

An Audit

Wisconsin Educational Communications Board

2011-2012 Joint Legislative Audit Committee Members

Senate Members:

Robert Cowles, Co-chairperson
Mary Lazich
Alberta Darling
Kathleen Vinehout
Julie Lassa

Assembly Members:

Samantha Kerkman, Co-chairperson
Kevin Petersen
Robin Vos
Andy Jorgensen
Jon Richards

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 East Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.wisconsin.gov. Electronic copies of current reports are available at www.legis.wisconsin.gov/lab.

State Auditor – Joe Chrisman

Audit Prepared by

Diann Allsen, *Director and Contact Person*

Shellee Bauknecht

Lanae Nickelotti

Michael White

CONTENTS

Letter of Transmittal	1
Audit Opinion	3
Independent Auditor's Report on the Financial Statements of the Wisconsin Educational Communications Board	
Management's Discussion and Analysis	5
Financial Statements	9
Balance Sheet as of June 30, 2011	10
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2011	11
Statement of Cash Flows for the Year Ended June 30, 2011	12
Notes to the Financial Statements	15
Report on Internal Control and Compliance	35
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

December 16, 2011

Senator Robert Cowles and
Representative Samantha Kerkman, 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 Cowles, Representative Kerkman, and Mr. Purcell:

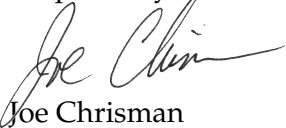
We have completed a financial audit of the State of Wisconsin Educational Communications Board (ECB) to meet our audit requirements under s. 13.94, Wis. Stats., and as requested by ECB to fulfill the audit requirements of the Corporation for Public Broadcasting. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels. Our audit report contains ECB's financial statements and related notes as of and for the year ended June 30, 2011.

ECB, which is an agency of the State of Wisconsin, operates a television network of 5 digital stations and two radio networks consisting of 14 FM stations and 1 AM station. The financial activity of the Wisconsin Public Broadcasting Foundation, Inc., which was organized by ECB for the exclusive purpose of raising funds for its television and radio networks, is included as part of ECB's financial statements. ECB reported a total of \$20.5 million in support and revenue during fiscal year 2010-11, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

We were able to issue an unqualified independent auditor's report on ECB's financial statements. In our report on internal control and compliance, we note that ECB continues to take steps to improve its financial reporting process and we identify additional areas for it to consider as part of that process.

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

Respectfully submitted,



Joe Chrisman
State Auditor

JC/DA/ss

Audit Opinion ■

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

We have audited the accompanying financial statements of the Wisconsin Educational Communications Board's (ECB's) Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc., as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of ECB's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., which represent 4.6 percent of ECB's assets and 41.1 percent of ECB's revenues. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., is based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well

as evaluating the overall financial statement presentation. We believe that our audit and the reports 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 ECB 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 audit and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of ECB's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc., as of June 30, 2011, and the respective changes in their financial positions and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1A, ECB changed the presentation of its financial statements. In prior fiscal years, ECB prepared separate financial statements for the operations of its television and radio networks. Beginning with the fiscal year ended June 30, 2011, ECB is presenting one set of financial statements, with detailed information on the operations of the television and radio networks disclosed in Note 17.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of ECB referred to in the first paragraph. The supplementary information included as Management's Discussion and Analysis on pages 5 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. 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.

December 8, 2011

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) executive staff 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 2 public radio networks of 14 FM stations and an AM station (the AM site and 13 of the FM sites are currently broadcasting digital radio signals in addition to analog), as well as a public television network comprised of 5 digital stations. As of June 30, 2011, ECB also operated 3 FM translators, 6 TV translators, a network of 26 weather service broadcast sites, and held licenses to multiple Educational Broadband Service licenses. Since the end of the fiscal year (FY), an additional weather service site went on the air, with plans for two more weather service sites to be on the air by the end of FY 2011-12. 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 financial statements and notes pertaining to ECB. The Balance Sheet provides information on the assets and liabilities of ECB, 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 ECB's financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Statement of Cash Flows provide information on income, expenses, and cash activities. The Notes to the Financial Statements

6 ■ ■ ■ ■ MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Condensed financial information for ECB as of and for the fiscal years ended June 30, 2011, and June 30, 2010, is as follows:

ECB Condensed Financial Information

	June 30, 2011	Change from Previous Year	June 30, 2010 ¹
Capital Assets (including intangibles)	\$20,458,264	(7)%	\$22,067,093 ²
Other Assets	16,589,768	13	14,669,704
Total Assets	<u>37,048,032</u>		<u>36,736,797²</u>
Current Liabilities	1,923,752	(9)	2,113,830 ²
Noncurrent Liabilities	747,478	94	386,268
Total Liabilities	<u>2,671,230</u>		<u>2,500,098²</u>
Invested in Capital Assets, Net of Related Debt	20,359,838	(7)	21,960,658 ²
Restricted by Grants or Donors	387,283	(7)	416,078
Unrestricted	13,629,681	15	11,859,963 ²
Total Net Assets	<u>\$34,376,802</u>		<u>\$34,236,699²</u>

	FY 2010-11	Change from Previous Year	FY 2009-10
Operating Revenues	\$12,886,184	5%	\$12,294,374
Operating Expenses	19,126,088	(3)	19,803,020 ²
Net Operating Loss	(6,239,904)		(7,508,646)²
Nonoperating Revenues (Expenses)	5,799,629	14	5,070,396
Capital Contributions	580,378	(78)	2,677,578
Changes in Net Assets	<u>\$ 140,103</u>		<u>\$ 239,328²</u>

¹ Prior to the fiscal year ended June 30, 2011, separate financial statements were issued for ECB's television and radio networks. For comparison purposes, the information from the separate financial reports has been combined as of and for the fiscal year ended June 30, 2010.

² 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 ECB's education services, safety services, delivery operations, and the associated administration, 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's capital assets of \$20.5 million as of June 30, 2011, are presented at historical cost less depreciation. Capital assets, which include intangible assets, decreased 7 percent in FY 2010-11, primarily because capital asset additions were outpaced by depreciation and deletions during the year. ECB had fewer active capital projects during FY 2010-11 compared to FY 2009-10.

Other assets increased 13 percent in FY 2010-11 because of increased investment balances resulting from increased bequest contributions and improved market conditions during the fiscal year.

The decrease of current liabilities by 9 percent in FY 2010-11 occurred because of the timing of vendor invoices. Noncurrent liabilities increased by 94 percent in FY 2010-11 primarily because ECB had an unearned revenue liability resulting from a prepaid fee received that will be earned over the next five years for leasing out excess capacity on Educational Broadband Services licenses it holds.

Operating revenues increased by 5 percent in FY 2010-11 because of an increase in bequest contributions from individuals. Operating expenses decreased by 3 percent in FY 2010-11 because of less maintenance and repair expenses associated with the fewer active capital projects during the fiscal year and fewer programming and production expenses.

Nonoperating revenues consist of investment earnings and losses, both realized and unrealized, gains or losses on disposal of assets, and financial support from the State of Wisconsin General Fund. Nonoperating revenues and expenses overall increased by 14 percent in FY 2010-11 because of increased investment earnings and decreased losses on disposal of capital assets.

Capital contributions decreased 78 percent in FY 2010-11 because ECB received fewer contributions from the State Capital Improvement Fund since fewer capital projects were active in FY 2010-11, and because of the close-out of a federal grant that was received for the construction of a radio station in Coloma, WI in FY 2009-10.

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. 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 the Educational Communications Board can be found at its website, www.ecb.org.

Financial Statements ■

Balance Sheet

June 30, 2011

	Operating Fund	Wisconsin Public Broadcasting Foundation, Inc.	Total June 30, 2011
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Notes 1D and 2)	\$ 1,424,924	\$ 6,525,816	\$ 7,950,740
Investments (Notes 1E and 2)	0	811,024	811,024
Receivable—State General Appropriations (Note 1F)	70,684	0	70,684
Grants and Contracts Receivable	41,551	0	41,551
Pledges Receivable	0	319,158	319,158
Interfund Receivable (Payable)	20,000	(20,000)	0
Interest Receivable	0	6,695	6,695
Receivable—Due from Affiliates	106,459	295,434	401,893
Other Receivables	30,839	25,236	56,075
Prepaid Expenses (Note 7)	266,083	68,909	334,992
Inventory	15,698	8,824	24,522
Intangible Assets, Net of Accumulated Amortization (Notes 1G and 5)	244,861	0	244,861
Total Current Assets	<u>2,221,099</u>	<u>8,041,096</u>	<u>10,262,195</u>
Noncurrent Assets:			
Prepaid Expenses (Note 7)	377,691	0	377,691
Investments (Notes 1E and 2)	0	6,194,743	6,194,743
Capital Assets: (Note 1H and 4)			
Land	163,207	0	163,207
Buildings and Improvements, Net of Accumulated Depreciation	5,825,145	0	5,825,145
Equipment, Net of Accumulated Depreciation	13,567,190	1,547	13,568,737
Intangible Assets, Net of Accumulated Amortization (Notes 1G and 5)	656,314	0	656,314
Total Noncurrent Assets	<u>20,589,547</u>	<u>6,196,290</u>	<u>26,785,837</u>
TOTAL ASSETS	<u>\$ 22,810,646</u>	<u>\$ 14,237,386</u>	<u>\$ 37,048,032</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 615,521	\$ 300,408	\$ 915,929
Accrued Liabilities Due to Affiliates	543,710	232,689	776,399
Bonds Payable (Note 10)	8,971	0	8,971
Unearned Revenue (Note 9)	95,600	126,853	222,453
Total Current Liabilities	<u>1,263,802</u>	<u>659,950</u>	<u>1,923,752</u>
Noncurrent Liabilities:			
Compensated Absences Payable (Note 6)	291,556	0	291,556
Bonds Payable (Notes 6 and 10)	89,455	0	89,455
Unearned Revenue (Note 9)	366,467	0	366,467
Total Noncurrent Liabilities	<u>747,478</u>	<u>0</u>	<u>747,478</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt Paid by ECB	20,358,291	1,547	20,359,838
Restricted by Grants or Donors (Note 1J)	70,579	159,809	230,388
Restricted—Nonexpendable (Notes 1J and 11)	0	156,895	156,895
Unrestricted	370,496	13,259,185	13,629,681
Total Net Assets	<u>20,799,366</u>	<u>13,577,436</u>	<u>34,376,802</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,810,646</u>	<u>\$ 14,237,386</u>	<u>\$ 37,048,032</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, 2011

	Operating Fund	Wisconsin Public Broadcasting Foundation, Inc.	Total FY 2010-11
OPERATING REVENUES			
Contributed Support	\$ 0	\$ 6,488,349	\$ 6,488,349
Corporation for Public Broadcasting Grants	44,134	1,816,496	1,860,630
Underwriting Grants	0	903,558	903,558
Other Grants and Contracts	840,542	0	840,542
Contributed In-Kind Support (Note 13)	478,549	0	478,549
Major Gifts	0	1,325,660	1,325,660
Royalties and Other Income	390,611	598,285	988,896
Total Operating Revenues	1,753,836	11,132,348	12,886,184
OPERATING EXPENSES			
Program Services:			
Programming and Production	7,534,597	300,901	7,835,498
Broadcasting	7,039,128	46,540	7,085,668
Program Information	3,069	123,240	126,309
Total Program Services	14,576,794	470,681	15,047,475
Support Services:			
Management and General	1,541,945	185,369	1,727,314
Fund-raising and Membership Development	78,492	2,089,073	2,167,565
Underwriting	170,870	12,864	183,734
Total Support Services	1,791,307	2,287,306	4,078,613
Total Operating Expenses	16,368,101	2,757,987	19,126,088
OPERATING INCOME (LOSS)	(14,614,265)	8,374,361	(6,239,904)
NONOPERATING REVENUES (EXPENSES)			
State General Fund Revenue for Operations	5,919,961	0	5,919,961
Loss on Disposal of Capital Assets	(141,106)	0	(141,106)
Capital Debt Interest Expense (Note 10)	(1,100,551)	0	(1,100,551)
State Insurance Funds	3,859	0	3,859
Investment Income	0	1,075,265	1,075,265
Settlement Proceeds (Note 18)	42,201	0	42,201
Total Nonoperating Revenues (Expenses)	4,724,364	1,075,265	5,799,629
Income (Loss) Before Capital Contributions and Transfers	(9,889,901)	9,449,626	(440,275)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Capital Contributions (Note 12)	580,378	0	580,378
Interfund Transfers (Note 3)	7,463,455	(7,463,455)	0
CHANGE IN NET ASSETS	(1,846,068)	1,986,171	140,103
Total Net Assets—Beginning of the Year (Note 19)	22,645,434	11,591,265	34,236,699
Total Net Assets—End of the Year	<u>\$ 20,799,366</u>	<u>\$ 13,577,436</u>	<u>\$ 34,376,802</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2011

	Operating Fund	Wisconsin Public Broadcasting Foundation, Inc.	Total FY 2010-11
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributed Support	\$ 0	\$ 8,674,913	\$ 8,674,913
Receipts from Grants	1,362,645	1,816,496	3,179,141
Receipts from Royalties and Other Income	417,106	479,242	896,348
Payments to Suppliers	(9,633,051)	(2,942,725)	(12,575,776)
Payments to Employees	(4,626,768)	0	(4,626,768)
Net Cash Provided (Used) by Operating Activities	(12,480,068)	8,027,926	(4,452,142)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from State Government	6,124,257	0	6,124,257
Settlement Proceeds	42,201	0	42,201
Interfund Transfers	7,443,455	(7,443,455)	0
Net Cash Provided (Used) for Noncapital Financing Activities	13,609,913	(7,443,455)	6,166,458
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributions	580,378	0	580,378
Purchases of Capital Assets	(464,403)	0	(464,403)
Principal Paid on Capital Debt	(8,009)	0	(8,009)
Interest Paid on Capital Debt	(940,575)	0	(940,575)
Net Cash Provided (Used) by Capital and Related Financing Activities	(832,609)	0	(832,609)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases, Sales, and Maturities of Investments	0	(69,028)	(69,028)
Interest and Dividends	0	180,281	180,281
Net Cash Used for Investing Activities	0	111,253	111,253
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	297,236	695,724	992,960
Balances—Beginning of the Year	1,127,688	5,830,092	6,957,780
Balances—End of the Year	<u>\$ 1,424,924</u>	<u>\$ 6,525,816</u>	<u>\$ 7,950,740</u>

The accompanying notes are an integral part of this statement.



	Operating Fund	Wisconsin Public Broadcasting Foundation, Inc.	Total FY 2010-11
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (14,614,265)	\$ 8,374,361	\$ (6,239,904)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	1,816,627	9,280	1,825,907
Change in Assets and Liabilities:			
Receivables, Net	42,397	(185,619)	(143,222)
Inventories	3,925	(2,027)	1,898
Prepaid Expense	99,727	(15,714)	84,013
Unearned Revenue	462,067	23,922	485,989
Accounts and Other Payables	(290,546)	(176,277)	(466,823)
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,480,068)</u>	<u>\$ 8,027,926</u>	<u>\$ (4,452,142)</u>

Noncash Activities:

Contributed in-kind support totaled \$478,549.

The net increase in the fair value of investments was \$769,771.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$141,106.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Educational Communications Board (ECB) is an agency of the State of Wisconsin that operates a public television network (Wisconsin Television Network) consisting of 5 digital stations, as well as 2 public radio networks (WERN-FM and its affiliated Music Network stations and WHAD-FM and its affiliated Ideas Network stations) consisting of 14 FM stations and 1 AM station (13 of the FM sites and the AM site are currently broadcasting a digital radio signal in addition to analog). ECB also operates 3 FM translators, 6 TV translators, and a network of 26 weather service broadcast sites. ECB holds multiple Educational Broadband Service licenses.

The Wisconsin Public Broadcasting Foundation, Inc. (WPBF) is a statutorily defined not-for-profit corporation (s. 39.12, Wis. Stats.) wholly owned by ECB that solicits funds in the name of, and with the express approval of ECB and provides financial support to ECB. WPBF is 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's financial statements are presented as a separate fund in ECB's financial statements.

ECB's allocated shares of the assets, liabilities, revenues, and expenses of the Friends of Wisconsin Public Television, Inc., and the Wisconsin Public Radio Association, Inc. (WPRA) are included in the WPBF fund.

Friends is a not-for-profit corporation that receives contributed funds for Wisconsin Public Television and provides support to the ECB television network and to WHA-TV, a University of Wisconsin (UW) Board of Regents licensed station. WPRA is a not-for-profit corporation that receives contributed funds for Wisconsin Public Radio and provides support to the ECB radio networks and to UW Board of Regents licensed radio stations affiliated with Wisconsin Public Radio. See Notes 16B and 16C for further information regarding Friends and WPRA.

Beginning with fiscal year (FY) 2010-11, ECB is presenting one set of financial statements, with detailed information on the operations of the television and radio networks disclosed in Note 17. In the past, ECB prepared separate financial statements for the operations of its television and radio networks.

B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). ECB has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

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

Operating revenues and expenses are directly related to programming, production, development, and delivery of 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 in 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 ECB’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 ECB’s share of Friends and WPRA cash and cash equivalents.

E. Valuation of Investments

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

Intangible assets include costs incurred for the right to broadcast programs produced or acquired by ECB subsequent to the fiscal year-end. Only costs associated with program rights that are amortized within one year of the fiscal year-end are classified as current intangible assets. Costs associated with program rights amortized more than one year beyond fiscal year-end are classified as noncurrent. As program rights expire and the rights are amortized, the costs incurred will be expensed and included in operating expenses. Program rights status is evaluated annually. Costs associated with programs not considered to have future benefit will be expensed. Noncurrent intangible assets also include the value of ECB’s rights to use two apertures on a tower operated by another state agency.

H. Property and Equipment

Buildings and improvements, equipment, and land classified as permanent property are recorded at cost or, for donated property, at the estimated fair value at the date of receipt. Assets are capitalized if their acquisition value is in excess of \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 years for computer equipment to 20 years for buildings and towers. Land is not depreciated. Expenses for repairs and maintenance are charged to operating expenses as incurred.

I. Compensated Absences for Employees

Unused earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The liability and the expense for compensated absences are based on current rates of pay. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System is also accrued with a resulting liability. The compensated absences liability is classified as either a current or a noncurrent liability based upon an estimate determined by management. The noncurrent liability portion of the compensated absences liability generally is not paid out until the employee's retirement.

J. Restricted Net Assets

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

2. DEPOSITS AND INVESTMENTS

Cash balances in ECB's operating fund are deposited with the State and invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. The State Investment Fund is not registered with the Securities and Exchange Commission.

The types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17(3)(b), (ba), (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. WPBF cash balances are held in demand deposit accounts at one financial institution. WPBF investments include publicly traded stocks, equity mutual funds, fixed-income mutual funds, and money market holdings and are managed by private trust companies. Friends cash balances are held in deposit and money market accounts at financial institutions. Friends investments include equity mutual funds and fixed-income mutual funds. 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. Investment income is presented as a nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

WPBF, WPRA, and Friends have investment policies in place regarding credit risk, foreign currency risk, and interest rate risk. The Friends' investment policies are not disclosed below because ECB's share of Friends investments is relatively immaterial. ECB deposits and investments referred to below include investments held by WPBF and ECB's allocated share of deposits and investments held by Friends and WPRA.

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, 2011, \$7,022,622 of ECB's bank balance of \$8,067,932 was not covered by the Federal Deposit Insurance Corporation (FDIC) and was exposed to custodial credit risk.

B. Investments

Fair value of ECB investment balances as of June 30, 2011, were as follows:

<u>Investment Type</u>	
Equities	\$1,779,029
Equity Mutual Funds	1,902,101
Fixed-Income Mutual Funds	2,578,604
Certificates of Deposit	<u>746,033</u>
Total Investments	\$7,005,767

ECB 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 nationally recognized statistical rating organization. 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, 2011, all of WPBF and WPRA fixed-income mutual funds were all unrated.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WPBF’s investment guidelines require that fixed-income investments maintain a weighted average maturity of less than ten years. WPRA’s 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, 2011, the fixed-income investments for ECB had the following average maturities:

<u>Fixed-Income Investment</u>	<u>Market Value</u>	<u>Average Maturity (years)</u>
Dodge and Cox Income Fund	\$ 787,080	7.0
Vanguard Total Bond Index Fund	25,071	7.2
Vanguard Fixed Income Short-Term Fund	1,228,247	2.9
Templeton Global Bond Fund	357,372	3.8
Vanguard Intermediate-Term Investment Grade Fund	12,858	6.8
Vanguard Short-Term Investment Grade Fund	8,604	3.0
PIMCO Total Return Fund	27,047	6.1
Metropolitan West Total Return Bond Fund	27,207	6.9
American Century Diversified Bond Fund	17,185	6.4
PIMCO High Yield Fund	<u>87,933</u>	6.2
Total Fixed-Income Investments	<u>\$2,578,604</u>	

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, 2011, ECB had exposure to foreign currency risk in its investments of \$1,048,987 in international equity securities and mutual funds and in international fixed-income mutual funds. WPBF’s investment guidelines related to foreign currency risk indicate that international equity mutual funds held by WPBF will not constitute more than 20 percent of the equity portion of the investment portfolio. 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 ECB’s operating fund based upon funding requirements. The transfers are reflected as interfund transfers on the Statement 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 Sheet.

4. CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ <u>163,207</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>163,207</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	10,599,663	177,686	0	10,777,349
Equipment	<u>27,293,269</u>	<u>274,346</u>	<u>(706,116)</u>	<u>26,861,499</u>
Total Capital Assets at Historical Cost	<u>37,892,932</u>	<u>452,032</u>	<u>(706,116)</u>	<u>37,638,848</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,550,166)	(402,038)	0	(4,952,204)
Equipment	<u>(12,433,903)</u>	<u>(1,423,869)</u>	<u>565,010</u>	<u>(13,292,762)</u>
Total Accumulated Depreciation	<u>(16,984,069)</u>	<u>(1,825,907)</u>	<u>565,010</u>	<u>(18,244,966)</u>
Total Capital Assets Being Depreciated, Net	<u>20,908,863</u>	<u>(1,373,875)</u>	<u>(141,106)</u>	<u>19,393,882</u>
Total Capital Assets, Net	<u>\$21,072,070</u>	<u>\$(1,373,875)</u>	<u>\$(141,106)</u>	<u>\$19,557,089</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$ 1,834
Broadcasting	1,795,727
Management and General	<u>28,346</u>
Total Depreciation Expense	\$1,825,907

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 six NTIA capital equipment grants between FY 2003-04 and FY 2010-11. The book value of equipment purchased with NTIA funds is \$1,756,713 as of June 30, 2011.

5. INTANGIBLE ASSETS

Because of the complexity of the compiled program rights information, the amount of intangible assets cannot be easily split between historical cost and accumulated amortization. Therefore, intangible assets relating to program rights are presented net of accumulated amortization. The amortization and disposal of costs for program rights is combined in the decrease column in the table below. Additionally, ECB's rights to use two apertures on a tower

operated by another state agency are included in intangible assets and will be amortized over the life of the tower once construction of the tower is complete. See Note 1G for further information on the intangible assets.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Intangible Assets	\$995,023	\$209,819	\$(303,667)	\$901,175

6. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$287,842	\$43,081	\$(39,367)	\$291,556
Bonds Payable	<u>98,426</u>	<u>0</u>	<u>(8,971)</u>	<u>89,455</u>
Total Noncurrent Liabilities	\$386,268	\$43,081	\$(48,338)	\$381,011

The noncurrent liabilities from compensated absences are generally funded with operating subsidies received from the State of Wisconsin, whereas the bonds payable are funded with program revenue (Note 10). Compensated absences and bonds payable expected to be paid within one year are reflected in the current liabilities on the Balance Sheet and equaled \$209,870 and \$8,971, respectively, on June 30, 2011.

7. GREEN BAY TOWER OPERATING LEASE

In 2002, 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. The prepayment was paid in September 2002 and was funded by the State of Wisconsin State Capital Improvement 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 current and noncurrent prepaid expenses on the Balance Sheet and totals \$414,842.

In addition to the rent prepayment, ECB is required to make an annual rent payment in lieu of taxes. The contract requires an initial payment of \$10,000 and a scheduled rent increase each lease year by 3 percent compounded until the end of the lease term. ECB paid \$12,668 during FY 2010-11. The following is a schedule of future minimum obligations under this operating lease as of June 30, 2011:

Fiscal Year <u>Ended June 30</u>	<u>Total</u>
2012	\$ 13,048
2013	13,439
2014	13,842
2015	14,258
2016	14,685
2017-2021	80,306
2022	<u>17,535</u>
Total	<u>\$167,113</u>

8. OTHER OPERATING LEASES

The Department of Administration enters into several operating leases on behalf of ECB. ECB makes the payments on these leases directly to the lessors. During FY 2010-11, ECB paid \$1,080,135 in rent payments for building space, tower space, and broadcast interconnect equipment, which is included in operating expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

9. OPERATING LEASES AS LESSOR

During FY 2010-11, ECB entered into a 30-year lease agreement to lease out excess capacity on Educational Broadband Service licenses it holds. The lease agreement requires monthly lease payments to increase 3 percent annually over the term of the lease. Monthly lease payments recognized in FY 2010-11 were \$101,704, which are included in operating revenues on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

In addition, ECB received a prepaid fee, which will be recognized over the first five years of the lease. If the lease agreement is terminated during its first five years because ECB does not fulfill its responsibilities under the lease, all or a portion of the prepaid fee will be refunded to the lessee. The portion of the prepaid fee earned during FY 2010-11 was \$15,933, which is included in operating revenues on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The remainder of the prepaid fee is included as unearned revenue, with the portion to be earned within one year classified as a current liability and the remaining amount to be earned beyond one year classified as a noncurrent liability on the Balance Sheet.

10. 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 capital assets. The proceeds are included as capital contributions in the year the assets are purchased.

The general obligation bonds repaid by the State’s general purpose revenue are not considered debt of ECB because their repayment is from general purpose revenue. Therefore, the debt financed through general purpose revenue appropriations is reported in the State of Wisconsin’s Comprehensive Annual Financial Report (CAFR) rather than ECB’s financial statements. The indebtedness carried by the State of Wisconsin on behalf of ECB to be repaid by general purpose revenue as of June 30, 2011, is \$19,985,403 in general obligation bonds, which includes general obligation refunding bonds, and \$1,609,448 in commercial paper notes. ECB reports interest expense related to these obligations in nonoperating expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets as it is incurred. Total interest expense of \$1,095,105 and the associated capital support received from the State is included in nonoperating section of the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

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 ECB and, accordingly, is presented as a liability in the financial statements. \$13,455 was provided through program revenue for indebtedness during FY 2010-11, which consisted of a principal payment of \$8,009 and an interest payment of \$5,446. The principal payments are recorded as reductions of the current bonds payable, while the interest payments are included in the nonoperating expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. As of June 30, 2011, debt service requirements for principal and interest in future years for program revenue–funded bonds are as follows:

Fiscal Year <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2012	\$ 8,971	\$ 5,048	\$ 14,019
2013	9,191	4,599	13,790
2014	9,782	4,098	13,880
2015	10,266	3,566	13,832
2016	10,777	3,010	13,787
2017-2021	<u>49,439</u>	<u>6,430</u>	<u>55,869</u>
Total	\$98,426	\$26,751	\$125,177

11. ENDOWMENT

WPBF, WPRA, and Friends have received endowment gifts that require the preservation of the fair value of the original gifts as of the gift date. WPBF'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.

The management of WPBF established an endowment for the ECB television network during FY 1992-93 and an endowment for the ECB radio networks during FY 2004-05 to support the operations of the television and radio networks, as determined necessary by ECB staff, with oversight by the WPBF board. Values as of June 30, 2011, are \$1,234,910 for the ECB television network's endowment and \$342,443 for the ECB radio networks' endowment. These balances are included in the investments and cash and cash equivalents accounts on the Balance Sheet, with the portion of the endowments budgeted for operations in the coming year classified as short-term investments. Assets in the endowments follow the investment policies disclosed in Notes 1 and 2.

12. CAPITAL CONTRIBUTIONS

ECB's capital contributions can come from various sources, including:

A. State of Wisconsin Capital Improvement Fund Appropriation

The amounts provided from the State of Wisconsin Capital Improvement Fund to finance ECB projects approved by the State Building Commission are recorded as revenue in the period disbursements are made.

B. Grants

Federal grant funds received from the U.S. Department of Commerce to purchase capital equipment are recorded as support when the disbursements are made. The Digital Distribution Fund grant received from the Corporation for Public Broadcasting through the Public Broadcasting Service was recorded as support when received.

C. Donated Capital Assets

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

13. CONTRIBUTED IN-KIND SUPPORT

Contributed in-kind support includes donated professional services, donated general operational services, donated materials, and donated instructional 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:

Professional Services	\$ 98,347
Operational Services	302,044
Instructional Television Services	<u>78,158</u>
Total In-Kind Support	\$478,549

14. EMPLOYEE RETIREMENT PLAN

Permanent employees of ECB 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. The separately issued financial report that includes financial statements and required supplementary information of the Wisconsin Retirement System is available on the Department of Employee Trust Funds’ Web site, *www.etf.wi.gov*, or may be obtained upon request from:

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 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.

As of June 30, 2011, the retirement plan required employee contributions equal to specified percentages of qualified earnings based on the employee’s classification, plus employer contributions at a rate determined annually. ECB’s contribution to the plan in FY 2010-11, including employer and employee contributions, was \$474,650. Of this amount, \$100,721 was used to fund payments on bonds issued to liquidate the prior service liability balance. The relative position of ECB in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

15. 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. ECB's financial statements do not include OPEB expenses or the related liabilities other than those actually paid, which are allocated to various functional expenses on the Statement 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 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, 2011, was \$367.5 million; of that amount, the estimated portion of this obligation related to ECB employees was \$337,562. This obligation is included in the State's CAFR but is not included in ECB'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.

16. RELATED ENTITIES

A. WHA Television and Wisconsin Public Radio—University of Wisconsin Board of Regents Stations

WHA Television, WHA Radio, and some other Wisconsin Public Radio stations are public telecommunications entities licensed by the Federal Communications Commission 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 Television and Wisconsin Public Radio to manage and operate their licenses. The partnerships are maintained through affiliation agreements outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. The directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the UW Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the Balance Sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

B. Friends of Wisconsin Public Television, Inc.

Effective July 1, 2009, the Friends of WHA-TV, Inc., changed its name to Friends of Wisconsin Public Television, Inc., and assumed responsibility for the fund-raising efforts of both the former Friends of WHA-TV and the WPBF to support Wisconsin Public Television. Amended Articles of Incorporation to reflect the change in name and responsibilities were filed on July 15, 2009. The Friends 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 Friends Board of Directors, approve the Friends' budget. The licensees have access to the Friends' net resources and retain an ongoing, legal allocated interest in the Friends' net assets. ECB's and the UW Board of Regents' allocated interests in the Friends are calculated in accordance with an affiliation agreement, which is renegotiated annually. The agreement generally provides each party with a 50 percent interest, although not all activity is allocated based on this interest.

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

	<u>June 30, 2011</u>
Cash and Investments	\$200,449
Other Assets	<u>422,717</u>
Total Assets	623,166
Total Liabilities	<u>(362,825)</u>
Net Assets	<u>\$260,341</u>
	Fiscal Year Ended June 30, 2011
Contributed Support and Revenue	\$3,337,919
Expenses:	
Programming and Production	\$ 134,130
Program Information	94,333
Management and General	39,040
Fund-raising	<u>1,438,188</u>
Total Expenses	\$1,705,691

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

	<u>June 30, 2011</u>
Cash and Investments	\$3,437,573
Other Assets	<u>281,300</u>
Total Assets	3,718,873
Total Liabilities	<u>(910,140)</u>
Net Assets	<u>\$2,808,733</u>

	<u>Fiscal Year Ended June 30, 2011</u>
Contributed Support and Revenue	\$7,857,477
Expenses:	
Programming and Production	\$ 268,260
Program Information	188,665
Management and General	78,081
Fund-raising	3,227,630
Payments to ECB and WHA	<u>2,935,261</u>
Total Expenses	<u>6,697,897</u>
Net Change in Assets	<u>\$1,159,580</u>

C. 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 networks and radio stations licensed to the UW Board of Regents affiliated with Wisconsin Public Radio. 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 the WPRA's budget. The licensees have access to the WPRA's net resources and retain an ongoing, legal allocated interest in the 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.

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, 2011</u>
Cash and Investments	\$ 940,583
Other Assets	<u>128,183</u>
Total Assets	1,068,766
Total Liabilities	<u>(64,436)</u>
Net Assets	<u>\$1,004,330</u>

	<u>Fiscal Year Ended June 30, 2011</u>
Contributed Support and Revenue	\$5,081,978
Expenses:	
Broadcasting	\$ 46,540
Programming and Production	74,674
Program Information	28,907
Management and General	97,403
Fund-raising	<u>670,715</u>
Total Expenses	\$ 918,239

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, 2011</u>
Cash and Investments	\$2,297,705
Other Assets	<u>381,527</u>
Total Assets	2,679,232
Total Liabilities	<u>(730,052)</u>
Net Assets	<u>\$1,949,180</u>

	Fiscal Year Ended June 30, 2011	
Contributed Support and Revenue		\$6,734,086
Expenses:		
Broadcasting	\$ 61,237	
Programming and Production	128,224	
Program Information	38,036	
Management and General	128,162	
Fund-raising	882,519	
Payments to ECB and WHA	<u>5,455,742</u>	
Total Expenses		<u>6,693,920</u>
Net Change in Assets		<u>\$ 40,166</u>

D. Rib Mountain Communications

ECB entered into a joint ownership agreement on November 1, 2001, to erect, operate, and maintain a broadcast tower in Wausau, 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 a share of the operating costs on an annual basis. An annual budget is prepared for the joint ownership to determine respective amounts of maintenance due from each party. ECB's share of activity for the joint ownership is incorporated into its financial statements.

17. WERN, WHAD, AND WISCONSIN TELEVISION ALLOCATION

ECB has three networks that qualify for Community Service Grant assistance from the Corporation for Public Broadcasting, including WERN-FM and its affiliated Music Network stations, WHAD-FM and affiliated Ideas Network stations, and the Wisconsin Television Network stations. The stations are licensed to ECB, and the stations' financial activities are included as part of ECB's financial statements. The following table summarizes the portions of the Statement of Revenues, Expenses, and Changes in Fund Net Assets attributable to each network for FY 2010-11. Direct revenues and expenses are allocated based on actual amounts. The remaining revenues and expenses are allocated to the networks based on reasonable estimates. As part of the process to consolidate and report its financial activity into one set of financial statements, ECB reassessed and changed the methodologies for allocating revenues and expenses among the three networks.

	<u>WERN-FM and Affiliates</u>	<u>WHAD-FM and Affiliates</u>	<u>Wisconsin Television Network</u>	<u>ECB Total</u>
Operating Revenues				
Contributed Support Corporation for Public Broadcasting Grants	\$2,458,632	\$1,892,930	\$2,136,787	\$ 6,488,349
Underwriting Grants	400,580	269,384	1,190,666	1,860,630
Other Grants and Contracts	453,306	291,428	158,824	903,558
Major Gifts	159,803	159,803	520,936	840,542
Contributed In-Kind Support	366,148	254,954	704,558	1,325,660
Royalties and Other Income	326,631	24,587	127,331	478,549
	<u>115,015</u>	<u>115,016</u>	<u>758,865</u>	<u>988,896</u>
Total Operating Revenues	<u>4,280,115</u>	<u>3,008,102</u>	<u>5,597,967</u>	<u>12,886,184</u>
Operating Expenses				
Program Services:				
Programming and Production Broadcasting	2,270,416	2,393,889	3,171,193	7,835,498
Program Information	708,725	2,192,318	4,184,625	7,085,668
	<u>16,332</u>	<u>12,575</u>	<u>97,402</u>	<u>126,309</u>
Total Program Services	<u>2,995,473</u>	<u>4,598,782</u>	<u>7,453,220</u>	<u>15,047,475</u>
Support Services:				
Management and General Fund-raising and Membership Development	372,341	517,347	837,626	1,727,314
Underwriting	415,194	315,702	1,436,669	2,167,565
	<u>5,022</u>	<u>3,229</u>	<u>175,483</u>	<u>183,734</u>
Total Support Services	<u>792,557</u>	<u>836,278</u>	<u>2,449,778</u>	<u>4,078,613</u>
Total Operating Expenses	<u>3,788,030</u>	<u>5,435,060</u>	<u>9,902,998</u>	<u>19,126,088</u>
Operating Income (Loss)	<u>492,085</u>	<u>(2,426,958)</u>	<u>(4,305,031)</u>	<u>(6,239,904)</u>
Nonoperating Revenues (Expenses)				
State General Fund Revenue	989,553	1,374,927	3,555,481	5,919,961
Loss on Disposal of Capital Assets	(5,151)	(15,935)	(120,020)	(141,106)
State Insurance Funds	472	1,458	1,929	3,859
Capital Debt Interest Expense	(114,289)	(353,532)	(632,730)	(1,100,551)
Investment Income	242,558	242,558	590,149	1,075,265
Settlement Proceeds	<u>0</u>	<u>42,201</u>	<u>0</u>	<u>42,201</u>
Total Nonoperating Revenues (Expenses)	<u>1,113,143</u>	<u>1,291,677</u>	<u>3,394,809</u>	<u>5,799,629</u>
Income (Loss) Before Capital Contributions	1,605,228	(1,135,281)	(910,222)	(440,275)
Capital Contributions	<u>226,862</u>	<u>300,432</u>	<u>53,084</u>	<u>580,378</u>
Change in Net Assets	<u>\$1,832,090</u>	<u>\$ (834,849)</u>	<u>\$ (857,138)</u>	<u>\$ 140,103</u>

18. ALLSTATE TOWER, INC., SETTLEMENT AGREEMENT

A settlement agreement was finalized in April 2011 in which Allstate Tower, Inc. (Allstate) agreed to pay ECB \$120,000 for the full settlement of claims that Allstate failed to provide contractually required goods and performed services negligently. As part of the settlement, \$26,641 was applied to the outstanding balance ECB owed Allstate. The remaining settlement is to be paid through semi-annual payments of approximately \$15,560 from May 2011 through November 2013. Because ECB believes collection of the full settlement is uncertain, it is recognizing settlement proceeds as payments are received. Settlement proceeds are included in the nonoperating section of the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

19. RESTATEMENT OF BEGINNING TOTAL NET ASSETS

The Total Net Assets as of July 1, 2010, have been increased by \$806,561 to correct for a prior period misstatement in the treatment of the construction of a tower owned by the Department of Transportation (DOT). DOT's tower was constructed using an ECB facility project. ECB owns the land at the site and has rights to use a portion of the tower for its operations. In prior years, ECB had incorrectly expensed the entire cost of the tower, rather than capitalizing its portion of expenses totaling \$77,260 through FY 2009-10 as an intangible asset to recognize its rights to the tower. Further, ECB had incorrectly recorded a liability that belonged to DOT in the amount of \$729,301 relating to expenses for the cost of the tower.

■ ■ ■ ■

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's (ECB's) Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc., as of and for the year ended June 30, 2011, and have issued our report thereon dated December 8, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., as described in our opinion on ECB. While the financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, 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'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 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.

Need for Continued Improvements in Financial Reporting

ECB continues to take significant steps to improve its financial reporting process, including steps to combine its financial reports into one set of financial statements and simplify its complex allocations between television and radio operations. However, ECB needs to take steps to ensure it is fully analyzing and applying proper accounting treatment to its various financial activities.

During our audit period, we noted several accounting issues that had not been identified by ECB or had not been detected and addressed in a timely manner. The most significant issues noted during the audit are as follows.

- ECB incorrectly recorded all of the expenses and associated liabilities relating to the construction of a tower shared with the Department of Transportation (DOT) on prior years' financial statements. The tower is owned by DOT, and ECB owns the land at the site and has rights to use a portion of the tower for its operations. ECB identified and corrected the error in FY 2010-11. The net effect of the correction was to increase the net asset balance by \$806,561. While ECB ultimately identified the misstatement, it did not have adequate procedures in place to detect and correct it in a timely manner.
- ECB incorrectly accounted for costs it incurred to strengthen a tower it leases from another party. It expensed the entire cost for strengthening the tower, rather than capitalizing it as a leasehold improvement. The net effect of the correction was to increase net assets by \$130,000.

- ECB had not been recognizing bond interest expense that accrued from the last payment date through the end of the fiscal year. The net effect of the correction was to decrease net assets by \$159,976.
- ECB needs to evaluate whether multiple arrangements in which owners of various towers around the state provide ECB space at minimal or no cost represents in-kind contributions that should be recorded in the financial statements. We did not determine a dollar amount for this potential misstatement, but do not believe it is material.

We recommend ECB take additional steps to ensure it is fully analyzing and applying proper accounting treatment to its various financial assets and activities and, as part of those efforts, specifically address capital assets involving other parties and the provision of reduced-cost tower space.

In its response, ECB indicates that it has implemented a series of changes to streamline and improve its financial reporting processes. However, it notes that compiling the financial statements is a labor-intensive process and involves many complex datasets gathered from a variety of sources. It also needs to track a number of “off-system” transactions to establish accruals for the financial statements, which creates a greater potential for misclassifications and errors. ECB believes that its financial statements were not materially misstated and that the majority of the proposed audit adjustments resulted in reclassifications.

ECB notes that it has considered the current financial reporting requirements and many other factors in performing due diligence for its procurement of a new accounting system. However, it cautions that, while the implementation of a new accounting system will bring new efficiencies and encourage a more automated process for the preparation of the financial statements, there will be challenges with its implementation. ECB indicates that it is confident that its careful planning will improve the transition to the new accounting system.

More specifically, ECB notes that going forward it will bring the finance director into conversations about various capital projects at earlier stages of the projects so that the proper accounting treatment for the projects can be considered as they occur. ECB also agrees to evaluate whether the reduced-cost tower space it receives meets in-kind contribution criteria and it will document its thought process and conclusions. It notes that a recent initiative it undertook with its partners to capture information relating to in-kind contributions from underwriting trades for the financial statements represents a strong effort to obtain this information and improve financial reporting.

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, and tested by information technology staff

and users, and comply with industry standards. During last year's audit, we found ECB's programmer was able to independently make changes to the invoicing system without detection by others. Further, ECB did not maintain any automated record or audit trail of changes to the invoice system.

ECB is primarily relying on the implementation of the new accounting system to address the programmer access and program change concerns with the invoice system. However, ECB has not yet purchased the new accounting software and does not plan to have it in place before May 2012. ECB considered further options to limit programmer access, but found they were not cost-effective. As a result, ECB concludes that compensating controls will help detect any significant changes to data and that the risk level is acceptable until the new accounting software is placed into operation. We accept ECB's assessment and make no further recommendations at this time.


COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether ECB'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 Public Broadcasting Foundation, Inc., 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 8, 2011

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director