

AN AUDIT

*Wisconsin Educational  
Communications Board  
Television Network*

*98-18*

*December 1998*

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State of Wisconsin

LEGISLATIVE AUDIT BUREAU



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December 30, 1998

Senator Mary A. Lazich and  
Representative Carol Kelso, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

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

Dear Senator Lazich, Representative Kelso, Senator George, and Mr. Fletemeyer:

We have completed a financial audit of the State of Wisconsin Educational Communications Board Television Network to meet our audit requirements under s. 13.94, Wis. Stats., and as requested by the Educational Communications Board to fulfill the audit requirements of the Corporation for Public Broadcasting. Our audit report contains the financial statements and related notes for the period July 1, 1997 through June 30, 1998.

A new accounting standard requires the Educational Communications Board Television Network to include a note disclosure on its year 2000 readiness. However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. As a result, we qualify our independent auditor's report because, in our judgment, it is not possible to obtain sufficient evidence to support the Educational Communications Board Television Network's disclosures with respect to the year 2000 issue.

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

Respectfully submitted,

Janice Mueller  
State Auditor

JM/DA/ao



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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE WISCONSIN EDUCATIONAL COMMUNICATIONS BOARD TELEVISION NETWORK

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We have audited the accompanying balance sheet of the Wisconsin Educational Communications Board Television Network as of June 30, 1998, and the related statements of financial activity and cash flows for the year then ended. These financial statements are the responsibility of the Educational Communications Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Auditing Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Wisconsin Educational Communications Board Television Network has included such disclosures in Note 14. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, in our judgment, it is not possible to obtain sufficient evidence to support the Wisconsin Educational Communications Board Television Network's disclosures with respect to the year 2000 issue made in Note 14. Further, we do not provide assurance that the Educational Communications Board Television Network is or will be year 2000 ready, that the Educational Communications Board Television Network's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Educational Communications Board Television Network does business will be year 2000 ready.

As discussed in Note 1, the financial statements present only the Wisconsin Educational Communications Board Television Network and are not intended to present fairly the financial position of the State of

Wisconsin and the results of its operations and changes in fund balances of its fund types in conformity with generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had it been possible to obtain sufficient evidence regarding year 2000 disclosures, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Wisconsin Educational Communications Board Television Network as of June 30, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The Wisconsin Educational Communications Board Television Network implemented Governmental Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and increased its capitalization threshold for property and equipment from \$500 to \$5,000 during fiscal year 1997-98, as discussed in Note 2 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 1998, on our consideration of the Wisconsin Educational Communications Board Television Network's internal controls over financial reporting and our tests of its compliance with laws, regulations, contracts, and grants.

LEGISLATIVE AUDIT BUREAU

December 21, 1998

by

Diann Allsen  
Audit Director

**Wisconsin Educational Communications Board Television Network  
Balance Sheet  
June 30, 1998**

	Unrestricted Fund	Restricted Fund	WPBF (Note 12)	Total June 30, 1998	Total June 30, 1997
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents (Note 1)	\$ 72,892	\$ 0	\$ 908,283	\$ 981,175	\$ 973,563
Investments (Note 3)	0	0	2,633,759	2,633,759	2,221,641
Cost incurred for programs not yet broadcast	339,074	231,755	0	570,829	378,476
Receivable - State general appropriation	0	1,237,698	0	1,237,698	1,286,787
Grants and contracts receivable	0	553	5,118	5,671	156,737
Interfund receivable (payable) (Note 4)	495,522	(2,314)	(493,208)	0	0
Interest receivable	0	0	3,727	3,727	27,119
Accounts receivable - Instructional material	13,498	0	0	13,498	1,395
Other receivable	59,916	0	80,096	140,012	65,845
Inventory - Instructional material	96,533	0	0	96,533	82,340
Prepaid expenses	44,757	1,582	0	46,339	53,515
<b>Total Current Assets</b>	<b>1,122,192</b>	<b>1,469,274</b>	<b>3,137,775</b>	<b>5,729,241</b>	<b>5,247,418</b>
Noncurrent Assets:					
Receivable - State general appropriation	0	3,034,984	0	3,034,984	3,496,188
Equipment (Note 5)	7,402,841	0	0	7,402,841	8,981,734
Buildings (Note 5)	78,421	0	0	78,421	83,572
Land	57,416	0	0	57,416	57,416
<b>Total Noncurrent Assets</b>	<b>7,538,678</b>	<b>3,034,984</b>	<b>0</b>	<b>10,573,662</b>	<b>12,618,910</b>
<b>Total Assets</b>	<b>\$ 8,660,870</b>	<b>\$ 4,504,258</b>	<b>\$ 3,137,775</b>	<b>\$ 16,302,903</b>	<b>\$ 17,866,328</b>
<b>Liabilities and Fund Balances</b>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 371,164	\$ 563,200	\$ 54,907	\$ 989,271	\$ 801,306
Deferred revenue for programs not yet broadcast (Note 6)	0	231,755	0	231,755	52,192
Deferred support (Note 6)	0	229	0	229	20,975
Capital lease payable (Note 9)	40,590	0	0	40,590	0
Note payable (Note 8)	0	48,372	0	48,372	0
Wisconsin general obligation bonds payable	0	625,718	0	625,718	716,137
<b>Total Current Liabilities</b>	<b>411,754</b>	<b>1,469,274</b>	<b>54,907</b>	<b>1,935,935</b>	<b>1,590,610</b>
Long-term Liabilities:					
Capital lease payable	17,446	0	0	17,446	0
Wisconsin general obligation bonds payable (Note 6)	0	3,034,984	0	3,034,984	3,496,188
<b>Total Long-term Liabilities</b>	<b>17,446</b>	<b>3,034,984</b>	<b>0</b>	<b>3,052,430</b>	<b>3,496,188</b>
Fund Balances					
Designated for operations	692,992	0	2,744,584	3,437,576	3,318,524
Designated for endowment (Note 9)	0	0	338,284	338,284	338,284
Net investment in property and equipment	7,538,678	0	0	7,538,678	9,122,722
<b>Total Fund Balances</b>	<b>8,231,670</b>	<b>0</b>	<b>3,082,868</b>	<b>11,314,538</b>	<b>12,779,530</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,660,870</b>	<b>\$ 4,504,258</b>	<b>\$ 3,137,775</b>	<b>\$ 16,302,903</b>	<b>\$ 17,866,328</b>

The accompanying notes are an integral part of this statement.

**Wisconsin Educational Communications Board Television Network**  
**Statement of Financial Activity**  
**for the Year Ended June 30, 1998**

	Unrestricted Fund	Restricted Fund	WPBF (Note 12)	Total 1997-98	Total 1996-97
<b>Support and Revenue</b>					
State general appropriation	\$ 0	\$ 4,806,739	\$ 0	\$ 4,806,739	\$ 5,239,942
State building trust funds	0	402,994	0	402,994	675,332
State insurance funds	0	54,019	0	54,019	9,135
Contributions undesignated	0	0	2,149,380	2,149,380	2,075,565
Community services grant - CPB	0	0	780,334	780,334	825,903
Underwriting grants	0	0	380,403	380,403	404,992
Federal grants	0	182,925	0	182,925	501,365
Other grants	75,921	0	35,611	111,532	134,026
Donated professional services (Note 11)	0	276,347	0	276,347	295,035
Major gifts	0	0	127,482	127,482	92,184
Investment income	0	0	334,835	334,835	201,754
Sale of instructional material	125,658	0	0	125,658	84,656
Royalties and other income	442,159	0	751,187	1,193,346	809,119
Total Support and Revenue	<u>643,738</u>	<u>5,723,024</u>	<u>4,559,232</u>	<u>10,925,994</u>	<u>11,349,008</u>
<b>Expenses</b>					
Program Services:					
Programming and production	2,824,077	2,045,669	387,141	5,256,887	4,761,612
Broadcasting	970,938	2,100,743	0	3,071,681	3,187,530
Program information	107,774	0	72,877	180,651	155,434
Total Program Services	<u>3,902,789</u>	<u>4,146,412</u>	<u>460,018</u>	<u>8,509,219</u>	<u>8,104,576</u>
Support Services:					
Management and general	418,427	956,696	7,902	1,383,025	1,074,642
Fund raising and membership development	302,017	6,822	633,790	942,629	1,026,752
Total Support Services	<u>720,444</u>	<u>963,518</u>	<u>641,692</u>	<u>2,325,654</u>	<u>2,101,394</u>
Total Expenses	<u>4,623,233</u>	<u>5,109,930</u>	<u>1,101,710</u>	<u>10,834,873</u>	<u>10,205,970</u>
Excess (Deficiency) of Support and Revenue over Expenses	(3,979,495)	613,094	3,457,522	91,121	1,143,038
<b>Fund Balances</b>					
Beginning fund balances as previously reported	9,742,268	0	3,037,262	12,779,530	11,627,466
Accounting changes (Note 2)	(1,556,113)	0	0	(1,556,113)	3,051
Beginning fund balances as adjusted	8,186,155	0	3,037,262	11,223,417	11,630,517
Equipment transfers from Radio	0	0	0	0	5,975
Interfund donation	4,025,010	(613,094)	(3,411,916)	0	0
Fund Balances at End of Year	<u>\$ 8,231,670</u>	<u>\$ 0</u>	<u>\$ 3,082,868</u>	<u>\$11,314,538</u>	<u>\$12,779,530</u>

The accompanying notes are an integral part of this statement.

**Wisconsin Educational Communications Board Television Network**  
**Statement of Cash Flows**  
**for the Year Ended June 30, 1998**

Statement 3

	Operating Funds	WPBF (Note 12)	Total 1997-98	Total 1996-97
<b>Cash Flows from Operating Activities</b>				
Excess (Deficiency) of revenues over expenses	\$ (3,366,401)	\$ 3,457,522	\$ 91,121	\$ 1,143,038
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:				
Unrealized (gain) loss on investments	0	(123,544)	(123,544)	(19,216)
Realized (gain) loss on investments	0	(19,947)	(19,947)	0
Depreciation	743,160	0	743,160	888,729
Donated equipment	0	0	0	(4,560)
Loss on disposal of fixed assets	4,200	0	4,200	140,848
Changes in cash due to:				
Decrease (Increase) in cost incurred for programs not yet broadcast	(192,353)	0	(192,353)	(17,733)
Decrease (Increase) in receivable - State general appropriation	49,089	0	49,089	(239,465)
Decrease (Increase) in grants and contracts receivable	131,184	19,882	151,066	(26,050)
Decrease (Increase) in interest receivable	0	23,392	23,392	(1,136)
Decrease (Increase) in accounts receivable - Instructional material	(12,103)	0	(12,103)	5,530
Decrease (Increase) in other receivables	(34,565)	(39,602)	(74,167)	(26,344)
Decrease (Increase) in inventory - Instructional material	(14,193)	0	(14,193)	12,980
Decrease (Increase) in prepaid expenses	7,176	0	7,176	(38,050)
Increase (Decrease) in accounts payable and accrued expenses	222,574	(34,609)	187,965	(132,939)
Increase (Decrease) in deferred revenue for programs not yet broadcast	179,563	0	179,563	17,419
Increase (Decrease) in deferred support	229	(20,975)	(20,746)	20,975
Change in interfund receivable	(481,653)	481,653	0	0
Net Cash Provided by Operating Activities	<u>(2,764,093)</u>	<u>3,743,772</u>	<u>979,679</u>	<u>1,724,026</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Interfund donations	<u>3,411,916</u>	<u>(3,411,916)</u>	<u>0</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of property and equipment	(719,429)	0	(719,429)	(1,828,777)
Increase (Decrease) in capital lease payable	58,036	0	58,036	0
Increase (Decrease) in notes payable	48,372	0	48,372	0
Increase (Decrease) in Wisconsin general obligation bonds payable	(90,419)	0	(90,419)	215,578
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(703,440)</u>	<u>0</u>	<u>(703,440)</u>	<u>(1,613,199)</u>
<b>Cash Flows from Investing Activities</b>				
Net proceeds from sale, maturity, or (purchase) of investments	<u>0</u>	<u>(268,627)</u>	<u>(268,627)</u>	<u>(446,814)</u>
Increase in Cash and Cash Equivalents	(55,617)	63,229	7,612	(335,987)
<b>Cash and Equivalents</b>				
Beginning of Year	<u>128,509</u>	<u>845,054</u>	<u>973,563</u>	<u>1,309,550</u>
End of Year	<u>\$ 72,892</u>	<u>\$ 908,283</u>	<u>\$ 981,175</u>	<u>\$ 973,563</u>

The accompanying notes are an integral part of this statement.



### 1. Summary of Significant Accounting Policies

#### Organization

The Wisconsin Educational Communications Board (ECB), an agency of the State of Wisconsin, operates a television network consisting of five stations. This reporting format is required by the Corporation for Public Broadcasting. The financial statements include the accounts relating to the ECB Television Network within the Wisconsin Public Broadcasting Foundation, Inc. (WPBF), a nonprofit Wisconsin corporation. WPBF solicits funds in the name of, and with the approval of, ECB. ECB also operates a network of ten FM and one AM public radio stations. Separate accounts for each television and radio station are maintained by direct charging whenever possible. All interstation or general organization transactions were distributed by an appropriate allocation system. The Friends Groups for Channels 20, 28, and 38 do not solicit funds in the name of ECB. These organizations are currently not financially significant to ECB and do not meet the control criteria necessary to combine with the ECB Television Network's financial statements.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). As permitted by GASB, the Wisconsin Educational Communications Board Television Network follows the American Institute of Certified Public Accountants (AICPA) Not-for-Profit model, which includes the accounting and financial reporting principles contained in AICPA's Statement of Position (SOP) 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, as modified by all applicable Financial Accounting Standards Board pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements. In addition, provisions of the Corporation for Public Broadcasting's *Principles of Accounting and Financial Reporting for Public Telecommunications Entities (1990 ed.)* that were not contradictory with AICPA Not-for-Profit model were followed.

### Fund Accounting

The assets, liabilities, and fund balances of the ECB Television Network are reported in one self-balancing fund group. Operating funds include unrestricted, restricted, and WPBF resources that are available for support of the ECB Television Network's operations. The funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting.

### Revenue Recognition

Under the *Principles of Accounting and Financial Reporting for Public Telecommunications Entities*, noncash contributions are recognized as revenues. Contributions and grants that are unrestricted are recorded as support in the statement of financial activity when received. Restricted revenues are recorded as support in the statement of financial activity when the purpose for which the resources were provided has been accomplished. Pledges for contributions or membership fees are recorded as income when the cash is received.

### 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. These programs are funded with restricted and unrestricted sources of support. Restricted support and revenue related to these programs are to be included in deferred revenues for programs not yet broadcast. As the programs are broadcast, the expenses incurred and the related restricted support and revenue are recognized in the combined statements of financial activity.

### Receivable - State of Wisconsin General Appropriation

For the fiscal year (FY) reported, the portion of accrued liabilities to be financed with amounts appropriated by the State of Wisconsin is reported as a receivable as of the fiscal year-end.

### Cash and Cash Equivalents

Cash and cash equivalents in the Television Network's unrestricted and restricted fund include cash balances deposited with the State Treasurer and shares in the State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the WPBF fund include cash deposits with financial institutions.

### Valuation of Investments

All investments of the WPBF related to the Television Network are carried at fair value based on quoted market price. State Investment Fund shares are valued at amortized cost, which approximates fair value.

### Allocation of Functional Expenses

Expenses are categorized in functional categories. Expenses that relate to more than one category are allocated to the respective categories, using estimates if necessary.

### Property and Equipment

Items classified as permanent property are recorded at cost or, for donated property, at the estimated fair-market value at date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 to 20 years. Expenses for repairs and maintenance are charged to operating expenses as incurred. Assets are capitalized if their value is in excess of \$5,000.

### Employee Compensated Absences

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

### Prior-Year Financial Statements

The financial information shown for FY 1996-97 in the accompanying financial statements presents summarized totals and is included to provide a basis for comparison with FY 1997-98 only.

## **2. Accounting Changes**

In FY 1997-98, the capitalization threshold for permanent property was increased from \$500 to \$5,000. The cumulative effect of expensing undepreciated equipment purchased in years prior to FY 1997-98 at a cost of less than \$5,000 is \$1,556,113, which decreases the beginning fund balance in the unrestricted fund.

GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, was implemented during FY1997-98. This standard requires that governmental entities report investments at fair value in their balance sheets and include changes in the fair value of investments in investment income. Provisions of this statement have been applied retroactively to FY 1996-97, with the cumulative effect of applying this statement for prior periods not presented shown as a restatement of the beginning balance of net assets in the amount of \$3,051. In addition, \$336,320 of bond and equity mutual funds has been reclassified from cash and cash equivalents to investments in the FY 1996-97 comparative statements.

### **3. Deposits and Investments**

The cash balances of ECB's unrestricted and restricted funds are deposited with the State of Wisconsin Treasurer and invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by a Board of Trustees as authorized in ss. 25.14 and 25.17, Wis. Stats. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company. Holdings of the State Investment Fund include certificates of deposit (CDs) and investments consisting primarily of direct obligations of the federal government, securities of federally chartered corporations, unsecured notes of qualifying financial and industrial issuers, and Yankee/Euro dollar issues.

WPBF manages its cash and investment activities separate from the cash and investment activities of the State Investment Fund. Interest earnings are income to WPBF and are not transferred to the State of Wisconsin. The investments of WPBF relating to the ECB Television Network are managed by private trust companies.

#### Deposits

GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed by the State at year-end. The risk categories for deposits are:

1. insured or collateralized with securities held by WPBF or by its agent in WPBF's name;
2. uninsured but collateralized by financial institution;

3. uninsured and uncollateralized.

As of June 30, 1998, all investments and 94 percent (\$279.1 million) of the CDs held by the State Investment Fund that are required to be categorized meet the criteria for risk category 1. The remaining six percent (\$17.3 million) of the CDs are uninsured and uncollateralized and are classified as risk category 3. Actual coverage of these deposits fluctuates daily based on the allocable shares of participants' accounts.

At year-end, the carrying amount of ECB's Television Network demand deposits with financial institutions was \$138,470 and the bank balance was \$605,585. State deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and the Wisconsin State Deposit Guarantee Fund (s. 34.08, Wis. Stats.). Of the bank balance, \$364,580 was insured and classified in risk category 1, and \$241,005 was uninsured and uncollateralized and is classified in risk category 3.

Investments

GASB Statement 3 also requires investments to be categorized to indicate the level of risk assumed by the State at year-end. The risk categories for investments are:

1. insured or registered, or the securities are held by WPBF or its agent in WPBF's name;
2. uninsured and unregistered, with securities held by counterparty or its agent in WPBF's name;
3. uninsured and unregistered, or the securities are held by counterparty or its agent but not in WPBF's name.

With the exception of open-end mutual funds, which are not categorized, all investments meet the criteria for risk category 1.

Cash and Investment Balances as of June 30, 1998

<u>Cash and Cash Equivalents</u>	<u>Carrying &amp; Fair Value</u>
Demand Deposits (includes unrestricted funds)	\$ 211,362
Money Market Funds	<u>769,813</u>
Total	<u>\$ 981,175</u>

Investments

Stocks	\$ 495,086
Bonds	498,781
Bond Mutual Funds	841,682
Equity Mutual Funds	<u>798,210</u>
Total	<u>\$2,633,759</u>

**4. Fund Transfers**

WPBF transfers funds to the restricted and unrestricted funds monthly, based on funding requirements. The timing of those transfers and the expenses from unrestricted and restricted funds result in interfund payables and receivables at year-end.

**5. Accumulated Depreciation**

Permanent property values are reported net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 years for computer equipment and software to 20 years for buildings and towers. The accumulated depreciation on June 30, 1998, was \$5,940,567 for equipment and \$36,057 for buildings.

**6. Changes in Deferred Support and Revenues**

	Deferred Revenue for Unbroadcast <u>Programs</u>	Deferred <u>Support</u>	<u>Total</u>
Beginning-of-year balance	\$ 52,192	\$20,975	\$ 73,167
(-) Prior year earned	(19,278)	(20,975)	(40,253)
(+) Additions	<u>198,841</u>	<u>229</u>	<u>199,070</u>
End-of-year balance	<u>\$231,755</u>	<u>\$ 229</u>	<u>\$231,984</u>

**7. Long-Term Debt**

ECB reported as a liability the proceeds received from a number of State of Wisconsin general obligation bonds used to finance the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB. The repayment of this indebtedness is financed through an annual appropriation of

general purpose tax revenue. The interest expense of \$417,481 is included as a broadcasting operating expense on the statement of financial activity. Since the proceeds of the bonds were included as support in the year facilities were acquired, the amount provided through the annual appropriation for the principal repayment of \$716,137 is not included.

The changes in the long-term liability are as follows:

FY 1996-97 Wisconsin general obligation bonds payable	\$3,496,188
New issuances	164,514
Reclassified as current—bonds payable	<u>(625,718)</u>
FY 1997-98 Wisconsin general obligation bonds payable	<u>\$3,034,984</u>

As of June 30, 1998, debt service requirements for principal and interest in future years are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 625,718	\$ 195,784	\$ 821,502
2000	628,912	163,926	792,838
2001	444,927	134,078	579,005
2002	379,800	104,183	483,983
2003	378,213	83,341	461,554
Thereafter	<u>1,203,132</u>	<u>424,495</u>	<u>1,627,627</u>
Total	<u>\$3,660,702</u>	<u>\$1,105,807</u>	<u>\$4,766,509</u>

## **8. Short-Term Note Payable**

In FY 1997-98, ECB received proceeds from state-issued General Obligation Commercial Paper Notes, which are used for the same purposes as general obligation bonds as described in Note 7. The notes were authorized and issued in anticipation of revenue or bond financing. As of June 30, 1998, these notes had not been refinanced. Since they do not meet long-term financing criteria, they are classified as short-term fund liabilities.

## **9. Capital Lease**

ECB entered into a capital lease for computer equipment during FY 1997-98. Capital lease commitments are recorded as a liability in the unrestricted fund, and the related asset and the depreciation are also reported in the unrestricted fund.

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of the assets leased under capital leases as of June 30, 1998:

	<u>Unrestricted Fund</u>
Equipment	\$ 99,051
Less: Accumulated Depreciation	<u>( 14,858)</u>
Carrying Amount	<u>\$ 84,193</u>

The following is an analysis of the gross minimum lease payments, along with the present value of the minimum lease payments as of June 30, 1998 for capital leases:

<u>Fiscal Year</u>	<u>Unrestricted Fund</u>
1999	\$41,014
2000	<u>17,814</u>
Total Minimum Future Payments	58,828
Less: Amounts Representing Executory Costs	<u>588</u>
Net Minimum Lease Payments	58,240
Less: Amounts Representing Interest	<u>202</u>
Present Value of Net Minimum Lease Payments	<u>\$58,038</u>

#### **10. Endowment**

The management of WPBF established an endowment during FY 1992-93. None of the assets in the endowment at June 30, 1998 are donor restricted.

## 11. Restricted Revenue

The principal restricted resources for the ECB Television Network are:

### State of Wisconsin General Appropriation

ECB receives six separate appropriations from the State of Wisconsin General Fund. These appropriations are restricted in use as follows:

- a. payment of utilities, fuel, heating, and cooling;
- b. repayment of principal and interest costs incurred in financing the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB;
- c. payment of programming-related costs;
- d. payment of broadcast delivery, administration, and other costs incurred to carry out ECB functions;
- e. payment to Milwaukee Area Technical College for support of public television; and
- f. payment to public education entities for Distance Education projects.

Appropriated funds are reported only to the extent expended. As explained in Note 7, funds provided for the repayment of principal on bonds are not reported as revenue in the statement of financial activity, since proceeds from the bond issues were reported in the period the funds were expended.

### State of Wisconsin Building Trust Fund Appropriation

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

### Grants

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

In-Kind Contributions

The estimated fair value of material and services is recorded as revenue and expense in the period the services are received. In-kind contributions, primarily professional services, were charged to the following functional expense categories:

	<u>In-Kind Contributions</u>
Programming and production	\$189,984
Management and general	74,986
Development	6,822
Program Information	<u>4,555</u>
Total	<u>\$276,347</u>

**12. Wisconsin Public Broadcasting Foundation, Inc.**

The financial statements include as a separate fund the ECB Television Network's share of funds received and expended on its behalf by WPBF. WPBF solicits funds in the name of, and with the approval of, ECB.

A summary of significant financial data relating to WPBF is presented below. The summary includes radio, television, and other nonbroadcasting activities of WPBF.

	<u>12 Months Ended June 30, 1998</u>
Revenues	\$5,881,511
Expenses	<u>(1,178,571)</u>
Excess of revenues over expenses	<u>\$4,702,940</u>

  

	<u>June 30, 1998</u>
Cash and investments	\$4,857,682
Other current assets	92,903
Liabilities	<u>(638,217)</u>
Net assets	<u>\$4,312,368</u>

### **13. Employee Retirement Plan**

Permanent, full-time employees of the ECB Television Network are participants in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. It was established to provide retirement pension benefits for state and local government public employees at a rate influenced by 1) the employees' final average earnings, 2) years of creditable service, and 3) a formula factor. WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1997, may be obtained by writing to:

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

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 retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The ECB Television Network's contributions to the plan were \$368,660 for FY 1997-98. The relative position of the ECB Television Network in WRS is not available because WRS is a statewide, multi-employer plan.

### **14. Year 2000 (Y2K) Readiness**

ECB is currently addressing year 2000 issues relating to its computer systems and electronic equipment. The year 2000 issue refers to the fact that many computer programs use only the last two digits (i.e., 99) to refer to a year, which may cause computer programs, data files, and electronic equipment with computer chips to fail or create errors.

ECB has segregated its applications and hardware into three groups and is addressing them in the following order: mission-critical systems, which include systems integral to its broadcasting mission; business-critical systems, which include its financial accounting systems; and general non-critical systems.

ECB is subjecting its mission-critical and business-critical systems to the following process to address year 2000 compliance:

- awareness stage – establishing a budget and project plan for dealing with the year 2000 issue;
- assessment stage – identifying the systems and components for which year 2000 compliance work is needed;
- remediation stage – making changes to systems and equipment; and
- validation/testing stage – validating and testing the changes that were made during the remediation stage.

ECB year 2000 remediation work for its mission-critical and business-critical systems and electronic equipment are in the following stages of work. C means complete, P means in process, and A means still needs to be addressed:

<u>Mission- and Business-Critical Systems</u>	<u>Awareness</u>	<u>Assessment</u>	<u>Remediation</u>	<u>Validation / Testing</u>
Transmitter automation system	C	C	P	P
Broadcast tape handling system	C	C	A	A
Tape inventory system	C	C	C	P
Scheduling	C	C	C	C
Server operating systems	C	C	C	P
Financial accounting systems	C	C	P	P
Invoicing and accounts receivable	C	C	A	A
Fixed assets inventory	C	C	A	A
Ordering system	C	C	P	P
Wiring/network infrastructure	C	C	C	C
Electrical/UPS systems	C	C	C	C

As of the end of FY1997-98, all desktop personal computers have been either upgraded or replaced. ECB staff is working with the State of Wisconsin Department of Administration Year 2000 team to provide final validation testing of personal computers. All mission- and business-critical servers are hardware and operating system compliant, and the agency is in the final stages of moving older applications from a noncompliant platform to the newest servers.

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have audited the financial statements of the Wisconsin Educational Communications Board Television Network as of and for the year ended June 30, 1998, and have issued our report thereon dated December 21, 1998, which was qualified because it was not possible to obtain sufficient evidence to support the Wisconsin Educational Communications Board Television Network's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Compliance

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

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wisconsin Educational Communications Board Television Network's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Wisconsin Educational Communications Board Television Network's management, the Wisconsin Legislature's Joint Legislative Audit Committee, and the Corporation for Public Broadcasting. This restriction is not intended to limit the distribution of this report, which, upon submission to the Joint Legislative Audit Committee, is a matter of public record.

LEGISLATIVE AUDIT BUREAU

December 21, 1998

by

Diann Allsen  
Audit Director