

An Audit

# **Wisconsin Educational Communications Board Television Network**

## **2003-2004 Joint Legislative Audit Committee Members**

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State Auditor - Janice Mueller

Audit Prepared by

Diann Allsen, Director and Contact Person  
Bethany Quade  
Dana Apfelbeck

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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December 19, 2003

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Mr. Thomas Fletemeyer, Executive Director  
Educational Communications Board  
3319 West Beltline Highway  
Madison, Wisconsin 53713

Dear Senator Roessler, Representative Jeskewitz, 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. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels.

The Educational Communications Board, which is an agency of the State of Wisconsin, operates a television network of 5 digital stations and 5 analog stations, as well as a radio network of 12 FM stations and 1 AM station. The television network received \$17.1 million in support and revenue during fiscal year 2002-03, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains the financial statements and related notes for the period July 1, 2002, through June 30, 2003. We were able to issue an unqualified independent auditor's report on these statements.

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

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/DA/ss



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# Audit Opinion ■

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

We have audited the accompanying balance sheet of the Wisconsin Educational Communications Board Television Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Television Fund as of June 30, 2003, and the related statement of revenues, expenses, and changes in fund net assets and statement of 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.

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. 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.

As discussed in Note 1, the financial statements present only the Wisconsin Educational Communications Board Television Network and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2003, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### 4 ■ ■ ■ ■ ■ AUDIT OPINION

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the Wisconsin Educational Communications Board Television Network's Operating Fund and the Wisconsin Public Broadcasting Foundation Inc.'s Television Fund as of June 30, 2003, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Educational Communications Board Television Network. 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 referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2003, on our consideration of the Wisconsin Educational Communications Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 9, 2003

LEGISLATIVE AUDIT BUREAU

by   
Diann Allsen  
Audit Director



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# Management's Discussion and Analysis ■

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## *Prepared by Educational Communications Board Management*

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

ECB is an agency of the State of Wisconsin that operates a public television network of 5 digital stations and 5 analog stations, as well as a public radio network of 12 FM stations and 1 AM station. WPBF was organized by ECB under s. 39.12 and ch. 181, Wis. Stats., on September 29, 1983, for the exclusive purpose of raising funds for the Wisconsin educational television and radio networks.

Following this section are the financial statements and notes as they relate to the ECB Television Network. The Balance Sheet provides information on the types of assets and the liabilities of ECB, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Television Network's financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Assets and Statement of Cash Flows provide information on income and expenses and cash activities. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Television Network's adoption of the GASB 34 reporting model had a significant effect on the format of the Statement of Revenues, Expenses, and Changes in Fund Net Assets. GASB 34 redirects the focus of the reader from operating income gain or loss to the changes in fund net assets. State General Fund revenue has been moved from Operating Revenues to Nonoperating Revenues. The result is a net operating loss in our Net Operating Revenues line. This loss is offset when the nonoperating revenues (with state General Fund revenue) and capital contributions are later added, resulting in a positive change in net assets.

Condensed financial information relating to the ECB Television Network as of and for the fiscal years ended June 30, 2003, and June 30, 2002, is as follows:

### ECB Television Network Condensed Financial Information

	June 30, 2003	June 30, 2002	Percentage Change
Total Assets	\$18,970,283	\$12,185,962	56%
Total Liabilities	1,759,292	900,684	95
<b>Net Assets</b>	<b><u>\$17,210,991</u></b>	<b><u>\$11,285,278</u></b>	

  

	FY 2002-03	FY 2001-02	Percentage Change
Operating Revenue	\$4,872,197	\$5,067,537	-4%
Operating Expenses	11,224,173	10,686,179	5
<b>Net Operating Loss</b>	<b>(6,351,976)</b>	<b>(5,618,642)</b>	
Nonoperating Revenue	5,188,964	4,860,306	7
Capital Contributions	7,088,725	989,318	617
<b>Changes in Net Assets</b>	<b><u>\$5,925,713</u></b>	<b><u>\$230,982</u></b>	

The total assets increase of 56 percent and the liabilities increase of 95 percent were largely due to the conversion to high-definition television (HDTV). The Federal Communications Commission (FCC) mandated that all noncommercial educational television broadcasters convert to digital transmission in 2003. With support from the State and the U.S. Department of Commerce, ECB began digital transmissions on all five stations at various times in 2003, the last going on air in early August 2003. ECB was able to have all five HDTV transmitters operational in 2003 in accordance with the FCC mandate.

It should be noted that \$13,210,347 of the fixed assets of ECB related to television are presented at historical cost less depreciation. Replacement cost of buildings and equipment, using the Builders Cost Index, is over \$48 million for the combined statewide public television and radio networks.

Operating revenues in total were essentially the same as last fiscal year's. Expenses overall increased from the level of last fiscal year due to the purchase of equipment for digital television that were not capitalized.

Nonoperating revenues consist of investment earnings and losses, both realized and unrealized. Investment income increased in FY 2002-03 because of the market improvement. In accordance with GASB 34, nonoperating revenues also include State General Fund Revenue, State Building Trust Fund Revenue for Operating Lease, and State Insurance Funds. The increase in nonoperating revenues may be attributed to the increase in investment income and the funding received from the State Building Trust Fund. The complete results of all operations for the year are summarized in the line titled Changes in Net Assets.

Capital contributions increased with the funding received from the State Building Trust Fund and federal grants associated with the development of the digital television network.

This financial report is designed to provide a general overview of the Educational Communications Board's finances related to public television. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to ECB in care of the Associate Director for Finance and Administration, 3319 West Beltline Highway, Madison, WI 53713-4296.

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

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## **Financial Statements ■**

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## Balance Sheet

### June 30, 2003

	Operating Fund	WPBF (Note 12)	Total June 30, 2003	Restated Total June 30, 2002
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents (Notes 1 and 2)	\$ 172,658	\$ 1,082,131	\$ 1,254,789	\$ 879,094
Investments (Notes 1 and 2)	0	1,993,806	1,993,806	1,988,638
Costs incurred for programs not yet broadcast	304,544	0	304,544	403,519
Receivable—state general appropriation	538,492	0	538,492	355,566
Grants and contracts receivable	330,070	4,295	334,365	194,651
Interfund receivable (payable) (Note 3)	113,934	(113,934)	0	0
Interest receivable	0	2,786	2,786	2,041
Accounts receivable—instructional material	651	0	651	11,038
Receivable—due from affiliates	99,674	0	99,674	86,109
Other receivables	77,951	200	78,151	109,680
Inventory—instructional material	48,871	0	48,871	102,630
Prepaid expenses (Note 6)	65,527	759	66,286	37,205
<b>Total Current Assets</b>	<b>1,752,372</b>	<b>2,970,043</b>	<b>4,722,415</b>	<b>4,170,171</b>
Noncurrent Assets:				
Prepaid expenses (Note 6)	584,058	0	584,058	0
Costs incurred for programs not yet broadcast	453,463	0	453,463	445,847
Land (Note 4)	57,416	0	57,416	57,416
Buildings (Note 4)	3,222,430	0	3,222,430	1,545,636
Equipment (Note 4)	9,930,501	0	9,930,501	5,966,892
<b>Total Noncurrent Assets</b>	<b>14,247,868</b>	<b>0</b>	<b>14,247,868</b>	<b>8,015,791</b>
<b>TOTAL ASSETS</b>	<b>\$ 16,000,240</b>	<b>\$ 2,970,043</b>	<b>\$ 18,970,283</b>	<b>\$ 12,185,962</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 1,402,476	\$ 39,417	\$ 1,441,893	\$ 592,887
Accrued liabilities due to affiliates	30,236	79,629	109,865	138,675
<b>Total Current Liabilities</b>	<b>1,432,712</b>	<b>119,046</b>	<b>1,551,758</b>	<b>731,562</b>
Noncurrent Liabilities:				
Compensated absence payable (Note 5)	207,534	0	207,534	169,122
<b>Total Noncurrent Liabilities</b>	<b>207,534</b>	<b>0</b>	<b>207,534</b>	<b>169,122</b>
Net Assets:				
Invested in capital assets	13,210,347	0	13,210,347	7,569,944
Unrestricted	1,149,647	2,850,997	4,000,644	3,715,334
<b>Total Net Assets</b>	<b>14,359,994</b>	<b>2,850,997</b>	<b>17,210,991</b>	<b>11,285,278</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 16,000,240</b>	<b>\$ 2,970,043</b>	<b>\$ 18,970,283</b>	<b>\$ 12,185,962</b>

The accompanying notes are an integral part of this statement.

## Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2003

	Operating Fund	WPBF (Note 12)	Total 2002-03	Restated Total 2001-02
<b>OPERATING REVENUES</b>				
Contributions Undesignated	\$ 0	\$ 2,477,994	\$ 2,477,994	\$ 2,471,266
Corporation for Public Broadcasting Grants	0	956,740	956,740	954,329
Underwriting Grants	0	282,586	282,586	291,975
Other Grants	204,323	19,047	223,370	252,305
Donated Services (Note 10)	196,241	0	196,241	296,595
Major Gifts	0	60,692	60,692	43,070
Royalties and Other Income	644,660	29,914	674,574	757,997
<b>Total Operating Revenues</b>	<b>1,045,224</b>	<b>3,826,973</b>	<b>4,872,197</b>	<b>5,067,537</b>
<b>OPERATING EXPENSES</b>				
Program Services:				
Programming and production	4,034,257	1,575	4,035,832	4,307,545
Broadcasting	4,907,241	950	4,908,191	4,129,168
Program information	78,649	91,712	170,361	199,392
Total Program Services	9,020,147	94,237	9,114,384	8,636,105
Support Services:				
Management and general	1,045,346	46,433	1,091,779	1,054,174
Fund-raising and membership development	79,411	771,717	851,128	830,863
Underwriting	155,368	11,514	166,882	165,037
Total Support Services	1,280,125	829,664	2,109,789	2,050,074
<b>Total Operating Expenses</b>	<b>10,300,272</b>	<b>923,901</b>	<b>11,224,173</b>	<b>10,686,179</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(9,255,048)</b>	<b>2,903,072</b>	<b>(6,351,976)</b>	<b>(5,618,642)</b>
<b>NONOPERATING REVENUES</b>				
State General Fund Revenue for Operations	4,580,198	0	4,580,198	5,163,832
State Building Trust Fund Revenue for Operating Lease (Note 6)	643,000	0	643,000	0
State Insurance Funds	920	0	920	1,509
Investment Income	0	(35,154)	(35,154)	(305,035)
<b>Total Nonoperating Revenues</b>	<b>5,224,118</b>	<b>(35,154)</b>	<b>5,188,964</b>	<b>4,860,306</b>
Income (Loss) Before Contributions and Transfers	(4,030,930)	2,867,918	(1,163,012)	(758,336)
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>				
Capital Contributions (Note 9)	7,088,725	0	7,088,725	989,318
Interfund Transfers (Note 3)	2,435,465	(2,435,465)	0	0
<b>CHANGE IN NET ASSETS</b>	<b>5,493,260</b>	<b>432,453</b>	<b>5,925,713</b>	<b>230,982</b>
Total Net Assets—Beginning of the Year	8,866,734	2,418,544	11,285,278	11,054,296
Total Net Assets—End of the Year	<u>\$ 14,359,994</u>	<u>\$ 2,850,997</u>	<u>\$ 17,210,991</u>	<u>\$ 11,285,278</u>

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Year Ended June 30, 2003

	Operating Fund	WPBF (Note 12)	Total 2002-03	Restated Total 2001-02
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Contributed Support	\$ 0	\$ 2,821,272	\$ 2,821,272	\$ 2,806,311
Receipts from Grants	59,301	981,095	1,040,396	1,015,640
Receipts from Royalties and Other Sales	667,251	35,674	702,925	957,276
Payments to Suppliers	(4,120,524)	(934,072)	(5,054,596)	(6,340,224)
Payments to Employees	(3,718,146)	0	(3,718,146)	(3,744,720)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(7,112,118)</b>	<b>2,903,969</b>	<b>(4,208,149)</b>	<b>(5,305,717)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Receipts from State Government	4,424,984	0	4,424,984	4,710,830
Interfund Transfers	2,439,806	(2,439,806)	0	0
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>6,864,790</b>	<b>(2,439,806)</b>	<b>4,424,984</b>	<b>4,710,830</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital Contributions	7,088,725	0	7,088,725	989,318
Purchases of Capital Assets	(6,888,798)	0	(6,888,798)	(678,306)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>199,927</b>	<b>0</b>	<b>199,927</b>	<b>311,012</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net Purchases, Sales, and Maturities of Investments	0	(64,037)	(64,037)	(125,670)
Interest and Dividends	0	22,970	22,970	25,345
<b>Net Cash Used for Investing Activities</b>	<b>0</b>	<b>(41,067)</b>	<b>(41,067)</b>	<b>(100,325)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(47,401)</b>	<b>423,096</b>	<b>375,695</b>	<b>(384,200)</b>
Balances—Beginning of the Year	220,059	659,035	879,094	1,263,294
Balances—End of the Year	\$ 172,658	\$ 1,082,131	\$ 1,254,789	\$ 879,094

The accompanying notes are an integral part of this statement.



	Operating Fund	WPBF (Note 12)	Total 2002-03	Restated Total 2001-02
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (9,255,048)	\$ 2,903,072	\$ (6,351,976)	\$ (5,618,642)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation expense	1,069,464	0	1,069,464	830,228
Loss on disposal of fixed assets	178,932	0	178,932	8,495
Change in assets and liabilities:				
Receivables, net	(122,431)	11,068	(111,363)	25,468
Inventories	53,759	0	53,759	7,340
Accounts and other payables	868,020	(9,412)	858,608	(550,826)
Prepaid expenses	95,186	(759)	94,427	(7,780)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (7,112,118)</u></b>	<b><u>\$ 2,903,969</u></b>	<b><u>\$ (4,208,149)</u></b>	<b><u>\$ (5,305,717)</u></b>
Noncash Activities:				
Donated services totaled \$196,241.				
The net increase in the fair value of investments was \$109,456.				

The accompanying notes are an integral part of this statement.



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# Notes to the Financial Statements ■

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Organization

The Educational Communications Board (ECB) is an agency of the State of Wisconsin that operates a public television network consisting of 5 digital stations and 5 analog stations, as well as a public radio network of 12 FM stations and 1 AM station. ECB also operates 3 FM translators, 6 TV translators, and a network of 26 weather service broadcast sites. These financial statements include the accounts relating to the ECB Television Network only. Separate accounts for the radio and television networks are maintained by direct charging whenever possible. All general organization transactions are distributed by an appropriate allocation system.

Television Network financial statements are combined with the Television Fund of the Wisconsin Public Broadcasting Foundation (WPBF), a not-for-profit corporation that solicits funds in the name of and with the express approval of ECB and provides support to the ECB radio and television networks. See Note 12 for further information regarding WPBF.

### 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Contributions and grants that are unrestricted are reported as support when ECB is entitled to them. Restricted revenues are reported as support when the purpose for which the resource was provided has been accomplished. Pledges for contributions and membership fees are reported as income when cash is received. Non-cash contributions are recognized as revenues in the period of receipt.

Expenses are categorized in functional categories. Expenses that relate to more than one category are allocated to the respective categories, using estimates if necessary. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

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

**C. Accounting Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For example, broadcasting expense and administrative expense are allocated between the television and radio networks based upon historical costs. Actual results may differ from those estimates.

**D. Cash and Cash Equivalents**

Cash and cash equivalents in the Television Network’s operating 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.

**E. Valuation of Investments**

All investments of WPBF related to the Television Network are carried at fair-market value based on quoted market prices. State Investment Fund shares are valued at fair-market value.

**F. Costs Incurred for Programs Not Yet Broadcast**

Costs incurred for programs not yet broadcast relate to programs produced or acquired by the ECB Television Network that will be broadcast subsequent to the fiscal year-end. Such costs are reported as an asset. Programs to be completed and broadcast within one year are classified as current assets, whereas programs to be completed and broadcast in more than one year are classified as noncurrent. As the programs are broadcast, the costs incurred will be included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.

**G. Receivable—State General Appropriations**

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

**H. Property and Equipment**

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

**I. 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.

**J. Prior-Year Financial Statements**

The financial information shown for fiscal year (FY) 2001-02 in the accompanying financial statements presents summarized totals and is included to provide a basis for comparison with FY 2002-03.

**2. DEPOSITS AND INVESTMENTS**

The cash balances of ECB's operating fund 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 its Board of Trustees and in accordance with Wisconsin Statutes. Holdings of the State Investment Fund

include certificates of deposit and investments consisting primarily of direct obligations of the federal government and the State, and unsecured notes of qualifying financial and industrial issuers.

Shares in the State Investment Fund are not required to be categorized under GASB Statement 3. The State Investment Fund is not registered with the Securities and Exchange Commission.

WPBF manages its cash and investment activities separate from the cash and investment activities of the State Investment Fund. Cash balances are held in demand deposit and money market accounts at financial institutions. The investments of WPBF relating to the ECB Television Network are managed by private trust companies. Investment income is presented as a nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

**A. Deposits**

GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of credit risk assumed. These risk categories are: 1) insured or collateralized, with securities held by the entity or by its agent in the entity's name; 2) collateralized, with securities held by the financial institution's trust department or agent in the entity's name; and 3) uninsured or uncollateralized.

At year-end, the carrying amount of ECB's Television Network deposits with financial institutions was \$1,082,131, and the bank balance was \$1,625,177. The difference is the amount of checks outstanding on June 30, 2003. Deposits of up to \$100,000 at each institution are covered by the Federal Deposit Insurance Corporation (FDIC). Of the bank balance, \$100,000 was insured and is, therefore, classified in risk category 1; \$1,525,177 was uninsured and uncollateralized and, therefore, classified in risk category 3.

**B. Investments**

Investments authorized by WPBF's Board of Trustees and held by WPBF include publicly traded stocks and equity mutual funds. GASB Statement 3 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 the entity or its agent in the entity's name; 2) uninsured and unregistered, with securities held by counterparty or its agent in the entity's name; and 3) uninsured and unregistered, or the securities are held by counterparty or its agent, but not in the entity's name. With the exception of funds invested in open-end mutual funds and the State Investment Fund, which are not required to be categorized, all investments meet the criterion for risk category 1. Detail for investment balances as of June 30, 2003, follows:

	<u>Fair Value</u>	<u>Cost</u>
Equity Securities	\$1,785,994	\$1,813,865
Equity Mutual Funds	<u>207,812</u>	<u>242,928</u>
Total	<u>\$1,993,806</u>	<u>\$2,056,793</u>

### 3. FUND TRANSFERS

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

### 4. CAPITAL ASSET

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 57,416	\$ 0	\$ 0	\$ 57,416
Capital Assets Being Depreciated:				
Buildings	3,066,401	1,801,175	0	4,867,576
Equipment	<u>13,204,793</u>	<u>5,087,623</u>	<u>(879,548)</u>	<u>17,412,868</u>
Total Capital Assets at Historical Cost	16,271,194	6,888,798	(879,548)	22,280,444
Less Accumulated Depreciation for:				
Buildings	(1,520,765)	(124,381)	0	(1,645,146)
Equipment	<u>(7,237,901)</u>	<u>(945,083)</u>	<u>700,616</u>	<u>(7,482,368)</u>
Total Accumulated Depreciation	<u>(8,758,666)</u>	<u>(1,069,464)</u>	<u>700,616</u>	<u>(9,127,514)</u>
Total Capital Assets Being Depreciated, Net	<u>7,512,528</u>	<u>5,819,334</u>	<u>(178,932)</u>	<u>13,152,930</u>
Total Capital Assets, Net	<u>\$7,569,944</u>	<u>\$5,819,334</u>	<u>\$(178,932)</u>	<u>\$13,210,346</u>

Depreciation expense was charged to functions as follows:

Programming	\$ 3,189
Delivery	1,012,916
Administration	<u>53,359</u>
Total Depreciation Expense	\$1,069,464

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 received three NTIA capital equipment grants related to the ECB Television Network between FY 1992-93 and FY 1998-99. The book value of equipment purchased with NTIA funds is \$798,974 as of June 30, 2003.

**5. NONCURRENT LIABILITIES**

Noncurrent liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$169,122	\$89,516	(\$51,104)	\$207,534

The noncurrent liabilities are generally funded with operating subsidies received from the State of Wisconsin. The portion of the liability that is due within one year is reflected in the current liabilities on the Balance Sheet.

**6. GREEN BAY TOWER OPERATING LEASE**

The Department of Administration authorized ECB to enter into a long-term contract with Young Broadcasting of Green Bay, Inc., with the contract period not to exceed 20 years. ECB executed a multi-year lease of a tower, transmission line, antenna, channel combiner, air conditioning, and transmitter building. The lease agreement required a rent prepayment in the amount of \$743,000, of which \$643,000 was allocated to the Television Network. The prepayment was paid in September 2002 and was funded by the Wisconsin State Building Trust Fund. The rent expense associated with the prepayment is being recognized over the life of the lease, which is 20 years. The amount paid in excess of the amount recognized is reported as a prepaid expense on the Balance Sheet.

In addition to the rent prepayment, ECB is required to make an annual rent payment in lieu of taxes. The contract requires an initial payment of \$10,000 and a scheduled rent increase each lease year by 3 percent compounded until the end of the lease term. The annual payments are allocated 60 percent to the Television Network and 40 percent to the Radio Network.

The following is a schedule of future minimum obligations under this operating lease as of June 30, 2003:



Fiscal Year Ended June 30	Television Network	Radio Network	Total Amount
2004	\$ 6,180	\$ 4,120	\$ 10,300
2005	6,365	4,244	10,609
2006	6,556	4,371	10,927
2007	6,753	4,502	11,255
2008	6,956	4,637	11,593
2009-2013	38,036	25,358	63,394
2014-2018	44,095	29,396	73,491
2019-2022	<u>40,281</u>	<u>26,854</u>	<u>67,135</u>
Total	<u>\$155,222</u>	<u>\$103,482</u>	<u>\$258,704</u>

**7. GENERAL OBLIGATION BONDS AND NOTES**

ECB has used proceeds received from a number of State of Wisconsin general obligation bonds and general obligation commercial paper notes to finance the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB. The proceeds were included as support in the year the facilities were acquired.

The general obligation bonds repaid by the State’s general purpose revenue are not considered debt of ECB because their repayment is from general purpose revenue. Therefore, the debt financed through general purpose revenue appropriations and the related receivable are reported in the State of Wisconsin Comprehensive Annual Financial Report rather than the ECB Television Network’s financial statements. The indebtedness carried by the State of Wisconsin on behalf of the ECB Television Network to be repaid by general purpose revenue as of June 30, 2003, is \$9,456,652 in general obligation bonds and \$453,206 in commercial paper notes. ECB is responsible for the repayment of interest on these obligations; therefore, interest expense of \$215,643 is included in the broadcasting expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

**8. ENDOWMENT**

The management of WPBF established an endowment during FY 1992-93. The balance as of June 30, 2003, is \$533,835. Investment income earned on the endowment is used for operations. None of the assets in the endowment at June 30, 2003, are donor-restricted. Assets in the endowment follow the investment policy disclosed in Notes 1 and 2.

**9. CAPITAL CONTRIBUTIONS**

The capital contributions for the ECB Television Network are:

**A. State of Wisconsin Building Trust Fund Appropriation**

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

**B. Grants**

Federal grant funds received from NTIA and used to purchase capital equipment are recorded as support when the expense is incurred.

**10. DONATED SERVICES**

The financial statements include \$39,053 in donated professional services, \$9,788 in donated general operational services, and \$147,400 in donated instructional television services. These contributions are recognized as revenues and expenses in the period received and used. 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 fair value, when clearly measurable, or at the cost of providing the service.

**11. EMPLOYEE RETIREMENT PLAN**

Permanent employees of the ECB Television Network are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information of the Wisconsin Retirement System may be obtained by writing to:

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

The most current financial report is also available on the Department of Employee Trust Fund’s Web site, *etf.wi.gov*.

Generally, the State’s policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee’s classification, plus employer contributions at a rate determined annually. The ECB Television Network’s contribution to the plan was \$373,042 for FY 2002-03. The relative position of the ECB Television Network in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

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

The accounts of the ECB Television Network are combined with the Television Fund of WPBF, a not-for-profit corporation that solicits funds in the name of, and with the approval of, ECB. A summary of significant financial data relating to WPBF, which includes radio, television, and other non-broadcasting activities of WPBF, follows:

	Fiscal Year Ended <u>June 30, 2003</u>
Revenues	\$8,748,224
Expenses	<u>(1,704,059)</u>
Excess Revenues over Expenses	<u>\$7,044,165</u>
	 <u>June 30, 2003</u>
Cash and Investments	\$5,132,272
Other Current Assets	710,809
Liabilities	<u>(506,452)</u>
Net Assets	<u>\$5,336,629</u>

**13. RELATED ENTITIES**

**A. WHA Television**

WHA Television is a public telecommunications entity licensed to the University of Wisconsin (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 an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. The directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the UW Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the balance sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

**B. Rib Mountain Communications**

ECB entered into a joint ownership on November 1, 2001, to erect, operate, and maintain a new broadcast tower on Rib Mountain, Wisconsin. The agreement is between ECB; WRIG, Inc.; QNI; and Gray Midamerica Television, Inc. The shares of ownership are 33 percent, 23 percent, 20 percent, and 24 percent, respectively. Each party contributes its respective share of maintenance and repair on an annual basis. An annual budget is prepared for the joint ownership to determine respective amounts of maintenance due from each party. ECB allocates the asset and expense between the radio and television networks.

**14. PRIOR-PERIOD CORRECTION**

In the past, ECB recognized state General Fund revenue and established a related receivable to correspond to the accrual of compensation absence expenses. However, according to GASB Statement Number 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which was effective for FY 2000-01, recognition of general purpose revenues should correspond to the government's fiscal period during which the appropriation will be made. As a result, the FY 2001-02 financial data have been restated to eliminate the state receivable and state General Fund revenue related to the accrual of compensated absence expenses during FY 2001-02. Further, the cumulative effect of the error is reflected as a restatement of the beginning net asset balance as of July 1, 2001, by a decrease of \$256,655, and a reduction of the FY 2001-02 state General Fund revenue by \$17,183.

The FY 2001-02 financial data, presented for comparative purposes, have been restated to accrue a prior-year payable to the State Building Trust Fund of \$29,117 that had been recorded as a cash payment instead of a payable. While there is no net effect on net assets, the cash and payable amounts have been reclassified accordingly.

The net effect of all of the prior-period corrections is to decrease the net asset fund balance at June 30, 2002, by \$273,838.

**15. PRIOR-PERIOD RECLASSIFICATION**

ECB implemented a new financial reporting model, as required by the provision of GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2002. However, ECB made additional presentation changes during FY 2002-03 to better meet the requirements of GASB Statement Number 34, including classifying the revenue received from the State for operations and insurance proceeds as nonoperating revenues, and separately presenting current and noncurrent assets and liabilities. These changes are also reflected in the FY 2001-02 financial data presented for comparative purposes.

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# Report on Compliance and Control ■

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## ***Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards***

We have audited the financial statements of the Wisconsin Educational Communications Board Television Network as of and for the year ended June 30, 2003, and have issued our report thereon dated December 9, 2003. 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.

### **COMPLIANCE**

As part of obtaining reasonable assurance about whether the 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, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Educational Communications Board'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 independent auditor's report is intended for the information and use of the Educational Communications Board, the Wisconsin Legislature's Joint Legislative Audit Committee, and the Corporation for Public Broadcasting. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

December 9, 2003

by   
Diann Allsen  
Audit Director