4,599 | 13,789 |
| 2014 | 9,782 | 4,098 | 13,880 |
| 2015 | 10,266 | 3,566 | 13,832 |
| 2016 to 2020 | 59,338 | 9,396 | 68,734 |
| 2021 | <u>879</u> | <u>44</u> | <u>923</u> |
| Total | \$106,435 | \$32,200 | \$138,635 |

8. ENDOWMENT

WPRA has received endowment gifts that require the preservation of the fair value of the original gifts as of the gift date. The ECB Radio Network’s share of the gifts is shown as restricted nonexpendable net assets to comply with provisions of the Uniform Prudent Management of Institutional Funds Act. Additional disclosures about the endowment and the WPRA Board of Directors’ policies pertaining to the endowment are available in WPRA’s separately issued financial statements.

The management of WPBF established a radio endowment during FY 2004-05 to support the operations of ECB Radio Network, as determined necessary by ECB staff, with oversight by the WPBF board. The value is \$263,005 as of June 30, 2010, and \$263,977 as of June 30, 2009, and is included in the investments and the cash and cash equivalents accounts on the Balance Sheets. Investment income earned on the endowment is used for operations. None of the assets in the WPBF 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 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 to purchase capital equipment are recorded as support when the disbursements are made. Grant funds received from the Corporation for Public Broadcasting 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, and donated instructional radio services. In-kind support is reported both as revenues 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 | \$ 32,011 | \$ 29,736 |
| Operational | 290,092 | 282,913 |
| Instructional Radio | 976 | 11,103 |
| Materials | <u>16,442</u> | <u>13,164</u> |
| Total In-Kind Support | \$339,521 | \$336,916 |

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 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*.

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 \$164,249 for FY 2009-10 and \$155,347 for FY 2008-09. Of these amounts, \$34,229 in FY 2009-10 and \$30,100 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 Radio Network in the Wisconsin Retirement System is not available because the 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 Radio 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 Radio 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 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 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 PUBIC 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 radio are included in the ECB Radio Network's financial statements, and 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, 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. 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 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, 2010</u> | <u>June 30, 2009</u> |
|---------------------------------|--|--|
| Cash and Investments | \$779,314 | \$675,785 |
| Other Assets | <u>235,703</u> | <u>237,330</u> |
| Total Assets | 1,015,017 | 913,115 |
| Total Liabilities | <u>(28,062)</u> | <u>(17,689)</u> |
| Net Assets | <u>\$986,955</u> | <u>\$895,426</u> |
| | <u>Fiscal Year Ended</u> <u>June 30, 2010</u> | <u>Fiscal Year Ended</u> <u>June 30, 2009</u> |
| Contributed Support and Revenue | \$4,999,344 | \$4,695,633 |
| Expenses: | | |
| Program information | \$113,761 | \$ 75,389 |
| Management and general | 104,501 | 96,547 |
| Fund-raising | <u>662,481</u> | <u>607,432</u> |
| Total Expenses | \$ 880,743 | \$ 779,368 |

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, 2010</u> | <u>June 30, 2009</u> |
|--|----------------------|----------------------|
| Cash and Investments | \$2,194,704 | \$1,896,914 |
| Other Assets | <u>310,135</u> | <u>312,276</u> |
| Total Assets | 2,504,839 | 2,209,190 |
| Payables and Other Current Liabilities | <u>(595,825)</u> | <u>(447,963)</u> |
| Net Assets | <u>\$1,909,014</u> | <u>\$1,761,227</u> |

| | <u>Fiscal Year Ended June 30, 2010</u> | <u>Fiscal Year Ended June 30, 2009</u> |
|---------------------------------|--|--|
| Contributed Support and Revenue | \$6,583,803 | \$6,133,349 |
| Expenses: | | |
| Program information | \$ 149,685 | \$ 99,196 |
| Management and general | 137,501 | 127,035 |
| Fund-raising | 850,051 | 781,932 |
| Payments to ECB and WHA | <u>5,298,779</u> | <u>4,995,673</u> |
| Total Expenses | <u>6,436,016</u> | <u>6,003,836</u> |
| Net Change in Assets | <u>\$ 147,787</u> | <u>\$ 129,513</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.

15. 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's 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 2009-10</u> | <u>WERN-FM and Affiliates</u> | <u>WHAD-FM and Affiliates</u> | <u>ECB Radio Total</u> |
|---|--|--|-----------------------------------|
| Operating Revenues | | | |
| Contributed Support | \$2,659,252 | \$2,045,348 | \$4,704,600 |
| Corporation for Public Broadcasting Grants | 411,343 | 262,023 | 673,366 |
| Underwriting Grants | 364,972 | 243,554 | 608,526 |
| Other Grants and Contracts | 308,946 | 0 | 308,946 |
| Major Gifts | 104,534 | 0 | 104,534 |
| Contributed In-Kind Support | 339,521 | 0 | 339,521 |
| Royalties and Other Income | <u>261,893</u> | <u>0</u> | <u>261,893</u> |
| Total Operating Revenues | <u>4,450,461</u> | <u>2,550,925</u> | <u>7,001,386</u> |
| Operating Expenses | | | |
| Program Services: | | | |
| Programming and production | 2,126,573 | 2,383,727 | 4,510,300 |
| Broadcasting | 1,793,343 | 1,667,921 | 3,461,264 |
| Program information | <u>113,761</u> | <u>0</u> | <u>113,761</u> |
| Total Program Services | <u>4,033,677</u> | <u>4,051,648</u> | <u>8,085,325</u> |
| Support Services: | | | |
| Management and general | 518,079 | 430,188 | 948,267 |
| Fund-raising and membership development | 718,961 | 0 | 718,961 |
| Underwriting | <u>7,770</u> | <u>0</u> | <u>7,770</u> |
| Total Support Services | <u>1,244,810</u> | <u>430,188</u> | <u>1,674,998</u> |
| Total Operating Expenses | <u>5,278,487</u> | <u>4,481,836</u> | <u>9,760,323</u> |
| Operating Income (Loss) | <u>(828,026)</u> | <u>(1,930,911)</u> | <u>(2,758,937)</u> |
| Nonoperating Revenues (Expenses) | | | |
| State General Fund Revenue | 1,204,504 | 726,595 | 1,931,099 |
| Loss on Disposal of Capital Assets | (10,450) | 0 | (10,450) |
| Required Lapse to State General Fund | (9,400) | 0 | (9,400) |
| State Insurance Funds | 1,118 | 0 | 1,118 |
| Capital Debt Interest Expense | (258,444) | 0 | (258,444) |
| Investment Income | <u>217,857</u> | <u>0</u> | <u>217,857</u> |
| Total Nonoperating Revenues (Expenses) | <u>1,145,185</u> | <u>726,595</u> | <u>1,871,780</u> |
| Income (Loss) Before Contributions and Transfers | 317,159 | (1,204,316) | (887,157) |
| Capital Contributions and Transfers | | | |
| Capital Contributions | <u>742,062</u> | <u>1,298,527</u> | <u>2,040,589</u> |
| Change in Net Assets | <u>\$1,059,221</u> | <u>\$ 94,211</u> | <u>\$1,153,432</u> |

| <u>FY 2008-09</u> | <u>WERN-FM and Affiliates</u> | <u>WHAD-FM and Affiliates</u> | <u>ECB Radio Total</u> |
|---|-----------------------------------|-----------------------------------|----------------------------|
| Operating Revenues | | | |
| Contributed Support Corporation for Public Broadcasting | \$2,502,053 | \$1,923,083 | \$4,425,136 |
| Grants | 371,310 | 210,308 | 581,618 |
| Underwriting Grants | 483,194 | 298,653 | 781,847 |
| Other Grants and Contracts | 331,674 | 0 | 331,674 |
| Major Gifts | 96,579 | 0 | 96,579 |
| Contributed In-Kind Support | 336,916 | 0 | 336,916 |
| Royalties and Other Income | <u>257,094</u> | <u>0</u> | <u>257,094</u> |
| Total Operating Revenues | <u>4,378,820</u> | <u>2,432,044</u> | <u>6,810,864</u> |
| Operating Expenses | | | |
| Program Services: | | | |
| Programming and production | 2,206,466 | 2,337,659 | 4,544,125 |
| Broadcasting | 2,083,892 | 882,722 | 2,966,614 |
| Program information | <u>75,389</u> | <u>0</u> | <u>75,389</u> |
| Total Program Services | <u>4,365,747</u> | <u>3,220,381</u> | <u>7,586,128</u> |
| Support Services: | | | |
| Management and general | 395,225 | 236,019 | 631,244 |
| Fund-raising and membership development | 664,559 | 0 | 664,559 |
| Underwriting | <u>7,724</u> | <u>0</u> | <u>7,724</u> |
| Total Support Services | <u>1,067,508</u> | <u>236,019</u> | <u>1,303,527</u> |
| Total Operating Expenses | <u>5,433,255</u> | <u>3,456,400</u> | <u>8,889,655</u> |
| Operating Income (Loss) | <u>(1,054,435)</u> | <u>(1,024,356)</u> | <u>(2,078,791)</u> |
| Nonoperating Revenues (Expenses) | | | |
| State General Fund Revenue | 1,288,164 | 563,186 | 1,851,350 |
| Loss on Disposal of Capital Assets | (31,512) | 0 | (31,512) |
| Capital Debt Interest Expense | (252,449) | 0 | (252,449) |
| Investment Income | <u>(82,465)</u> | <u>0</u> | <u>(82,465)</u> |
| Total Nonoperating Revenues (Expenses) | <u>921,738</u> | <u>536,186</u> | <u>1,484,924</u> |
| Income (Loss) Before Contributions and Transfers | (132,697) | (461,170) | (593,867) |
| Capital Contributions and Transfers | | | |
| Capital Contributions | <u>164,291</u> | <u>626,223</u> | <u>790,514</u> |
| Change in Net Assets | <u>\$ 31,594</u> | <u>\$ 165,053</u> | <u>\$ 196,647</u> |

16. PRIOR-PERIOD ADJUSTMENT

An error made in the previously reported FY 2008-09 financial statements has been corrected in the accompanying FY 2008-09 financial statements. \$44,294 of revenue from state agencies was incorrectly reported as state General Fund revenue rather than as other types of revenue. As a result of the correction, state General Fund revenue was reduced by \$44,294, grants and contracts revenue was increased by \$40,737, and royalties and other revenue was increased by \$3,557 in the operating revenue section of the adjusted FY 2008-09 Statement of Revenues, Expenses, and Changes in Net Assets. In addition, the \$40,737 receivable associated with the grants and contracts revenue was adjusted from "Receivable—State General Tax Revenue" to "Grants and Contracts Receivable" on the current assets section of the adjusted FY 2008-09 Balance Sheet. The receivable associated with the royalties and other revenues was correctly reported in the other receivable account on the FY 2008-09 Balance Sheet. This correction had no effect on net assets in the FY 2008-09 financial statements.

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Report on Internal Control and Compliance ■

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's Operating Fund and the Wisconsin Public Broadcasting Foundation Inc.'s Radio 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 Wisconsin Public Radio Association, Inc., as described in our opinion on the ECB Radio Network. While 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, 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 Radio 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 Radio and the Television Networks' financial statements. The most significant errors that affected the ECB Radio Network's financial statements included:

- a misclassification of net assets as restricted net assets. ECB incorrectly reported a fiscal stabilization grant of \$56,909 from the Corporation of Public Broadcasting (CPB) as restricted rather than unrestricted net assets on the ECB Radio Network's Balance Sheet. CPB instructions clearly indicate that the stabilization grant was considered unrestricted in its use;
- a \$50,191 misallocation of expenses between the Radio and Television Networks, which resulted in an overstatement of expenses in the ECB Radio Network's financial statements and an understatement of expenses in the ECB Television Network's financial statements. Cash and general purpose revenue (GPR) were also reported incorrectly in the financial statements because of the error; and
- a \$40,737 misclassification of revenue for the ECB Radio Network's financial statements, which resulted in an overstatement of other grant revenue and understatement of GPR. The error was related to a misclassification in the FY 2008-09 financial statements in which GPR was overstated and other grant revenue was understated by \$40,737.

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 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*.

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 
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Audit Director