

AN AUDIT

*Wisconsin Educational
Communications Board
Radio Network*

98-17

December 1998

1997-98 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

Editor of Publications - Jeanne Thieme

Audit Prepared by

Diann Allsen, Director and Contact Person
Jodi Miller
Mary Frickelton

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE WISCONSIN EDUCATIONAL COMMUNICATIONS BOARD RADIO NETWORK	3
FINANCIAL STATEMENTS	5
Statement 1 - Balance Sheet - June 1998	5
Statement 2 - Statement of Financial Activity for the Year Ended June 30, 1998	6
Statement 3 - Statement of Cash Flows of the Year Ended June 30, 1998	7
NOTES TO FINANCIAL STATEMENTS	9
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	25



State of Wisconsin

LEGISLATIVE AUDIT BUREAU



JANICE MUELLER
STATE AUDITOR
SUITE 402
131 WEST WILSON STREET
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410

December 30, 1998

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

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

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

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

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

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

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ao

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

We have audited the accompanying balance sheet of the Wisconsin Educational Communications Board Radio Network as of June 30, 1998, and the related statements of financial activity and cash flows for the year then ended. These financial statements are the responsibility of the Educational Communications Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Wisconsin Public Radio Association, which represent 14 percent of the total assets and 43 percent of total support and revenue. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, is based solely upon the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin Public Radio Association were not audited 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 provides a reasonable basis for our opinion.

Governmental Auditing Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Wisconsin Educational Communications Board Radio Network has included such disclosures in Note 12. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, in our judgment, it is not possible to obtain sufficient evidence to support the Wisconsin Educational Communications Board Radio Network's disclosures with respect to the year 2000 issue made in Note 12. Further, we do not provide assurance that the Educational Communications Board Radio Network is or will be year 2000 ready, that the Educational Communications Board Radio Network's year 2000 remediation efforts

will be successful in whole or in part, or that parties with which the Educational Communications Board Radio Network does business will be year 2000 ready.

As discussed in Note 1, the financial statements present only the Wisconsin Educational Communications Board Radio Network and are not intended to present fairly the financial position of the State of Wisconsin and the results of its operations and changes in fund balances of its fund types in conformity with generally accepted accounting principles.

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

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

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

LEGISLATIVE AUDIT BUREAU

December 21, 1998

by

Diann Allsen
Audit Director

Wisconsin Educational Communications Board Radio Network
Balance Sheet
June 30, 1998

	Unrestricted Fund	Restricted Fund	WPRA (Note 14)	WPBF (Note 13)	Total June 30, 1998	Total June 30, 1997
Assets						
Current Assets:						
Cash and cash equivalents (Note 1)	\$ 0	\$ 277	\$ 0	\$ 336,147	\$ 336,424	\$ 246,921
Investments (Note 3)	0	0	0	979,493	979,493	628,653
Equity in resources held by WPRA (Note 14)	0	0	745,029	0	745,029	701,062
Receivable - State general tax revenue	0	317,173	0	0	317,173	293,447
Grants and contracts receivable	0	500	0	2,236	2,736	35,170
Interfund receivable (payable) (Note 4)	41,302	(720)	0	(40,582)	0	0
Interest receivable	0	0	0	1,726	1,726	9,214
Other receivables	48,322	0	0	0	48,322	106,052
Total Current Assets	89,624	317,230	745,029	1,279,020	2,430,903	2,020,519
Noncurrent Assets:						
Receivable - State general tax revenue	0	830,518	0	0	830,518	832,073
Equipment (Note 5)	1,794,313	0	0	0	1,794,313	2,207,843
Buildings (Note 5)	52,280	0	0	0	52,280	55,714
Land	38,277	0	0	0	38,277	38,277
Total Noncurrent Assets	1,884,870	830,518	0	0	2,715,388	3,133,907
Total Assets	\$ 1,974,494	\$ 1,147,748	\$ 745,029	\$ 1,279,020	\$ 5,146,291	\$ 5,154,426
Liabilities and Fund Balances						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 53,868	\$ 151,395	\$ 0	\$ 977	\$ 206,240	\$ 165,409
Deferred support (Note 6)	0	57	0	48,543	48,600	37,229
Capital lease payable (Note 9)	17,396	0	0	0	17,396	0
Note payable (Note 8)	0	54,548	0	0	54,548	0
Wisconsin general obligation bonds payable (Note 7)	0	111,230	0	0	111,230	174,869
Total Current Liabilities	71,264	317,230	0	49,520	438,014	377,507
Long-term Liabilities:						
Capital lease payable	7,477	0	0	0	7,477	0
Wisconsin general obligation bonds payable (Note 7)	0	830,518	0	0	830,518	832,073
Total Long-term Liabilities	7,477	830,518	0	0	837,995	832,073
Fund Balances:						
Designated for operations	10,883	0	745,029	1,229,500	1,985,412	1,643,012
Net investment in property and equipment	1,884,870	0	0	0	1,884,870	2,301,834
Total Fund Balances	1,895,753	0	745,029	1,229,500	3,870,282	3,944,846
Total Liabilities and Fund Balances	\$ 1,974,494	\$ 1,147,748	\$ 745,029	\$ 1,279,020	\$ 5,146,291	\$ 5,154,426

The accompanying notes are an integral part of this statement.

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

	Unrestricted Fund	Restricted Fund	WPRA (Note 14)	WPBF (Note 13)	Total 1997-98	Total 1996-97
Support and Revenue						
State general appropriations	\$ 0	\$ 1,577,118	\$ 0	\$ 0	\$ 1,577,118	\$ 1,427,155
State building trust funds	0	197,322	0	0	197,322	439,311
Contributions undesignated	0	0	2,099,407	0	2,099,407	1,228,636
Community services grant - CPB	0	0	0	369,234	369,234	341,598
Underwriting grants	0	0	0	429,720	429,720	300,546
Federal grants	0	45,594	0	0	45,594	126,246
Other grants and contracts	41,701	500	198,489	134,652	375,342	254,220
In-kind donated professional services (Note 10)	0	228,719	0	0	228,719	298,849
Major gifts	0	0	0	68,320	68,320	56,973
Investment income	0	0	84,692	123,624	208,316	115,266
Royalties and other income	33,951	0	204,311	196,729	434,991	187,113
Total Support and Revenue	<u>75,652</u>	<u>2,049,253</u>	<u>2,586,899</u>	<u>1,322,279</u>	<u>6,034,083</u>	<u>4,775,913</u>
Expenses						
Program Services:						
Programming and production	2,244,780	196,582	0	67,638	2,509,000	1,813,990
Broadcasting	596,594	1,156,194	0	0	1,752,788	1,915,507
Program information	0	0	406,191	0	406,191	157,779
Total Program Services	<u>2,841,374</u>	<u>1,352,776</u>	<u>406,191</u>	<u>67,638</u>	<u>4,667,979</u>	<u>3,887,276</u>
Support Services:						
Management and general	(14,636)	423,054	79,481	9,223	497,122	512,478
Fund raising and membership development	46,201	0	332,898	0	379,099	248,320
Total Support Services	<u>31,565</u>	<u>423,054</u>	<u>412,379</u>	<u>9,223</u>	<u>876,221</u>	<u>760,798</u>
Total Expenses	<u>2,872,939</u>	<u>1,775,830</u>	<u>818,570</u>	<u>76,861</u>	<u>5,544,200</u>	<u>4,648,074</u>
Excess (Deficiency) of Support and Revenue over Expenses	(2,797,287)	273,423	1,768,329	1,245,418	489,883	127,839
Fund Balances						
Beginning fund balances as previously reported	2,328,619	0	701,062	915,165	3,944,846	3,815,935
Accounting changes (Note 2)	(564,447)	0	0	0	(564,447)	7,045
Beginning fund balances as adjusted	1,764,172	0	701,062	915,165	3,380,399	3,822,980
Equipment transfers to TV	0	0	0	0	0	(5,973)
Transfer from (to) WPRA	0	0	(1,724,362)	1,724,362	0	0
Interfund donation	2,928,868	(273,423)	0	(2,655,445)	0	0
Fund Balances at End of Year	<u>\$ 1,895,753</u>	<u>\$ 0</u>	<u>\$ 745,029</u>	<u>\$ 1,229,500</u>	<u>\$ 3,870,282</u>	<u>\$ 3,944,846</u>

The accompanying notes are an integral part of this statement.

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

	Operating Funds	WPRA (Note 14)	WPBF (Note 13)	Total 1997-98	Total 1996-97
Cash Flows from Operating Activities					
Excess (Deficiency) of revenues over expenses	\$ (2,523,864)	\$ 1,768,329	\$ 1,245,418	\$ 489,883	\$ 127,839
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:					
Unrealized (gain) loss on investments	0	0	(45,889)	(45,889)	(7,137)
Realized (gain) loss on investments	0	0	(7,408)	(7,408)	
Depreciation	168,302	0	0	168,302	221,422
Loss on disposal of fixed assets	30,795	0	0	30,795	10,197
Changes in cash due to:					
Decrease (Increase) in receivable - State general tax revenue	(23,726)	0	0	(23,726)	(115,599)
Decrease (Increase) in grants and contracts receivable	32,434	0	0	32,434	13,729
Decrease (Increase) in interest receivable	0	0	7,488	7,488	(198)
Decrease (Increase) in other receivables	(24,664)	0	82,394	57,730	(84,684)
Increase (Decrease) in accounts payable and accrued expenses	39,854	0	977	40,831	(226,500)
Increase (Decrease) in deferred support	57	0	11,314	11,371	(11,886)
Change in interfund receivable/payable	(32,878)	0	32,878	0	0
Net Cash Provided (Used) by Operating Activities	<u>(2,333,690)</u>	<u>1,768,329</u>	<u>1,327,172</u>	<u>761,811</u>	<u>(72,817)</u>
Cash Flows from Noncapital Financing Activities					
Interfund donations	<u>2,655,445</u>	<u>(1,724,362)</u>	<u>(931,083)</u>	<u>0</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities					
Purchase of property and equipment	(346,580)	0	0	(346,580)	(164,551)
Increase (Decrease) in capital lease payable	24,873	0	0	24,873	0
Increase (Decrease) in note payable	54,548	0	0	54,548	0
Increase (Decrease) in Wisconsin general obligation bonds payable	<u>(63,639)</u>	<u>0</u>	<u>0</u>	<u>(63,639)</u>	<u>129,915</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(330,798)</u>	<u>0</u>	<u>0</u>	<u>(330,798)</u>	<u>(34,636)</u>
Cash Flows from Investing Activities					
Net proceeds from sale, maturity, or (purchase) of investments	0	0	(297,543)	(297,543)	110,492
Equity in resources held by WPRA	<u>0</u>	<u>(43,967)</u>	<u>0</u>	<u>(43,967)</u>	<u>(101,205)</u>
Net Cash Provided (Used) by Investing Activities	<u>0</u>	<u>(43,967)</u>	<u>(297,543)</u>	<u>(341,510)</u>	<u>9,287</u>
Increase (Decrease) in Cash and Equivalents	(9,043)	0	98,546	89,503	(98,166)
Cash and Cash Equivalents					
Beginning of Year	<u>9,320</u>	<u>0</u>	<u>237,601</u>	<u>246,921</u>	<u>345,087</u>
End of Year	<u>\$ 277</u>	<u>\$ 0</u>	<u>\$ 336,147</u>	<u>\$ 336,424</u>	<u>\$ 246,921</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

The Educational Communications Board (ECB), an agency of the State of Wisconsin, operates a radio network consisting of ten FM and one AM public radio stations. This reporting format is required by the Corporation for Public Broadcasting. The financial statements include the accounts relating to the ECB Radio Network within the Wisconsin Public Broadcasting Foundation, Inc. (WPBF), a nonprofit Wisconsin corporation. WPBF solicits funds in the name of, and with the approval of, ECB. ECB also operates a network of five television stations. Separate accounts for each television and radio station are maintained by direct charging whenever possible. All interstation or general organization transactions were distributed by an appropriate allocation system. The financial statements include the ECB accounts of the Wisconsin Public Radio Association (WPRA), a nonprofit listener support group for public radio in Wisconsin.

Basis of Presentation

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

Fund Accounting

The assets, liabilities, and fund balances of ECB are reported in one self-balancing fund group. Operating funds include unrestricted, restricted, WPBF, and WPRA resources that are available for support

of the ECB Radio Network's operations. The funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting.

Revenue Recognition

Under the *Principles of Accounting and Financial Reporting for Public Telecommunications Entities*, noncash contributions are recognized as revenues. Contributions and grants that are unrestricted are recorded as support in the statement of activity when received. Restricted revenues are recorded as support in the statement of activity when the purpose for which the resources was provided has been accomplished. Revenue is recognized for pledged WPRA contributions that are expected to be collected within one year.

Receivable - State of Wisconsin General Appropriation

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

Allocation of Functional Expenses

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

Cash and Cash Equivalents

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

Valuation of Investments

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

Property and Equipment

Items classified as permanent property are recorded at cost or, for donated property, at the estimated fair-market value at date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 to 20 years.

Expenses for repairs and maintenance are charged to operating expenses as incurred. Assets are capitalized if their value is in excess of \$5,000.

Employee Compensated Absences

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

Prior-Year Financial Statements

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

2. Accounting Changes

In FY 1997-98, the capitalization threshold for property and equipment was increased from \$500 to \$5,000. The cumulative effect of expensing undepreciated equipment purchased in years prior to FY 1997-98 at a cost of less than \$5,000 is \$564,447, which decreases beginning fund balance in the unrestricted fund.

GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, was implemented during FY 1997-98. This standard requires that governmental entities report investments at fair value in their balance sheets and include changes in the fair value of investments in investment income. Provisions of this statement have been applied retroactively to FY 1996-97, with the cumulative effect of applying this statement for prior periods not presented shown as a restatement of the beginning fund balance in the amount of \$7,045. Of this amount, \$1,133 is attributable to WPBF investments, and \$5,912 is attributable to WPRA investments.

3. Deposits and Investments

The cash balances of ECB's unrestricted and restricted funds are deposited with the State of Wisconsin Treasurer and invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by a Board of Trustees as authorized in ss. 25.14 and 25.17, Wis. Stats. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company.

Holdings of the State Investment Fund include certificates of deposit (CDs) and investments consisting primarily of direct obligations of the federal government, securities of federally chartered corporations, unsecured notes of qualifying financial and industrial issuers, and Yankee/Euro dollar issues.

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

Deposits

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

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

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

At year-end, the carrying amount of ECB's Radio Network demand deposits with financial institutions was \$51,432, and the bank balance was \$224,936. State deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and the Wisconsin State Deposit Guarantee Fund (s. 34.08, Wis Stats.). Of the bank balance, \$135,420 was insured and classified in risk category 1, and \$89,516 was uninsured and uncollateralized and is classified in risk category 3.

Investments

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

1. insured or registered, or the securities are held by WPBF or its agent in WPBF's name;

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

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

Cash and Investment Balances as of June 30, 1998

<u>Cash and Cash Equivalents</u>	<u>Carrying & Fair Value</u>
Demand Deposits (includes unrestricted funds)	\$ 51,709
Money Market Funds	<u>284,715</u>
Total	<u>\$336,424</u>
 <u>Investments</u>	
Stocks	\$276,836
Bonds	278,904
Bond Mutual Funds	224,304
Equity Mutual Funds	<u>199,449</u>
Total	<u>\$979,493</u>

4. Fund Transfers

WPRA transfers funds to WPBF based on the agreement explained in Note 14. WPBF transfers funds to the restricted and unrestricted funds monthly, based on funding requirements. The timing of those transfers and the expenses from unrestricted and restricted funds result in interfund payables and receivables at fiscal year-end.

5. Accumulated Depreciation

Permanent property values are reported net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 years for computer equipment and software to 20 years for buildings and towers. The accumulated depreciation on June 30, 1998 was \$1,893,846 for equipment and \$24,038 for buildings.

6. Changes in Deferred Support and Revenues

	<u>Deferred Support</u>
Beginning-of-year balance	\$37,229
(-) Prior year earned	(37,229)
(+) Additions	<u>48,600</u>
End-of-year balance	<u>\$48,600</u>

7. Long-Term Debt

ECB reports as a liability the proceeds received from a number of State of Wisconsin general obligation bonds used to finance the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB. The repayment of this indebtedness is financed through an annual appropriation of general purpose tax revenue. The interest expense of \$105,289 is included as a broadcasting operating expense on the statement of financial activity. Since the proceeds of the bonds were included as support in the year facilities were acquired, the amount provided through the annual appropriation for the principal repayment of \$174,869 is not included.

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

FY 1996-97 Wisconsin general obligation bonds payable	\$832,073
New issuances	109,675
Reclassified as current-bonds payable	<u>(111,230)</u>
FY 1997-98 Wisconsin general obligation bonds payable	<u>\$830,518</u>

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

Fiscal Year <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$111,230	\$ 48,417	\$ 159,647
2000	126,191	42,932	169,123
2001	104,146	35,181	139,327
2002	68,416	29,664	98,080
2003	52,652	26,038	78,690
Thereafter	<u>479,113</u>	<u>162,197</u>	<u>641,310</u>
Total	<u>\$941,748</u>	<u>\$344,429</u>	<u>\$1,286,177</u>

8. Short-Term Note Payable

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

9. Capital Lease

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

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

Unrestricted Fund

Equipment	\$42,450
Less: Accumulated Depreciation	<u>(6,367)</u>
Carrying Amount	<u>\$36,083</u>

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

<u>Fiscal Year</u>	<u>Unrestricted Fund</u>
1999	\$17,577
2000	<u>7,634</u>
Total Minimum Future Payments	25,211
Less: Amounts Representing Executory Costs	<u>252</u>
Net Minimum Lease Payments	24,959
Less: Amounts Representing Interest	<u>87</u>
Present Value of Net Minimum Lease Payments	<u>\$24,872</u>

10. Restricted Revenue

The principal restricted resources for the ECB Radio Network are:

State of Wisconsin General Appropriation

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

- a. payment of utilities, fuel, heating, and cooling;
- b. repayment of principal and interest costs incurred in financing the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB;
- c. payment of programming-related costs;
- d. payment of broadcast delivery, administration, and other costs incurred to carry out ECB functions;
- e. payment for the construction of a national weather service transmitter; and
- f. payment of costs related to the operation of the weather service transmitter.

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

State of Wisconsin Building Trust Fund Appropriation

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

Grants

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

In-Kind Contributions

The estimated fair value of material and services is recorded as revenue and expense in the period the services are received. In-kind

contributions, primarily professional services, were charged to the following functional expense categories.

	<u>In-Kind Contributions</u>
Programming and production	\$196,582
Management and general	<u>32,137</u>
Total	<u>\$228,719</u>

11. Employee Retirement Plan

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

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

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The ECB Radio Network's contribution to the plan was \$154,431 for FY 1997-98. The relative position of the ECB Radio Network in the Wisconsin Retirement System is not available because the System is statewide, multi-employer plan.

12. Year 2000 (Y2K) Readiness

ECB is currently addressing year 2000 issues relating to its computer systems and electronic equipment. The year 2000 issue refers to the fact that many computer

programs use only the last two digits (i.e., 99) to refer to a year, which may cause computer programs, data files, and electronic equipment with computer chips to fail or create errors.

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

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

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

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

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

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

13. Wisconsin Public Broadcasting Foundation, Inc.

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

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

	12 Months Ended <u>June 30, 1998</u>
Revenues	\$ 5,881,511
Expenses	<u>(1,178,571)</u>
Excess of revenues over expenses	<u>\$ 4,702,940</u>
	<u>June 30, 1998</u>
Cash and investments	\$4,857,682
Other current assets	92,903
Liabilities	<u>(638,217)</u>
Net assets	<u>\$4,312,368</u>

14. Wisconsin Public Radio Association

The financial statements include as a separate fund the ECB Radio Network's share of the funds received and expended on its behalf by WPRA. Funds are solicited under the name "Wisconsin Public Radio" on behalf of the network stations licensed to ECB, and those licensed to the University of Wisconsin. The majority of funds received by WPRA are solicited on air by announcers in the employment of the licensees. Contributors to "Wisconsin Public Radio" elect the WPRA Board of Directors on which both licensees are represented. Funds

expended directly by WPRA are in accordance with a budget developed jointly by the two licensees and the WPRA Board. The primary funds are transferred to the licensees based on an agreement signed by the two licensees and ratified by the WPRA Board of Directors. This agreement provides that unrestricted funds received by WPRA shall be allocated in a ratio equal to 76 percent to ECB's Radio Network and 24 percent to the University. The agreement also provides that WPRA expenses be allocated in this same ratio.

The fund balances allocated to ECB and the University may be withdrawn by ECB and the University at any time. Funds expended from other operating funds available to ECB pending WPRA reimbursement are reflected as inter-fund receivables and payables on the balance sheet.

The WPRA financial statements and notes were audited by other auditors. Selected financial data from the WPRA financial statements are included in the following schedules.

Wisconsin Public Radio Association, Inc.
Schedule of Assets, Liabilities and Net Assets
June 30, 1998

Assets	<u>June 30, 1998</u>
Current Assets:	
Cash - unrestricted	\$ 57,924
Cash - temporarily restricted	153,710
Short-term investments	614,426
Contributions receivable, less allowance for uncollectible contributions of \$29,755	119,020
Accounts receivable	36,360
Prepaid expenses	<u>1,802</u>
Total Current Assets	983,242
Endowment	200,357
Long-Term Investments	<u>335,778</u>
Total Assets	<u><u>\$1,519,377</u></u>

Liabilities and Net Assets	
Current Liabilities:	
Accounts payable	<u>119,075</u>
Net Assets:	
Unrestricted	1,034,611
Unrestricted - Board Designated - Regional Promotions	11,624
Unrestricted - Board Designated - Endowment Fund	200,357
Temporarily restricted	<u>153,710</u>
Total Net Assets	<u>1,400,302</u>
Total Liabilities and Net Assets	<u><u>\$1,519,377</u></u>

Wisconsin Public Radio Association, Inc.
Schedule of Revenues and Expenses
for the Year Ended June 30, 1998

Revenues	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Membership contributions	\$2,699,751	\$ 0	\$2,699,751
Investment income	98,740	0	98,740
Grants and project funds	57,595	219,251	276,846
Matching gifts	49,365	0	49,365
Radio store sales	64,860	0	64,860
Special events	169,880	0	169,880
Special projects	14,000	0	14,000
Miscellaneous	20,090	0	20,090
Unrealized gain on investments	12,697	0	12,697
Net assets released from restriction through satisfaction of contributor restrictions	203,575	(203,575)	0
Total Revenue	\$3,390,553	\$ 15,676	\$3,406,229
Expenses			
Administration	\$ 104,580	\$ 0	\$ 104,580
Development	382,132	0	382,132
Merchandising	55,892	0	55,892
Support activities:			
Regional and project	267,939	0	267,939
Programming and promotion activities	274,523	0	274,523
Contractual support to licensees	2,260,898	0	2,260,898
Total Expenses	3,345,964	0	3,345,964
Increase in Net Assets	44,589	15,676	60,265
Net Assets - Beginning of year	1,188,741	151,296	1,340,037
Transfers	13,262	(13,262)	0
Net Assets	\$1,246,592	\$ 153,710	\$1,400,302

15. WHAD-FM Allocation

On September 29, 1993, WHAD-FM and its affiliated Ideas Network stations qualified for Community Service Grant assistance from the Corporation for Public Broadcasting. WHAD-FM and affiliated Ideas Network stations are licensed to ECB, and the stations' financial transactions are included as part of the ECB Radio Network financial statements. That portion of the Statement of Financial Activity attributable to Ideas Network stations' revenues, direct expenditures, and related readily allocable indirect expenditures has been identified on the following page. The remaining revenues and expenses are considered attributable to WERN-FM and its affiliated Music Network stations and include any unallocated amounts of the Ideas Network stations.

	1997-98 <u>Total</u>	<u>WHAD-FM and Affiliates</u>	<u>WERN-FM and Affiliates</u>
Support and Revenue			
State general appropriations	\$1,577,118	\$ 434,434	\$1,142,684
State building trust funds	197,322	133,339	63,983
Contributions undesignated	2,099,407	685,364	1,414,043
Community Service Grant - CPB	369,234	95,312	273,922
Underwriting grants	429,720	157,144	272,576
Federal grants	45,594	23,708	21,886
Other grants and contracts	375,342	26,729	348,613
In-kind donated professional services	228,719	0	228,719
Major gifts	68,320	30,597	37,723
Investment income	208,316	16,199	192,117
Royalties and other	434,991	1,000	433,991
Total Support and Revenue	<u>\$6,034,083</u>	<u>\$1,603,826</u>	<u>\$4,430,257</u>

Expenses			
Program Services:			
Programming and production	\$2,509,000	\$ 986,495	\$1,522,505
Broadcasting	1,752,788	455,421	1,297,367
Program information	406,191	0	406,191
Total Program Services	<u>4,667,979</u>	<u>1,441,916</u>	<u>3,226,063</u>
Support Services:			
Management and general	497,122	159,902	337,220
Fund raising and membership developme	379,099	0	379,099
Total Support Services	<u>876,221</u>	<u>159,902</u>	<u>716,319</u>
Total Expenses	<u>\$5,544,200</u>	<u>\$1,601,818</u>	<u>\$3,942,382</u>

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

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

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wisconsin Educational Communications Board Radio Network's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

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

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

LEGISLATIVE AUDIT BUREAU

December 21, 1998

by

Diann Allsen
Audit Director