

**VIRGINIA PUBLIC BROADCASTING BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia Public Broadcasting Board for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in the internal controls tested; and
- no material instances of noncompliance with laws and regulations that are required to be reported.

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BOARD MEMBERS

October 16, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board Members
Virginia Public Broadcasting Board

We have audited the accounts and records of the **Virginia Public Broadcasting Board** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Virginia Public Broadcasting Board as of June 30, 2001, and the related statements of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Virginia Public Broadcasting Board are intended to present the financial position and results of its operations on only that portion of the financial reporting entity of the Commonwealth of Virginia that is attributable to the transactions of the Board.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Public Broadcasting Board as of June 30, 2001, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL

CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Public Broadcasting Board as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of 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 was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement 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 considered to be material weaknesses.

The Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting is intended solely for the information and use of the Governor and General Assembly of Virginia and the Virginia Public Broadcasting Board members, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management on October 18, 2001.

AUDITOR OF PUBLIC ACCOUNTS

JBS/kva
kva:35

VIRGINIA PUBLIC BROADCASTING BOARD
BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
As of June 30, 2001

	Governmental Fund Type	Account Group	Total (Memorandum Only)
	General	General Long- Term Debt	
ASSETS AND OTHER DEBITS			
Assets:			
Cash with fiscal agent	\$ 3,123	\$ -	\$ 3,123
Other debits:			
Amount to be provided by for retirement of long-term debt	-	23,840,000	23,840,000
Total assets and other debits	\$ 3,123	\$ 23,840,000	\$ 23,843,123
LIABILITIES AND FUND BALANCE			
Liabilities:			
Note payable (Note 3)	\$ -	\$ 23,840,000	\$ 23,840,000
Fund balance:			
Unreserved fund balance	3,123	-	3,123
Total liabilities and fund balance:	\$ 3,123	\$ 23,840,000	\$ 23,843,123

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA PUBLIC BROADCASTING BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the year ended June 30, 2001

Revenues:

Appropriations from the General Fund of the Commonwealth (net of reversions of \$146,802) (Note 2)	<u>\$ 8,747,174</u>
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Expenditures:

Financial assistance for educational telecommunications	3,682,985
Financial assistance for public broadcasting	4,684,051
Financial assistance for conversion to digital standard (Note 3)	23,695,063
Financial services	376,874
Administrative fees	1,417
Interest	<u>143,661</u>

Total expenditures	<u>32,584,051</u>
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Excess (deficiency) of revenues over expenditures	(23,836,877)
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Other financing sources (uses):

Proceeds from loan (Note 3)	<u>23,840,000</u>
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Excess of revenues and other financing sources over expenditures and other uses	3,123
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Fund balance, July 1, 2000	<u>-</u>
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Fund balance, June 30, 2001	<u><u>\$ 3,123</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA PUBLIC BROADCASTING BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGETARY BASIS
For the year ended June 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Appropriations from the General Fund of the Commonwealth	\$ 8,893,976	\$ 8,747,174	\$ (146,802)
Expenditures:			
Financial assistance for educational telecommunications	3,683,050	3,682,985	65
Financial assistance for public broadcasting	4,710,926	4,684,051	26,875
Financial assistance for conversion to digital standard	-	23,695,063	(23,695,063)
Financial services	-	376,874	(376,874)
Administrative fees	-	1,417	(1,417)
Interest	500,000	143,661	356,339
Total expenditures	8,893,976	32,584,051	(23,690,075)
Excess (deficiency) of revenues over expenditures	-	(23,836,877)	(23,836,877)
Other financing sources (uses):			
Proceeds from loan	-	23,840,000	23,840,000
Excess of revenues and other financing sources over expenditures and other uses	-	3,123	3,123
Fund balance, July 1, 2000	-	-	-
Fund balance, June 30, 2001	\$ -	\$ 3,123	\$ -

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA PUBLIC BROADCASTING BOARD

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Public Broadcasting Board (the Board) was created by Chapter 35.2, Title 2.1, of the Code of Virginia. The Board supports television and radio public broadcasting for the education, public awareness, entertainment, and economic benefit of the Commonwealth's citizens.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is an agency of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth.

B. Basis of Accounting

Basis of accounting is the concept that determines the timing of revenue and expenditure recognition and reporting in the financial statements.

Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized in the accounting period when they become both measurable and available to finance operations or to liquidate liabilities existing at year-end. Expenditures are recognized when the related liability is incurred through the receipt of goods or services, although payment may occur at a later date.

C. Fund Accounting

The Board uses a governmental fund and an account group to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are recorded in the funds because they do not directly affect net expendable available financial resources.

Governmental Fund – The General Fund accounts for all financial resources of the Board.

Account Group – The General Long-Term Account Group is used to establish control and accountability for the unmatured principal on the Board's note payable.

D. Total Columns

Total columns on the financial statements are captioned, "Total Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present the financial position in conformity with generally accepted accounting principles.

Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

E. Budgets and Budgetary Accounting

The Board's budget was established by the Appropriation Act as enacted by the General Assembly of Virginia for the biennium ended June 30, 2002. No payments can be made out of the state treasury, except in pursuance of appropriations made by law.

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary Basis is presented in accordance with the budgetary (cash) basis of accounting to provide a meaningful comparison of actual results with the budget. The budgetary (cash) basis may differ from the GAAP (modified accrual) basis as follows:

Budgetary basis revenues are recorded when cash is received, and GAAP basis revenues are recorded when they become both measurable and available to finance operations or to liquidate liabilities existing at year-end. Budgetary basis expenditures are recorded when paid, and GAAP basis expenditures are recorded when the liability is incurred.

No adjustments were necessary to convert the fund balances of the General Fund from a budgetary basis to a GAAP basis.

2. APPROPRIATIONS

The original appropriations for the General Fund have been adjusted as follows:

Original appropriation	\$ 8,893,976
Appropriation adjustments:	
Reversion of appropriation for part-time staff position	(25,000)
Reversion of appropriation for Board expenses	(1,500)
Reversion to General Fund of unexpended year-end balance	<u>(120,302)</u>
Appropriations as adjusted	<u>\$ 8,747,174</u>

3. NOTE PAYABLE

The Board's note payable of \$23,840,000 is for the conversion of Virginia's public television stations to the Federal Communication Commission's new digital standard. The note proceeds were used to make grants to public television corporations for the purchase of equipment to convert to this standard. The promissory note is with the Industrial Development Authority of the City of Harrisonburg and was made from their Tax-Exempt Variable Rate Demand Revenue Bonds, Series 2000, issued August 1, 2000. The final principal payment is due in 2011. The following schedule provides the annual principal payment requirements at June 30, 2001.

Year Ending <u>June 30,</u>	<u>Principal</u>
2002	\$ 1,880,000
2003	1,955,000
2004	2,055,000
2005	2,175,000
2006	2,290,000
2007-2011	<u>13,485,000</u>
Total	<u>\$ 23,840,000</u>

Interest on the loan is variable dependent on the market; however, the Board has purchased a ceiling rate agreement for five years whereby the interest rate cannot exceed 5.0%.

4. SURETY BOND

Certain employees of the Department of General Services are responsible for maintaining the accounting records of the Board. Such employees were covered under a Faithful Performance Blanket Position Bond with coverage in the amount of \$50,000 for each employee with a deductible clause of \$2,500 for each loss, and an Excess Faithful Performance Blanket Bond with coverage in the amount of \$450,000 for each loss in excess of the coverage provided by the aforementioned bond, both with the Fidelity and Deposit Company of Maryland, as surety

5. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued June 1999, will be effective for the Commonwealth for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. Management will be required to provide a management’s discussion and analysis that gives readers an analysis of the Commonwealth’s overall financial position and results of operations including a comparison of current year results with the prior year. Governmental units will continue to provide budgetary information in their reports; however, under this Statement, they will be required to provide the government’s original budget as well as the final budget and actual results. The Department of General Services on behalf of the Board has completed its assessment of the changes required by this Statement and is preparing for implementation for the Commonwealth.

VIRGINIA PUBLIC BROADCASTING BOARD
Richmond, Virginia

BOARD MEMBERS
As of June 30, 2001

John W. Hunter, Chairman

By Appointment

John David Cave	David M. Hummel
Adrian Cronauer	Donald M. Moon
Edward W. Early	Benjamin W. Robertson
Dee E. Floyd	S. Strother Smith, III
Ruth S. Hawkins	Irving B. Taylor, Jr.

By Virtue of Office

Ann Marie Morgan	Sandra Rusak
G. Paul Nardo	Kirk T. Schroeder