

December 2010

An Audit

Wisconsin Public Broadcasting Foundation, Inc.

2009-2010 Joint Legislative Audit Committee Members

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Janice Mueller
State Auditor

December 17, 2010

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Mr. Gene Purcell, Executive Director
Wisconsin Public Broadcasting Foundation, Inc.
3319 West Beltline Highway
Madison, Wisconsin 53713

Dear Senator Vinehout, Representative Barca, and Mr. Purcell:

We have completed a financial audit of the Wisconsin Public Broadcasting Foundation, Inc.'s Television Fund and Radio Fund, as requested by the Wisconsin Educational Communications Board. The Foundation was organized by the Educational Communications Board 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.

We completed this audit in conjunction with our audits of the Wisconsin Educational Communications Board television and radio networks, reports 10-16 and 10-17. The Foundation's financial operations are separate and independent from the State of Wisconsin. The Foundation's financial statements are presented in two separate funds (radio and television) to accommodate reporting requirements.

Our audit report contains the Foundation's financial statements and related notes as of and for the periods ending June 30, 2010, and June 30, 2009. We were able to issue an unqualified independent auditor's report on these statements.

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/ss

Audit Opinion ■

Independent Auditor's Report on the Financial Statements of the Wisconsin Public Broadcasting Foundation, Inc.

We have audited the accompanying financial statements of the Wisconsin Public Broadcasting Foundation, Inc.'s Radio Fund and Television Fund, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of Wisconsin Educational Communications Board (ECB) management, which manages the Foundation. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Wisconsin Public Radio Association, Inc., of which net assets of \$986,955 as of June 30, 2010, and \$895,426 as of June 30, 2009, are allocated to the ECB Radio Network and are reflected in the accompanying financial data contained in Note 7B. We also did not audit the financial statements of Friends of Wisconsin Public Television, Inc., of which net assets of (\$40,139) as of June 30, 2010, are allocated to the ECB Television Network and are reflected in the accompanying data contained in Note 7C. Assets and revenues of the Wisconsin Public Radio Association, Inc., and of the Friends of Wisconsin Public Television, Inc., included in the accompanying financial statements represent 11.4 percent of the Foundation's total assets as of June 30, 2010, and 8.0 percent of the Foundation's total assets as of June 30, 2009, and 72.3 percent of the Foundation's total support and revenue during fiscal year (FY) 2009-10 and 54.3 percent of its total support and revenue during FY 2008-09. The financial statements of the Wisconsin Public Radio Association, Inc., and of the Friends of Wisconsin Public Television, Inc., 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin Public Radio Association, Inc., and of 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 audits 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 the Wisconsin Public Broadcasting Foundation, Inc., and do not purport to, and do not, present fairly the financial position of the State of Wisconsin and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based upon our audits and the 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 the Wisconsin Public Broadcasting Foundation, Inc.'s Radio Fund and Television Fund as of June 30, 2010 and 2009, and the respective changes in their financial positions and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


As discussed in Note 7C, effective July 1, 2009, the Friends of WHA-TV, Inc., a not-for-profit corporation, changed its name to Friends of Wisconsin Public Television, Inc., and assumed responsibility for the fund-raising efforts for both WHA-TV and the ECB Television Network to support public television in Wisconsin. As a result, beginning in FY 2009-10, the Wisconsin Public Broadcasting Foundation, Inc.'s financial statements include the ECB Television Network's allocated share of the assets, liabilities, revenues, and expenses of the Friends of Wisconsin Public Television, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Public Broadcasting Foundation, Inc. The supplementary information included as Management's Discussion and Analysis on pages 7 through 9 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2010, on our consideration of ECB's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

December 7, 2010

LEGISLATIVE AUDIT BUREAU

by 

Diann Allsen
Audit Director

Management's Discussion and Analysis ■

Prepared by Educational Communications Board Management

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

ECB is an agency of the State of Wisconsin that operates a public television network of 5 digital stations, as well as a public radio network of 14 FM stations and 1 AM station. (13 of the FM sites and the AM site are currently broadcasting a digital radio signal in addition to analog.) ECB also operates 3 FM translators, 6 TV translators, a network of 26 weather service broadcast sites, and multiple Educational Broadband Service licenses. WPBF was organized by ECB under s. 39.12 and ch. 181, Wis. Stats., on September 29, 1983, for the exclusive purpose of raising funds for the Wisconsin educational television and radio networks.

Following this section are the financial statements and notes as they relate to WPBF. The Balance Sheets provide information on the assets and the liabilities of WPBF, 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 WPBF's financial position is improving or deteriorating. The Statements of Revenues, Expenses, and Changes in Fund Net Assets and the Statements of Cash Flows provide information on income and expenses and cash activities. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Condensed financial information relating to WPBF as of and for the fiscal years ended June 30, 2010, June 30, 2009, and June 30, 2008, is as follows:

WPBF Condensed Financial Information

	June 30, 2010	Change from Previous Year	June 30, 2009	Change from Previous Year	June 30, 2008
Total Assets	\$12,403,571	8%	\$11,480,215	2%	\$11,287,122
Total Liabilities	812,306	175	295,722	(44)	526,381
Invested in Capital Assets	10,827	(46)	20,108	(32)	29,388
Restricted by Grants or Donors	259,036	150	103,409	269	27,998
Unrestricted	11,321,402	2	11,060,976	3	10,703,355
Total Net Assets	<u>\$11,591,265</u>		<u>\$11,184,493</u>		<u>\$10,760,741</u>

	FY 2009-10	Change from Previous Year	FY 2008-09	Change from Previous Year	FY 2007-08
Operating Revenues	\$10,529,510	18%	\$8,915,266	4%	\$8,604,044
Operating Expenses	2,800,948	35	2,073,947	8	1,913,935
Net Operating Income	7,728,562		6,841,319		6,690,109
Nonoperating Revenues	511,857	294	(264,094)	(591)	(38,209)
Transfers to ECB	(7,833,647)	27	(6,153,473)	(6)	(6,549,592)
Changes in Net Assets	<u>\$ 406,772</u>		<u>\$ 423,752</u>		<u>\$ 102,308</u>

A major change during FY 2009-10 was the establishment of a not-for-profit fund-raising group for all of Wisconsin Public Television. 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 for both WHA-TV and ECB Television Network to support public television in Wisconsin. As a result, beginning in FY 2009-10, WPBF's financial statements include ECB Television Network's allocated share of the assets, liabilities, revenues, and expenses of the Friends. Prior to the blending of the Friends' financial statements, all of the contribution and major gift revenue received for the ECB Television Network was received directly by WPBF.

Total assets increased by 8 percent because of increased value of the investments, primarily because of the improving market conditions in FY 2009-10. The 175 percent increase in total liabilities resulted from WPBF blending into its financial statements the ECB Television Network's share of the Friends' financial statements for the first time in FY 2009-10. The small increases in total assets and unrestricted net assets during FY 2008-09 were because of the timing of transfers to ECB. The 44 percent decrease in total liabilities for FY 2008-09 resulted from variations in timing of payments to liquidate the liabilities.

The only capital asset of WPBF is software purchased by the Wisconsin Public Radio Association, Inc. (WPRA) to track contributions. It is being depreciated over five years. The decrease in value is entirely because of depreciation.

Restricted net assets increased during both years because the program restrictions placed on assets received from WPRA donors increased. The increase in FY 2009-10 also occurred because of increased donor restrictions for Friends.

WPBF operating revenues increased 18 percent during FY 2009-10 because a portion of the Television Network's grants from the Corporation for Public Broadcasting were received by WPBF, rather than by ECB's operating fund. Blending the ECB Television Network's share of the Friends' other revenue also led to increased operating revenue for WPBF in FY 2009-10. Operating revenues increased 4 percent in FY 2008-09 because of an increase in radio contributions and television major gifts.

Operating expenses increased 35 percent in FY 2009-10 primarily because of the blending of the Friends' operating expenses. Operating expenses increased by 8 percent in FY 2008-09 because of increased program production expenses.

Nonoperating revenues consist of investment earnings and losses, both realized and unrealized. Investment income increased significantly in FY 2009-10 and decreased significantly in FY 2008-09 because of market conditions.

Transfers to ECB are based on cash required for operations during the fiscal year. The transfers increased by 27 percent during FY 2009-10 because more of the Television Network's revenues were received by WPBF rather than ECB's operating fund. The transfers decreased by 6 percent in FY 2008-09 because of the timing of invoicing by vendors for programming and fund-raising costs.

This financial report is designed to provide a general overview of WPBF'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 ECB can be found at ECB's Web site, www.ecb.org.

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Financial Statements ■

Balance Sheet

June 30, 2010

	Radio Fund	Television Fund	Total June 30, 2010
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 1D and 2)	\$ 2,091,003	\$ 3,739,089	\$ 5,830,092
Investments (Notes 1E and 2)	2,663,466	3,377,128	6,040,594
Pledges receivable	187,846	64,736	252,582
Interest receivable	3,326	4,531	7,857
Receivables—due from affiliate	0	177,998	177,998
Other receivables	18,464	5,165	23,629
Prepaid expense	13,819	39,376	53,195
Inventory	6,797	0	6,797
Total Current Assets	<u>4,984,721</u>	<u>7,408,023</u>	<u>12,392,744</u>
Noncurrent Assets:			
Equipment, net of accumulated depreciation (Note 4)	10,827	0	10,827
Total Noncurrent Assets	<u>10,827</u>	<u>0</u>	<u>10,827</u>
TOTAL ASSETS	<u>\$ 4,995,548</u>	<u>\$ 7,408,023</u>	<u>\$ 12,403,571</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 24,262	\$ 343,350	\$ 367,612
Accrued liabilities due to affiliates	262,001	79,762	341,763
Deferred revenue	3,800	99,131	102,931
Total Current Liabilities	<u>290,063</u>	<u>522,243</u>	<u>812,306</u>
Net Assets:			
Invested in capital assets	10,827	0	10,827
Restricted by grants or donors (Note 1F)	52,413	84,736	137,149
Restricted—nonexpendable (Note 1F and 5)	121,887	0	121,887
Unrestricted	4,520,358	6,801,044	11,321,402
Total Net Assets	<u>4,705,485</u>	<u>6,885,780</u>	<u>11,591,265</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,995,548</u>	<u>\$ 7,408,023</u>	<u>\$ 12,403,571</u>

The accompanying notes are an integral part of this statement.

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
for the Year Ended June 30, 2010**

	Radio Fund	Television Fund	Total FY 2009-10
OPERATING REVENUES			
Contributed Support (Notes 1B, 7B, and 7C)	\$ 4,704,600	\$ 1,968,420	\$ 6,673,020
Corporation for Public Broadcasting Grants	673,366	1,118,360	1,791,726
Underwriting Grants	608,526	181,910	790,436
Other Grants and Contracts	0	0	0
Contributed In-Kind Support (Note 6)	16,442	0	16,442
Major Gifts	104,534	510,466	615,000
Other Revenue	144,966	497,920	642,886
Total Operating Revenues	6,252,434	4,277,076	10,529,510
OPERATING EXPENSES			
Program Services:			
Programming and production	73,550	259,582	333,132
Program information	113,761	82,626	196,387
Total Program Services	187,311	342,208	529,519
Support Services:			
Management and general	123,919	72,776	196,695
Fund-raising and membership development	662,481	1,397,156	2,059,637
Underwriting	7,770	7,327	15,097
Total Support Services	794,170	1,477,259	2,271,429
Total Operating Expenses	981,481	1,819,467	2,800,948
OPERATING INCOME	5,270,953	2,457,609	7,728,562
NONOPERATING REVENUES			
Investment Income	217,857	294,000	511,857
Income Before Transfers	5,488,810	2,751,609	8,240,419
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers to ECB (Note 3)	(5,037,067)	(2,796,580)	(7,833,647)
CHANGE IN NET ASSETS	451,743	(44,971)	406,772
Total Net Assets—Beginning of the Year	4,253,742	6,930,751	11,184,493
Total Net Assets—End of the Year	\$ 4,705,485	\$ 6,885,780	\$ 11,591,265

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2010

	Radio Fund	Television Fund	Total FY 2009-10
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributed Support	\$ 5,406,688	\$ 2,695,191	\$ 8,101,879
Receipts from Grants	671,466	1,118,360	1,789,826
Receipts from Other Sales	147,753	338,958	486,711
Payments to Suppliers	<u>(871,111)</u>	<u>(1,525,656)</u>	<u>(2,396,767)</u>
Net Cash Provided by Operating Activities	<u>5,354,796</u>	<u>2,626,853</u>	<u>7,981,649</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to ECB	<u>(5,037,067)</u>	<u>(2,796,580)</u>	<u>(7,833,647)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases, Sales, and Maturities of Investments	(463,752)	(307,513)	(771,265)
Interest and Dividends	<u>98,349</u>	<u>97,312</u>	<u>195,661</u>
Net Cash Provided (Used) for Investing Activities	<u>(365,403)</u>	<u>(210,201)</u>	<u>(575,604)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(47,674)	(379,928)	(427,602)
Balances—Beginning of the Year	<u>2,138,677</u>	<u>4,119,017</u>	<u>6,257,694</u>
Balances—End of the Year	<u>\$ 2,091,003</u>	<u>\$ 3,739,089</u>	<u>\$ 5,830,092</u>

The accompanying notes are an integral part of this statement.

	Radio Fund	Television Fund	Total FY 2009-10
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 5,270,953	\$ 2,457,609	\$ 7,728,562
Adjustments to Reconcile Operating Income to Net Cash			
Cash Provided by Operating Activities:			
Depreciation expense	9,281	0	9,281
Change in assets and liabilities:			
Receivables, net	(8,185)	(223,698)	(231,883)
Inventories	668	0	668
Prepaid expense	(2,187)	(39,376)	(41,563)
Deferred revenue	(1,900)	99,131	97,231
Accounts and other payables	86,166	333,187	419,353
Net Cash Provided by Operating Activities	<u>\$ 5,354,796</u>	<u>\$ 2,626,853</u>	<u>\$ 7,981,649</u>

Noncash Activities:

Contributed in-kind support totaled \$16,442.

The net increase in the fair value of investments was \$253,828.

Balance Sheet

June 30, 2009

	Radio Fund	Television Fund	Total June 30, 2009
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 1D and 2)	\$ 2,138,677	\$ 4,119,017	\$ 6,257,694
Investments (Notes 1E and 2)	2,080,222	2,872,883	4,953,105
Pledges receivable	176,874	0	176,874
Interest receivable	3,310	4,575	7,885
Other receivables	21,251	24,201	45,452
Prepaid expense	11,632	0	11,632
Inventory	7,465	0	7,465
Total Current Assets	<u>4,439,431</u>	<u>7,020,676</u>	<u>11,460,107</u>
Noncurrent Assets:			
Equipment, net of accumulated depreciation (Note 4)	20,108	0	20,108
Total Noncurrent Assets	<u>20,108</u>	<u>0</u>	<u>20,108</u>
TOTAL ASSETS	<u>\$ 4,459,539</u>	<u>\$ 7,020,676</u>	<u>\$ 11,480,215</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 11,989	\$ 33,719	\$ 45,708
Accrued liabilities due to affiliates	188,108	56,206	244,314
Deferred revenue	5,700	0	5,700
Total Current Liabilities	<u>205,797</u>	<u>89,925</u>	<u>295,722</u>
Net Assets			
Invested in capital assets	20,108	0	20,108
Restricted by grants or donors (Note 1F)	35,009	0	35,009
Restricted—nonexpendable (Note 1F and 5)	68,400	0	68,400
Unrestricted	4,130,225	6,930,751	11,060,976
Total Net Assets	<u>4,253,742</u>	<u>6,930,751</u>	<u>11,184,493</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,459,539</u>	<u>\$ 7,020,676</u>	<u>\$ 11,480,215</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2009

	Radio Fund	Television Fund	Total FY 2008-09
OPERATING REVENUES			
Contributed Support (Notes 1B and 7B)	\$ 4,425,136	\$ 2,356,341	\$ 6,781,477
Corporation for Public Broadcasting Grants	581,618	0	581,618
Underwriting Grants	781,847	172,011	953,858
Other Grants and Contracts	9,600	0	9,600
Contributed In-Kind Support (Note 6)	13,164	0	13,164
Major Gifts	96,579	368,880	465,459
Other Revenue	107,464	2,626	110,090
Total Operating Revenues	6,015,408	2,899,858	8,915,266
OPERATING EXPENSES			
Program Services:			
Programming and production	113,673	222,374	336,047
Program information	75,389	84,085	159,474
Total Program Services	189,062	306,459	495,521
Support Services:			
Management and general	106,651	15,171	121,822
Fund-raising and membership development	607,432	833,745	1,441,177
Underwriting	7,724	7,703	15,427
Total Support Services	721,807	856,619	1,578,426
Total Operating Expenses	910,869	1,163,078	2,073,947
OPERATING INCOME	5,104,539	1,736,780	6,841,319
NONOPERATING REVENUES			
Investment Income	(82,465)	(181,629)	(264,094)
Income Before Transfers	5,022,074	1,555,151	6,577,225
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers to ECB (Note 3)	(4,977,519)	(1,175,954)	(6,153,473)
CHANGE IN NET ASSETS	44,555	379,197	423,752
Total Net Assets—Beginning of the Year	4,209,187	6,551,554	10,760,741
Total Net Assets—End of the Year	\$ 4,253,742	\$ 6,930,751	\$ 11,184,493

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2009

	Radio Fund	Television Fund	Total FY 2008-09
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributed Support	\$ 5,332,753	\$ 2,897,232	\$ 8,229,985
Receipts from Grants	594,498	0	594,498
Receipts from Other Sales	97,773	(21,575)	76,198
Payments to Suppliers	(1,062,276)	(1,205,583)	(2,267,859)
Net Cash Provided by Operating Activities	4,962,748	1,670,074	6,632,822
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to ECB	(4,985,519)	(1,187,954)	(6,173,473)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases, Sales, and Maturities of Investments	80,662	158,233	238,895
Interest and Dividends	133,003	105,892	238,895
Net Cash Provided (Used) for Investing Activities	213,665	264,125	477,790
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	190,894	746,245	937,139
Balances—Beginning of the Year	1,947,783	3,372,772	5,320,555
Balances—End of the Year	<u>\$ 2,138,677</u>	<u>\$ 4,119,017</u>	<u>\$ 6,257,694</u>

The accompanying notes are an integral part of this statement.

	Radio Fund	Television Fund	Total FY 2008-09
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 5,104,539	\$ 1,736,780	\$ 6,841,319
Adjustments to Reconcile Operating Income to Net Cash			
Cash Provided by Operating Activities:			
Depreciation expense	9,280	0	9,280
Change in assets and liabilities:			
Receivables, net	19,500	(24,201)	(4,701)
Inventories	(1,480)	0	(1,480)
Prepaid expense	(937)	0	(937)
Deferred revenue	3,280	0	3,280
Accounts and other payables	(171,434)	(42,505)	(213,939)
Net Cash Provided by Operating Activities	<u>\$ 4,962,748</u>	<u>\$ 1,670,074</u>	<u>\$ 6,632,822</u>
Noncash Investing Activities:			
Contributed in-kind support totaled \$13,164.			
The net decrease in the fair value of investments was \$112,373.			

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Wisconsin Public Broadcasting Foundation, Inc., created on September 29, 1983, is a statutorily defined not-for-profit Wisconsin corporation (s. 39.12, Wis. Stats.) wholly owned by the Wisconsin Educational Communications Board, an agency of the State of Wisconsin. ECB operates a public radio network of 14 FM stations and 1 AM station (13 of the FM sites and the AM site are currently broadcasting a digital radio signal in addition to analog), as well as a public television network of 5 digital stations. ECB also operates 3 FM translators, 6 TV translators, a network of 26 weather service broadcast sites, and multiple Educational Broadband Service licenses. WPBF solicits funds in the name of, and with the approval of, ECB. WPBF financial operations are separate and independent from the State of Wisconsin. 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's financial reporting entity.

The WPBF financial statements include an allocated share of the assets, liabilities, revenues, and expenses of the not-for-profit corporations, Wisconsin Public Radio Association, Inc. (WPRA) and the Friends of Wisconsin Public Television, Inc. (Friends). WPRA collects funds for Wisconsin Public Radio and provides support to the ECB Radio Network and some other Wisconsin Public Radio stations licensed to

the University of Wisconsin (UW) Board of Regents. See Note 7B for further information regarding WPRA support for ECB. The Friends collect funds for Wisconsin Public Television and provide support to the ECB Television Network and to WHA-TV, which is licensed to the UW Board of Regents. See Note 7C for further information regarding Friends' support for ECB. WPBF's Radio Fund is included in the ECB Radio Network's financial statements, and WPBF's Television Fund is included in the ECB Television Network's financial statements.

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). WPBF 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. Purpose 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 WPBF is entitled to the funds. Revenue is recognized for pledged WPRA and Friends 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.

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

C. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

D. Cash and Cash Equivalents

Cash and cash equivalents generally include cash deposits with financial institutions and WPBF's share of WPRA and Friends cash.

E. Valuation of Investments

Investments are carried at fair-market value based on quoted market prices.

F. Restricted Net Assets

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

2. DEPOSITS AND INVESTMENTS

WPBF's cash and investment activities are separate from the cash and investment activities of the State. Cash balances are held in demand deposit and money market accounts at a financial institution. Investments authorized by WPBF's Board of Trustees and held by WPBF include publicly traded stocks, equity mutual funds, and fixed-income mutual funds. Investments are managed by private trust companies. WPBF's portion of Friends cash balances are held in deposit accounts at one financial institution. WPBF's portion of 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 Statements of Revenues, Expenses, and Changes in Fund Net Assets.

WPBF and WPRA have investment policies in place regarding credit risk, concentration of credit risk, custodial credit risk, foreign currency risk, and interest rate risk.

A. Deposits

Custodial credit risk is the risk that in the event of the failure of a financial institution, deposits may not be returned. As of June 30, 2010, \$6,996,187 of WPBF's bank balance of \$8,090,873 was not covered by the Federal Deposit Insurance Corporation (FDIC) and was exposed to custodial credit risk. As of June 30, 2009, \$6,247,651 of WPBF's bank balance of \$7,136,556 was exposed to custodial credit risk.

B. Investments

WPBF investment balances and WPBF's share of WPRA investment balances as of June 30, 2010 and 2009, were as follows:

<u>Investment Type</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Equities	\$1,533,654	\$1,225,859
Equity Mutual Funds	1,555,765	1,290,365
Fixed-Income Mutual Funds	2,256,455	1,761,096
Certificate of Deposit	<u>694,720</u>	<u>675,785</u>
Total Investments	\$6,040,594	\$4,953,105

WPBF investments and WPBF's share of WPRA investments are exposed to the following risks:

Credit Risk—Credit risk is the risk that an issuer or other counterparty to a fixed-income investment will not fulfill its obligations. WPBF's investment guidelines prohibit security transactions that involve a counterparty rated below A by a major recognized rating firm. WPRA's investment guidelines require an average of at least an Aa by Moody's or at least an AA by Standard & Poor's. As of June 30, 2010 and 2009, all WPBF and WPRA fixed-income mutual funds were unrated.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WPBF's investment guidelines require that fixed-income investments maintain a weighted average maturity of less than ten years. WPRA investment guidelines require that the fixed-income investments contain a duration within 20 percent of the effective duration of the benchmark index under normal conditions. As of June 30, 2010, the fixed-income investments for WPBF and its share of WPRA had the following average maturities:

<u>Fixed-Income Investment</u>	<u>Market Value</u>	<u>Average Maturity</u>
Dodge and Cox Income Fund	\$ 659,026	6.9 years
Vanguard Total Bond Index Fund	456,865	6.6 years
Vanguard Fixed Income Short-Term Metropolitan West Total Return Bond Fund	1,123,727	3.3 years
PIMCO Total Return Fund	6,300	6.1 years
PIMCO Unconstrained Bond Fund	6,326	6.6 years
	<u>4,211</u>	4.3 years
Total Fixed-Income Investments	\$2,256,455	

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

<u>Fixed-Income Investment</u>	<u>Market Value</u>	<u>Average Maturity</u>
Dodge and Cox Income Fund	\$ 515,264	5.6 years
Vanguard Total Bond Index Fund	518,091	5.7 years
Vanguard Fixed Income Short-Term	<u>727,741</u>	2.6 years
Total Fixed-Income Investments	\$1,761,096	

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2010 and 2009, WPBF had exposure to foreign currency risk in its investments of \$685,358 and \$347,859, respectively, in international equity securities and mutual funds. As of June 30, 2010, WPBF’s share of WPRA’s exposure to foreign currency risk is its investments of \$9,917 in international equity investments. WPBF’s investment guidelines related to foreign currency risk indicate that international equity mutual funds held by WPBF will not constitute more than 20 percent of the equity portion of the investment portfolio. WPRA’s investment guidelines related to foreign currency risk indicate that international equity investments held by WPRA will not constitute more than 20 percent of the equity portion of the investment portfolio.

3. INTERFUND TRANSFERS

WPBF transfers funds monthly to ECB’s operating funds based upon funding requirements. The transfers are reflected as transfers to ECB on the Statements of Revenues, Expenses, and Changes in Fund Net Assets. The timing of those transfers may result in a payable to ECB, which is reflected in the Balance Sheets.

4. CAPITAL ASSETS

WPBF’s only capital asset is software purchased by WPRA to track contributions.

<u>FY 2009-10</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Software at Historical Cost	\$46,347	\$ 0	\$ 0	\$46,347
Less Accumulated Depreciation	<u>(26,239)</u>	<u>(9,281)</u>	<u>0</u>	<u>(35,520)</u>
Total Capital Assets, Net	<u>\$20,108</u>	<u>\$(9,281)</u>	<u>\$ 0</u>	<u>\$10,827</u>
<u>FY 2008-09</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Software at Historical Cost	\$46,347	\$ 0	\$ 0	\$46,347
Less Accumulated Depreciation	<u>(16,959)</u>	<u>(9,280)</u>	<u>0</u>	<u>(26,239)</u>
Total Capital Assets, Net	<u>\$29,388</u>	<u>\$(9,280)</u>	<u>\$ 0</u>	<u>\$20,108</u>

Depreciation expenses of \$9,281 and \$9,280 were charged to fund-raising and membership development in FY 2009-10 and FY 2008-09, respectively.

5. ENDOWMENTS

WPRA has 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. Additional

disclosures about the endowments and the applicable policies pertaining to the endowments are available in WPRA's separately issued financial statements.

The management of WPBF established an endowment for the ECB Television Network during FY 1992-93 and an endowment for the ECB Radio Network 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, 2010 and 2009, are \$1,046,343 and \$985,128, respectively, for the ECB Television Network's endowment and \$263,005 and \$263,977, respectively, for the ECB Radio Network's endowment. These balances are included in the investments and cash and cash equivalents accounts on the Balance Sheets. Investment income earned on the endowments is used for operations. None of the assets in the WPBF endowments as of June 30, 2010 and 2009, are donor-restricted. Assets in the endowments follow the investment policy disclosed in Notes 1 and 2.

6. CONTRIBUTED IN-KIND SUPPORT

Contributed in-kind support represents expenses paid on behalf of WPRA by other entities and includes donated materials. In-kind support is reported both as revenue and as expenses and, therefore, has no effect on net assets. Donated materials are reported at their estimated fair value when they are received. The financial statements include donated materials of \$16,442 in FY 2009-10 and \$13,164 in FY 2008-09.

7. RELATED ENTITIES

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

WHA Radio, some other Wisconsin Public Radio stations, and WHA Television are public telecommunications entities licensed to the UW Board of Regents and operated by UW-Extension. In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the UW Board of Regents developed partnerships called Wisconsin Public Radio and Wisconsin Public Television to manage and operate stations. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. ECB and the UW Board of Regents jointly appoint the directors of Wisconsin Public Television and Wisconsin Public Radio. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the Balance Sheets. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

B. Wisconsin Public Radio Association, Inc.

WPRA is a publicly supported not-for-profit corporation whose purpose is to administer various fund-raising and membership duties of Wisconsin Public Radio and to provide support to the ECB Radio Network and some radio stations licensed to the UW Board of Regents. WPRA solicits funds in the name of and with the approval of the licensees, ECB and the UW Board of Regents. Under the affiliation agreement, ECB and UW staff, along with the WPRA Board of Directors, approve WPRA's budget. The licensees have access to WPRA's net resources and retain an ongoing legal allocated interest in WPRA's net assets. ECB's and the UW Board of Regents' allocated interests in WPRA are calculated in accordance with an affiliation agreement, which currently provides ECB with 76 percent of WPRA net resources and the UW Board of Regents with 24 percent. This agreement is renegotiated annually based upon membership proportion.

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash and Investments	\$ 779,314	\$675,785
Other Assets	<u>235,703</u>	<u>237,330</u>
Total Assets	1,015,017	913,115
Total Liabilities	<u>(28,062)</u>	<u>(17,689)</u>
Net Assets	<u>\$ 986,955</u>	<u>\$895,426</u>
	<u>Fiscal Year Ended</u> <u>June 30, 2010</u>	<u>Fiscal Year Ended</u> <u>June 30, 2009</u>
Contributed Support and Revenue	\$4,999,344	\$4,695,633
Expenses:		
Program information	\$113,761	\$ 75,389
Management and general	104,501	96,547
Fund-raising	<u>662,481</u>	<u>607,432</u>
Total Expenses	\$ 880,743	\$ 779,368

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

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

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

C. 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 WPBF to support public television in Wisconsin. Amended Articles of Incorporation to reflect the change in name and responsibilities were filed on July 15, 2009. The Friends solicit 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 based upon membership proportion.

WPBF includes in its financial statements ECB's 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, 2010</u>
Cash and Investments	\$233,312
Other Assets	<u>169,030</u>
Total Assets	402,342
Total Liabilities	<u>(442,481)</u>
Net Assets	<u>\$ (40,139)</u>

	Fiscal Year Ended June 30, 2010
Contributed Support and Revenue	\$2,987,190
Expenses:	
Programming and production	\$ 130,500
Program Information	82,626
Management and general	35,747
Fund-raising	<u>1,397,604</u>
Total Expenses	1,646,477

The Friends issue 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, 2010</u>
Cash and Investments	\$2,684,869
Other Assets	<u>223,369</u>
Total Assets	2,908,238
Total Liabilities	<u>(1,259,085)</u>
Net Assets	<u>\$1,649,153</u>

	Fiscal Year Ended June 30, 2010
Contributed Support and Revenue	\$7,371,871
Expenses:	
Programming and production	\$ 261,000
Program information	165,251
Management and general	71,493
Fund-raising	2,817,163
Payments to ECB and WHA	<u>3,933,401</u>
Total Expenses	<u>7,248,308</u>
Net Change in Assets	<u>\$ 123,563</u>

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Report on Internal Control and Compliance ■

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

We have audited the financial statements of the Wisconsin Public Broadcasting Foundation, Inc.'s Radio Fund and Television Fund as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 7, 2010. Our report includes a reference to other auditors. We conducted our 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 the Foundation. 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 audits, we considered ECB's internal control over financial reporting (internal control) for the Foundation 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 for the Foundation. Accordingly, we do not

express an opinion on the effectiveness of ECB's internal control over financial reporting for the Foundation.

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 Foundation'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 would not necessarily 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 paragraph, we identified a deficiency in internal control that we consider to be a significant deficiency. 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.

Program Change Controls over the Invoice System

ECB relies on information from several information technology systems in its financial reporting process, including its internally developed invoice system. To reduce the risk of inappropriate transactions, changes to ECB's critical financial systems should go through a systematic, controlled process that ensures that all changes are authorized, documented, tested by information technology staff and users, and comply with industry standards. While ECB has procedures in place to ensure program changes are properly controlled for its other internally generated systems—the fixed-asset system and accounts receivable program—it does not have adequate controls over program changes to its invoice system. ECB's programmer has access to the invoice system and has the ability to make changes without detection by others. Further, ECB does not maintain any record or audit trail of changes made to the invoice system. We recommend ECB implement controls over its invoice system by removing programmer access to the system and developing procedures to ensure changes to the system are logged, reviewed, and placed into operation by someone other than the programmer.

ECB believes that because various reconciliations are performed, its financial statements have not been misstated as a result of the lack of access controls over the invoice system. However, it agrees that program change controls are an important part of the overall control environment and that additional controls should be added to ECB's invoice system. It is currently considering options to address the concern and plans to have changes in place before the end of FY 2010-11.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Foundation'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*.

This independent auditor's report is intended for the information and use of the Foundation, ECB, and the Wisconsin Legislature. 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 for the Foundation or on compliance, this report is not intended to be used by anyone other than these specified parties.

December 7, 2010

by

LEGISLATIVE AUDIT BUREAU



Diann Allsen
Audit Director