Corporation
for Public
Broadcasting

Application of Principles of Accounting and Financial Reporting To Public Telecommunications Entities

May 2005 Edition

Section 1

Introduction

1 INTRODUCTION

1.1 Background

The Public Telecommunications Financing Act of 1978 (Public Law 95-567) required that the Corporation for Public Broadcasting (CPB), in consultation with the Comptroller General of the United States, "develop accounting principles which shall be used uniformly by all public broadcasting entities receiving funds… taking into account organizational differences among various categories of such entities." To meet its responsibilities under this statutory mandate, CPB developed the *Application of Principles of Accounting and Financial Reporting to Public Telecommunications Entities* (the *Principles*) to provide guidance on accounting and reporting for public broadcasting entities.

A wide variety of users are interested in the financial statements of public broadcasting entities. Among the principal users are (1) contributors, (2) the entity's trustees or directors, (3) its employees, (4) the Corporation for Public Broadcasting, (5) the U.S. Congress, state legislatures, and governmental grant-making departments and agencies, (6) the entity's creditors and potential creditors, and (7) constituent organizations.

CPB's intention in providing financial reporting requirements for CPB grantees is that improved accounting and financial reporting by all public broadcasting entities will:

- Produce financial statements throughout the public broadcasting industry that are in conformity with Generally Accepted Accounting Principles (GAAP)
- Help managers and members of the grantees' governing boards fulfill their fiduciary responsibility with regard to financial management
- Meet the challenge of greater public accountability mandated by Congress and the contributing public
- Increase the amount of meaningful and comparable financial information available to the public broadcasting community.

1.2 Overview

This overview defines the nature, scope, and applicability of accounting requirements and the basic financial statements to be prepared by public broadcasting entities as a condition of receipt of funds from CPB. The accounting principles apply to all public broadcasting entities which are CPB grant recipients, regardless of the manner in which such entities are owned, operated, or affiliated with other public or private organizations.

The *Principles* are outlined as follows:

Section 1	*Introduction*
Section 2	*Generally Accepted Accounting Principles for Public Broadcasting Entities*
Section 3	*Accounting and Reporting for Public Broadcasting Entities Following FASB*
Section 4	*Accounting and Reporting for Public Broadcasting Entities Following GASB*
Appendix A	*Glossary of Acronyms Used*
Appendix B	*Glossary of Term Used*
Appendix C	*Index of Pronouncements and Issuance Dates*

Application of Principles of Accounting and Financial Reporting To Public Broadcasting Entities

The *Principles* outline accounting and reporting requirements for public broadcasting entities under GAAP and CPB guidance. CPB grant recipients are required to follow the financial accounting and reporting standards of recognized sources of established accounting principles under the Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB). In addition, the *Principles* indicate CPB reporting and disclosure preferences in areas where flexibility exists under GAAP.

Public broadcasting entities and their auditors are expected to apply GAAP treatment in situations where conflicts with the current CPB *Principles* arise because earlier references have been superseded by new accounting literature. If FASB and/or GASB have required reporting entities to adopt new pronouncements by a specified date, the fact that – as of that date – CPB's *Principles* may not have been revised to take account of the new pronouncements does not relieve grantees of their obligation to adopt and follow authoritative guidance from the standards bodies.

Public broadcasting entities must determine whether they will follow either the standards of FASB or those of GASB, on the basis of the governmental or non-governmental nature of their organization, as described in greater detail in Section 2 of these *Principles*.

References to and excerpts from relevant authoritative pronouncements are provided throughout these *Principles* to ensure proper application of the requirements. The first time a pronouncement is referenced in the *Principles*, the full title is used. Subsequent references will provide the abbreviated name and number.

Public broadcasting entities may be subject to additional requirements from parent organizations or other funding sources, such as private donors or state and federal government grant-making agencies. Public broadcasting entities should be aware of these additional regulations and respond to them appropriately.

These *Principles* address accounting and financial reporting, not basic accounting systems or the manner in which financial records are maintained and need not be applied to immaterial items.

This edition of the *Principles* supersedes and replaces both the 1990 and earlier editions and the 1996 *Supplemental Guide*. CPB reserves the right to issue updates and to revise these *Principles*.

This edition of the *Principles* is effective for public broadcasting entities' financial statements for periods beginning on or after July 1, 2005.

Section 2

Generally Accepted Accounting Principles

For Public Broadcasting Entities

2 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR PUBLIC BROADCASTING ENTITIES

2.1 Application and Hierarchy of GAAP

Public broadcasting entities who are CPB grant recipients should submit to CPB financial statements that are prepared in conformity with generally accepted accounting principles (GAAP). Stand-alone financial statements should be submitted to CPB, even if that broadcasting entity reports to a parent organization. If the public broadcasting entity is part of a larger organization, it shall use the basis of accounting necessary to report up to its licensee-parent, with the exceptions described in these *Principles*.

The phrase "generally accepted accounting principles" is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application but also detailed practices and procedures. The determination that a particular accounting principle is generally accepted may be difficult because no single reference source exists for all such principles. The sources of established accounting principles that are generally accepted for application to nongovernmental entities and state and local governmental entities are summarized in hierarchical format on the following page.

Together, the categories 10(a)-(d) and 12(a)-(d) as shown in the GAAP hierarchy summary represent established accounting principles that should be consulted for the proper accounting treatment of a transaction or event. If the accounting treatment is not specified in category 10(a) or 12(a), literature in one or more of the other categories of established accounting principles should be consulted. In the event of a conflict between literatures in different categories, the treatment specified by the highest source in the hierarchy should be followed. If applicable pronouncements are not available in categories 10(a)-(d) and 12(a)-(d) of the GAAP hierarchy, other accounting sources may be consulted. Examples of other accounting literature are also shown in the GAAP hierarchy summary in sections 11 and 13.

GAAP Hierarchy Summary[1]

	Nongovernmental entities	State and local governmental entities[2]
Established Accounting Principles	.10a. FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins	.12a. GASB Statements and Interpretations plus AICPA and FASB pronouncements if made applicable to state and local governments by a GASB Statement or Interpretation.
	.10b. FASB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position	.12b. GASB Technical Bulletins, and the following pronouncements if specifically made applicable to state and local governmental entities by the AICPA; AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
	.10c. Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins	.12c. Consensus positions of the GASB Emerging Issues Task Force[3] and AICPA Practice Bulletins if specifically made applicable to state and local governments by the AICPA.
	.10d. AICPA Accounting Interpretations, "Q's and A's" published by the FASB staff, as well as industry practices widely recognized and prevalent	.12d. Implementation Guides (Q&A's) published by the GASB staff. Also, practices widely recognized and prevalent in state and local government.
Other Accounting Literature	.11 Other accounting literature, including FASB Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; GASB Statements, Interpretations, and Technical Bulletins; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles.	.13 Other accounting literature, including GASB Concepts Statements; pronouncements in categories (*a*) through (*d*) of the hierarchy for nongovernmental entities when not specifically made applicable to state and local governments; FASB Concepts Statements; FASAB Statements, Interpretations, and Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; pronouncements of other professional associations or regulatory agencies; AICPA *Technical Practice Aids*; and accounting textbooks, handbooks, and articles

[Revised, June 1993, to reflect conforming changes necessary due to the issuance of SOP 93-3, *Rescission of Accounting Principles Board Statements*. Paragraph renumbered and amended, effective April 2000, by SAS No. 91, *Federal GAAP Hierarchy*.]

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[1] Taken from AICPA Professional Standards, U.S. Auditing Standards, AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles,* paragraph .18. Beginning in 2003, authority to promulgate Generally Accepted Accounting Principles for public companies was transferred to the Public Company Accounting Oversight Board.

[2] All state and local governmental entities, including public colleges and universities, healthcare providers, and utilities.

[3] As of the date of this section of AU Section 411, the GASB had not organized such a group.

CPB has attempted to address most of the common reporting and accounting matters of all public broadcasting entities in this document; however, in the event that an issue arises not addressed in the *Principles*, the hierarchy above should be used as guidance along with advice from the station's auditor and/or legal counsel, although the ultimate responsibility rests with the management.

FASB Hierarchy

Public broadcasting entities following FASB should follow the guidance for nongovernmental entities in the GAAP Hierarchy, unless the specific pronouncement explicitly exempts not-for-profit organizations or their subject matter precludes such applicability. Even if the guidance in effective provisions of the FASB statements and interpretations and Accounting Principles Board (APB) opinions specifically exempt not-for-profit organizations from their application, not-for-profit organizations may follow these pronouncements. [4]

Public broadcasting entities following FASB should apply the guidance in the pronouncements to the transactions unique to the broadcasting industry, unless this display would conflict with the guidance provided in SFAS No. 117, *Financial Statements for Not-for-Profit Organizations*. In these instances, the public broadcasting entities should follow the financial statement display guidance in SFAS No. 117.

For example, SFAS No. 63*, Financial Reporting by Broadcasters,* provides guidance unique to public broadcasting entities. The public broadcasting entities should follow the guidance in SFAS No. 63 unless it conflicts with guidance in SFAS No. 117, in which case the guidance in SFAS No. 117 should be followed.

GASB Hierarchy

Category 12(a) in the GAAP Hierarchy applicable to state and local governmental entities consists of "GASB Statements and Interpretations, as well as AICPA and FASB pronouncements specifically made applicable to state and local governmental entities by GASB Statements or Interpretations".[5] FASB pronouncements not made applicable by the GASB are considered *other accounting literature* (category 13 in the GAAP hierarchy) for state and local governmental entities.

Public broadcasting entities following GASB should apply the guidance in the pronouncements to the transactions unique to the broadcasting industry, unless this display would conflict with the guidance provided in GASBS No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and No. 35 *Basic Financial Statements—and Management's Discussion and Analysis— for Public Colleges and Universities*. In these instances, the public broadcasting entities should follow the financial statement display guidance in GASBS Nos. 34 or 35, respectively.

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[4] SOP No. 94-2, *The Application of the Requirements of Accounting Research Bulletins. Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations*, paragraph 9.

[5] AICPA Statement on Auditing Standards No. 52, *Omnibus Statement on Auditing Standards–1987*, paragraph 1, as it amended AICPA Professional Standards, Vol. 1, AU Sec. 411.06.

2.2 Application of FASB or GASB by a Public Broadcasting Entity

CPB desires to achieve the greatest degree of uniformity possible in the application of these *Principles*. However, the present state of GAAP for public broadcasting entities provides for different treatment of certain similar transactions depending on the nature of the entity. Present GAAP differs significantly among state and local governments, public and private colleges and universities, and other nonprofit entities. Since a number of public broadcasting entities are operated within each of these environments, full compliance with any single set of accounting principles would create practical compliance difficulties for many stations.

To apply the GAAP hierarchy and determine whether they will follow either the standards of FASB or those of GASB, public broadcasting entities must determine whether they are governmental or nongovernmental, in light of the following definition:

- Public corporations[6] and bodies corporate and politic are governmental organizations. Other organizations are governmental organizations if they have one or more of the following characteristics:
  - Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments;
  - The potential for unilateral dissolution by a government with the net assets reverting to a government; or
  - The power to enact and enforce a tax levy. [7]

Furthermore, organizations are presumed to be governmental if they have the ability to issue directly (rather than through a state or municipal authority) debt that pays interest exempt from federal taxation. However, organizations possessing only that ability (to issue tax-exempt debt) and none of the other governmental characteristics may rebut the presumption that they are governmental if their determination is supported by compelling, relevant evidence.

CPB grant recipients can use the following table to help determine whether they should follow the principles under FASB or GASB.

An organization reported as a:	Should follow:	
	FASB	**GASB**
501(c)3	X	
For-profit corporation	X	
Other non-profit	X	
Private college or university	X	
Public college or university		X
Governmental entity		X

[6] *Black's Law Dictionary* defines a public corporation as: An artificial person (e.g.,[a] municipality or a governmental corporation) created for the administration of public affairs.
[7] AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units,* paragraph 1.03.

When the public broadcasting entity is not a legally distinct entity, but merely a division or department of a larger organization that is not primarily engaged in public broadcasting, such as a university, a local board of education, or a state government, the public broadcasting entity should generally make the determination between FASB and GASB on the basis of the nature of its parent organization.

The activities undertaken by public broadcasting entities to which these *Principles* apply sometimes comprise several organizational elements that are of different types, some of which would generally follow FASB guidance and some which would follow GASB.

These hybrid situations often arise, for example, when a 501(c)(3) "Friends" group or a public university's research foundation or alumni organization provides significant support for the public broadcasting activities of a governmental or public-university licensee. Another kind of hybrid situation may arise if a governmental or public university licensee enters into a Local Management Agreement (LMA) with a non-governmental organization, which conducts almost all management and operating activities of the public broadcasting entity.

In these situations, the grantee should discuss with its auditors which guidance to follow, considering the extent to which organizations of various types are providing and using resources in the overall public broadcasting activity. For example, if the governmental unit merely holds the FCC broadcast license and most of the revenue is acquired by a non-governmental fundraising organization, the grantee and its auditors might have agreed in the past that there is good reason to follow FASB guidance, regardless of what type of entity holds the broadcast license.

The clear trend in accounting standards, however, is toward adopting and following GASB guidance whenever a significant part of the resources available to the public broadcasting entity comes from governmental sources, particularly when a non-governmental organization providing resources is restricted in any way (e.g., by its by-laws) to using those resources solely on behalf of another organization, or an operating division of another organization, that is clearly a governmental unit. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment to GASB Statement No. 14* (issued May 2002, and effective for financial statements for periods beginning after June 15, 2003, with earlier application encouraged) indicates that in such circumstances, the government must include the non-governmental organization as a component unit.

If the question arises as to which model of GAAP (FASB or GASB) is the appropriate source of accounting and reporting requirements, this matter should be resolved with the concurrence of the grantee's auditor before audited reports are submitted to CPB.

2.3 Organizations That Are Not Discrete Legal Entities

When public broadcasting entities are licensed to local education authorities or to colleges or universities, the management and operation of the station is quite often delegated to a division or department that has no discrete legal status distinct from that of the "parent" institutional entity. Without separate legal status, these divisions or departments:

- Do not meet the definition of a "component unit"
- Would not ordinarily issue separate financial statements, and
- Would not engage in any separate financial activities (e.g., raising funds, incurring debt, making investments, or owning property in its own name) for which purposes other parties might expect or require the organization to issue separate financial statements.

Nonetheless, CPB has long required that the audited financial statements which its grantees prepare and submit in satisfaction of the requirements of Section 396(l)(3)(B)(iii) of the Communications Act of 1934, as amended, report the financial position and activities of "the station's or stations' operations, not those of the institutional licensee."[8]

Where a public broadcasting entity is not a separate legal entity and is a component of a licensee, the public broadcasting entity will need to work closely with its parent organization to allocate (or impute) the portion of the parent's costs that are applicable to the broadcaster's operations. This may include applicable portions of such items as post-employment benefits, vacation and sick pay, depreciation of capital buildings and equipment, and any other shared costs.

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[8] Corporation for Public Broadcasting, *Financial Reporting Guidelines for Grantees' FY 2002*, http://sgms.cpb.org

Section 3

Accounting and Reporting for

Public Broadcasting Entities Following FASB

3 ACCOUNTING AND REPORTING FOR PUBLIC BROADCASTING ENTITIES FOLLOWING FASB

3.1 Overview

This section provides an overview for accounting and reporting for public broadcasting entities following FASB.

3.1.1 Accrual Basis of Accounting

The accrual basis of accounting is generally accepted as providing a more appropriate record of all of an entity's transactions over a given period of time than the cash basis or other comprehensive basis of accounting. The cash basis does not result in a presentation of financial information in conformity with GAAP. Accordingly, financial statements of public broadcasting entities represented, as being in conformity with GAAP must be prepared using the accrual basis of accounting.

Under accrual basis accounting, goods and services purchased are recorded as assets or expenses at the time the liabilities arise, which is normally when title to the goods passes or when the services are received. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date under accrual accounting and should not be reported as expenses nor included in liabilities on the balance sheet.

3.1.2 AICPA Audit and Accounting Guide *Not-for-Profit Organizations*

The *AICPA Audit and Accounting Guide Not-for-Profit Organizations* (the Not-for-Profit Guide) is prepared by the AICPA to assist **non-governmental** not-for-profit organizations in the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. **(For a public broadcasting entity that is part of a state or local government, see section 4.1.3 of these *Principles*, which discusses the *AICPA Audit and Accounting Guide Audits of State and Local Government Units*.)** The Not-for-Profit Guide is also used by auditors in the performance of their procedures in audits of those financial statements. The Not-for-Profit Guide was substantially revised in 1996, primarily to incorporate the provisions of SFAS No. 116 and 117. Subsequent revisions of the Not-for-Profit Guide have been and will continue to be issued periodically by the AICPA. The current version of the Not-for-Profit Guide reflects relevant guidance contained in authoritative pronouncements through May 1, 2002.

The Not-for-Profit Guide is divided into chapters that provide thorough guidance on a variety of accounting and reporting matters. Users are cautioned that the Not-for-Profit Guide does not purport to present all aspects of generally accepted accounting principles that may apply to every not-for-profit organization; rather, the Not-for-Profit Guide is intended to present the most common financial accounting matters that are unique to not-for-profit organizations.

The Not-for-Profit Guide consists of a preface, 16 chapters of various subject matters, and background information including key Statements of Position issued by the AICPA.

Chapter	Subject
1	Introduction
2	General Auditing Considerations
3	Basic Financial Statements
4	Cash and Cash Equivalents
5	Contributions Received and Agency Transactions
6	Split-Interest Agreements
7	Other Assets
8	Investments
9	Property and Equipment
10	Debt and Other Liabilities
11	Net Assets
12	Revenues and Receivables from Exchange Transactions
13	Expenses, Gains, and Losses
14	Reports of Independent Auditors
15	Tax Considerations
16	Fund Accounting

Since the Not-for-Profit Guide is considered category (b) GAAP under the GAAP hierarchy, it is important to have a working knowledge of the Not-for-Profit Guide. In addition, the Not-for-Profit Guide contains numerous examples and illustrations to assist the user in the preparation of financial statements.

While the Not-for-Profit Guide covers a variety of topics, many of them in some depth, users should pay particular attention to Chapter 5, *Contributions Received and Agency Transactions*. This chapter expands the guidance available from SFAS No. 116 concerning how to distinguish contributions from exchange transactions.

Users are also advised to pay special attention to Chapter 6, *Split-Interest Agreements*. This chapter expands the guidance to not-for-profit organizations for the proper accounting and reporting of various types of deferred giving arrangements, also known as split-interest agreements. The chapter also provides clear concise examples of the application of the accounting and reporting guidance for the most widely used forms of such arrangements, including:

- Charitable lead trusts
- Charitable remainder trusts
- Perpetual trusts (held by a third party)
- Charitable gift annuities
- Pooled income funds (also know as life income funds).

3.2 Financially Interrelated Organizations

In order to present meaningful financial statements that fully and fairly disclose financial position and results of operations, the financial statements of interrelated organizations should generally be combined or consolidated with the financial statements of the public broadcasting entity.

Public broadcasting entities are most frequently financially interrelated with three types of organizations: fundraising organizations, affiliated stations, and subsidiaries. A brief description of each is provided below:

- *Fundraising Organizations* are organizations whose primary purpose is to raise funds and/or otherwise support the public broadcasting entity. They are often called "Friends" (e.g., "The Friends of Station WXYZ"). Friends groups have various organizational structures. They may be separate not-for-profit corporate entities or unincorporated committees or chapters. Some are very formally organized with separate governing boards, written bylaws and charters, etc. Others consist of loose affiliations of volunteers who operate under the direct supervision of station management. Past financial reporting practices by Friends have varied widely, ranging from no financial reports to complete, separately-issued financial statements audited by an independent public accountant.

  Despite their diverse nature, virtually all Friends groups that are engaged in fundraising frequently do so in the name of particular stations and make reference to the call letters, broadcast frequency, or another tradename or identity used by the stations in broadcasting. Many Friends organizations manage significant financial resources — resources that were solicited from the public by representing that the funds were to be used for the benefit of the public broadcasting entity.

- *Affiliated Stations* are two or more broadcast stations under common control. Some legal entities oversee operations of two or more stations that are essentially independent of one another managerially, and may share resources only through a licensee's annual budget process. Other affiliated stations are very centralized in nature and share management and governance as well as physical facilities and certain contributed support.

- *Subsidiaries* are organizations that are legally owned by the public broadcasting entity, through stock ownership or other means of direct control. Ownership in a for-profit subsidiary is generally evidenced by an investment in the voting stock or representation on the controlling board of directors of the subsidiary. Ownership of a not-for-profit subsidiary may be evidenced in various ways because not-for-profit organizations may exist in various legal forms, such as corporations issuing ownership certificates, membership corporations issuing membership certificates, joint ventures, and partnerships, among other forms.[9]

[9] SOP 94-3, paragraph 10.

In September 1994, the AICPA released SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. SOP 94-3 gives guidance for reporting (a) investments in for-profit, majority-owned subsidiaries, (b) investments in common stock of for-profit entities wherein the not-for-profit organization has 50 percent or less voting interest, and (c) financially interrelated not-for-profit organizations. Requirements in these three circumstances are summarized below.

3.2.1 Investments in For-Profit Majority Owned Subsidiaries

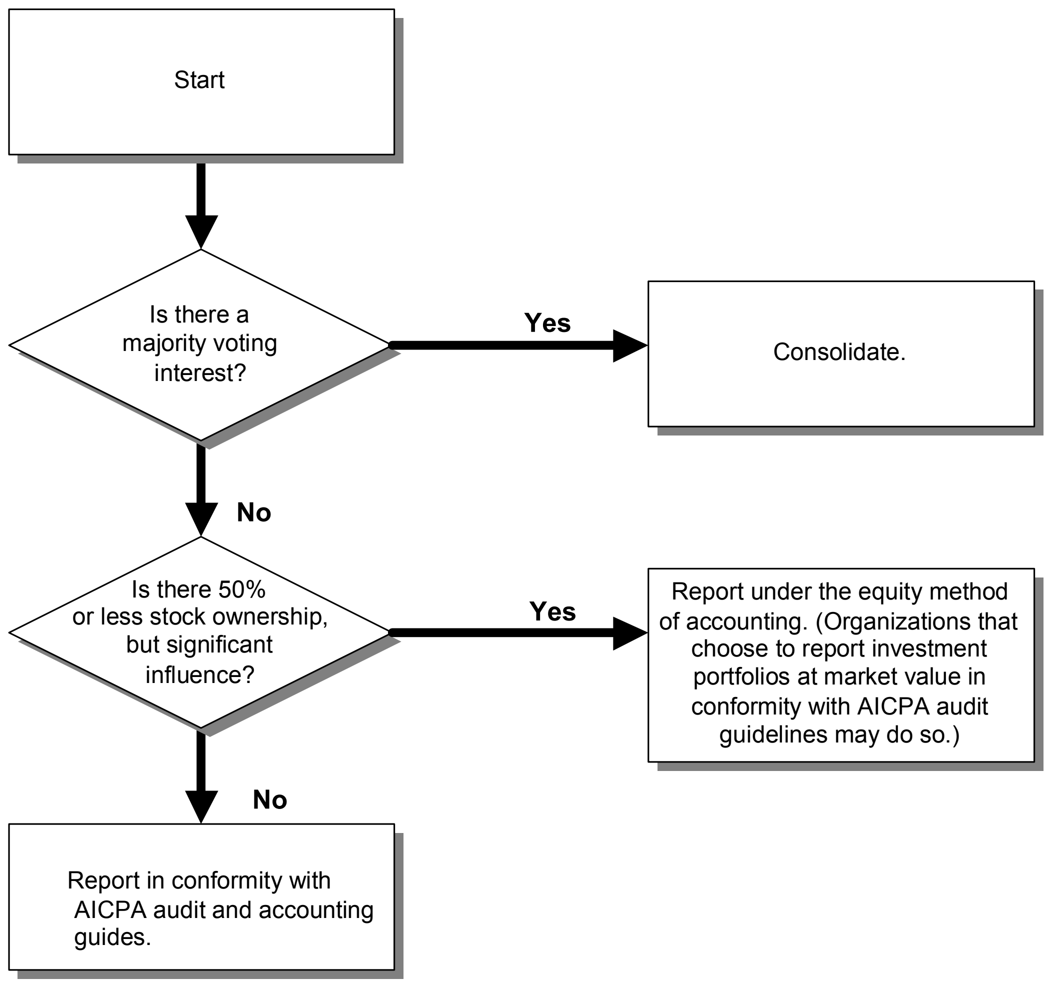
Not-for-profit organizations with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity should follow the guidance in Accounting Research Bulletin (ARB) 51 *Consolidated Financial Statements*, as amended by SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*, in determining whether the financial position, results of operations, and cash flows of the for-profit entity should be included in the not-for-profit organization's financial statements.[10]

Exhibit 3-1 graphically depicts decisions made when accounting for ownership of a for-profit entity.

[10] SOP 94-3, paragraph 5.

Exhibit 3-1

Ownership of a For-Profit Entity



3.2.2 Investments in For-Profit Entities with 50 Percent or Less Voting Interest

Where a not-for-profit organization has 50 percent or less of the voting stock in a for-profit entity, investments in common stock should be reported under the equity method in conformity with APB Opinion 18, *The Equity Method of Accounting for Investments in Common Stock*, if the guidance in that Opinion requires use of the equity method, subject to the exception in paragraph 7 of SOP 94-3. Also, not-for-profit organizations should provide any financial statement disclosures required by APB Opinion 18.[11]

3.2.3 Financially Interrelated Not-for-Profit Organizations

Not-for-profit organizations may be related to one or more other not-for-profit organizations in numerous ways, including ownership, control, and *economic interest*.[12]

Various kinds and combinations of control and economic interest result in various financial reporting. Certain kinds of control result in consolidation. Other kinds of control result in consolidation only if coupled with an economic interest. Still other kinds of control result in consolidation being permitted but not required if coupled with an economic interest.[13]

Public broadcasting entities should refer to SOP 94-3, paragraphs 10-14, for complete explanations of consolidation and disclosure requirements for financially interrelated not-for-profit organizations.

This SOP does not develop new concepts concerning the definition of control.[14] However, it does introduce and define the concept of an "economic interest."

An economic interest exists if (a) the separate entity holds or utilizes resources that must be used for the unrestricted purposes of the not-for-profit organization, either directly or indirectly by producing income, or providing services, or (b) the reporting entity is responsible for the liabilities of the other entity.[15] The following are examples of economic interests:

- The separate entities solicit funds in the name of and with the expressed or implied approval of the reporting organization, and substantially all of the funds solicited are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion or direction. (This condition will ordinarily be satisfied in most situations in which a Friends organization, as described in Section 2.2, engages in fundraising.)

- A reporting organization transfers significant resources to another entity whose resources are held for the benefit of the reporting organization.

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[11] SOP 94-3, paragraph 6.
[12] SOP 94-3, paragraph 8.
[13] SOP 94-3, paragraph 9.
[14] SOP 94-3, paragraph A-21
[15] SOP 94-3, paragraph A-25.

- A reporting organization provides or is committed to providing funds for a separate entity or guarantees significant debt of a separate entity.

- A reporting organization assigns certain significant functions to a separate entity.

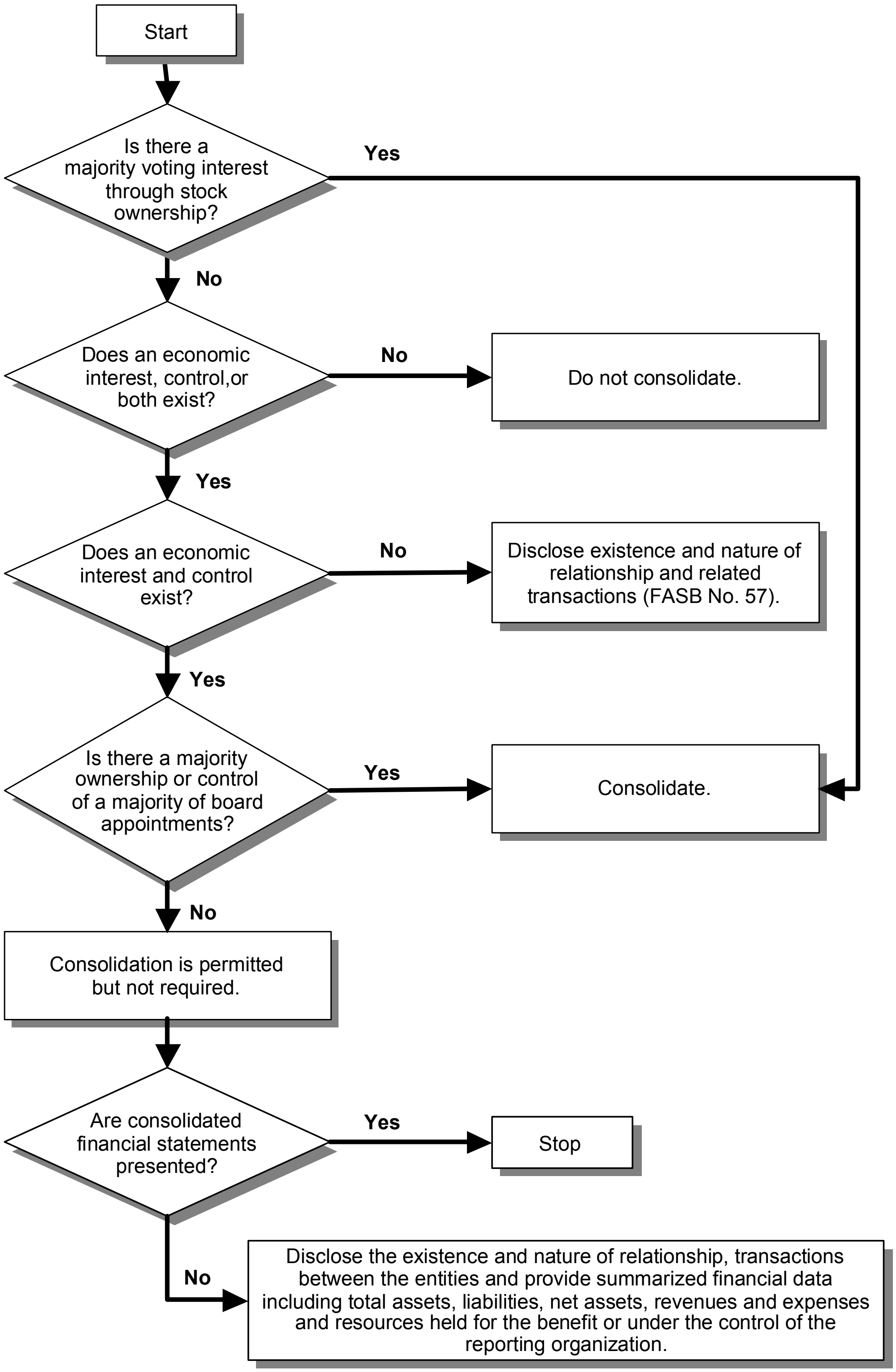
If consolidated financial statements are presented, they should disclose any restrictions made by entities outside of the reporting entity on distributions from the controlled not-for-profit organization to the reporting organization. Additional disclosures should state resulting unavailability of the net assets of the controlled not-for-profit organization for use by the reporting organization.[16] The existence of an economic interest does not necessarily cause the entities to be related parties, as defined in SFAS No. 57, *Related Party Disclosures*. However, the disclosures required by that Statement also are required under SOP 94-3 if an economic interest exists.

Exhibit 3-2 graphically depicts decisions made when accounting for a separate not-for-profit entity.

[16] SOP 94-3, paragraph 14.

Exhibit 3 - 2

Relationship with Another Not-for-Profit Organization



3.3 Contributions

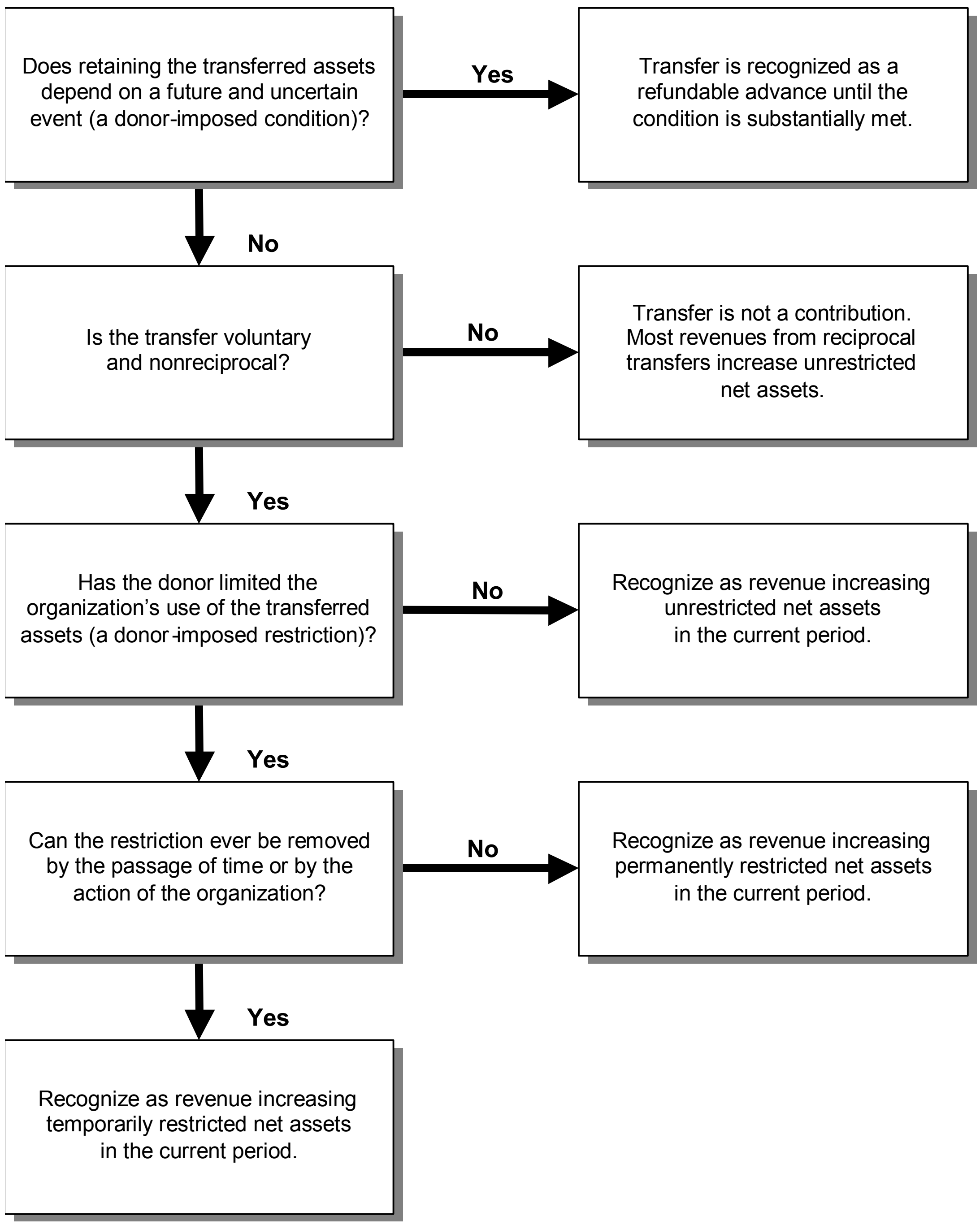
In June 1993, FASB issued SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 established accounting standards for contributions and applies to all nongovernmental entities under the jurisdiction of FASB that receive or make contributions.

Contributions received include expenses paid on behalf of a public broadcasting entity by others outside the reporting entity (excluding amounts paid by organizations that are consolidated or combined in the financial statements of the public broadcasting entity, since such amounts are eliminated in consolidation). In-kind contributions are frequently received by public broadcasting entities as promises to give (i.e., pledges of) services, materials, supplies, facilities, property, advertising, or promotion. CPB also considers indirect administrative support to be a contribution when it is provided by a "parent institution" licensee that, while not legally distinct, is outside the scope of the public broadcasting entity for which financial statements are prepared and submitted to CPB. (Among the public broadcasting entities that would normally follow FASB, this would generally be the case only when the licensee is a private college or university that has delegated management and operation of the public broadcasting station(s) to a division or department that has no discrete legal identity or status.)

Exhibit 3-3 provides an overview of various contribution classifications under SFAS No. 116.

Exhibit 3-3

Classifying Contributions Consistent with SFAS No. 116



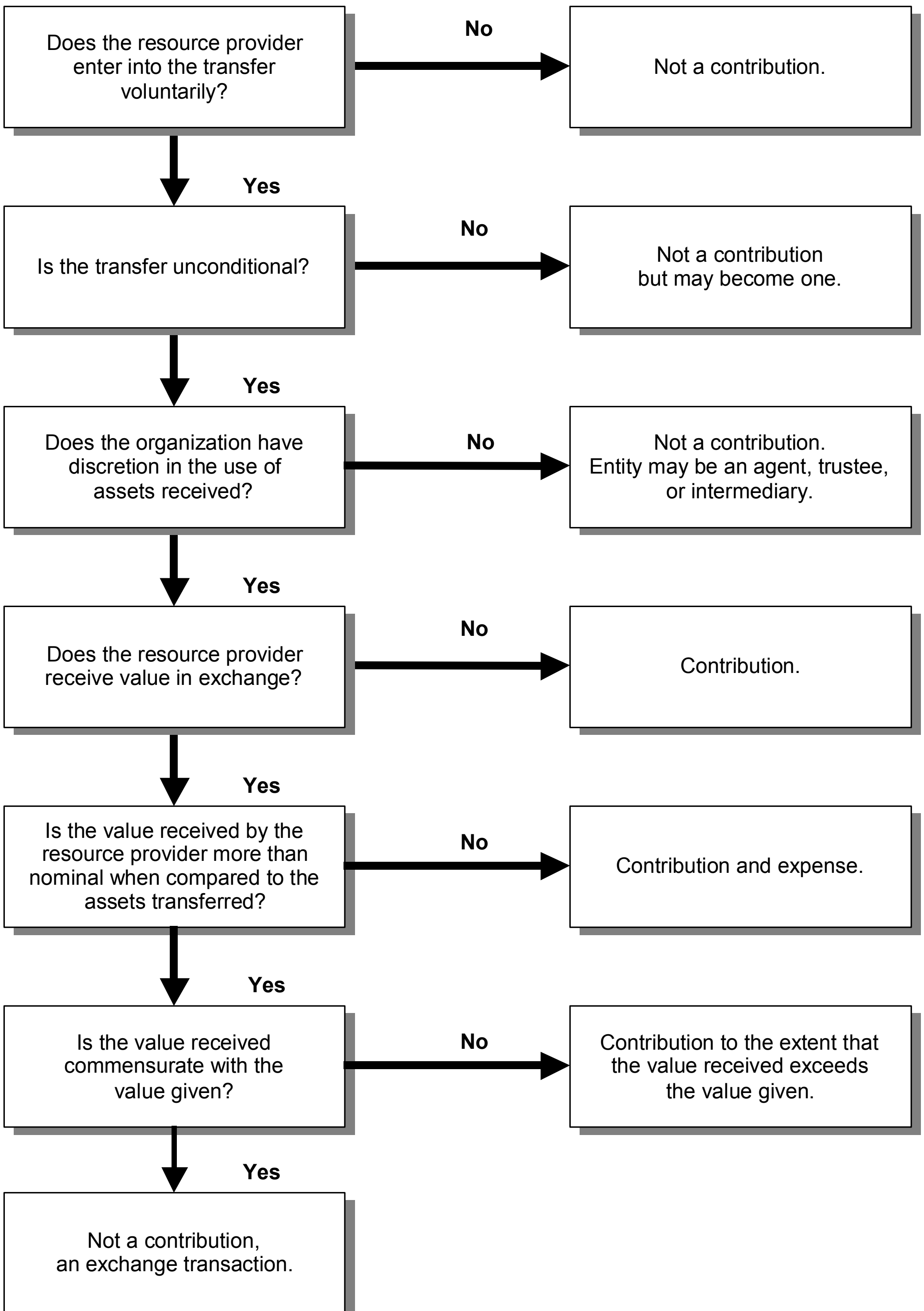
When recording transactions under SFAS No. 116, public broadcasting entities must carefully evaluate such transactions to be sure to distinguish between exchanges and contributions. Exchange transactions are situations in which each party receives equivalent value. Exchange transactions are not considered contributions.

To determine whether a contribution has occurred, FASB stated that it is necessary to assess the characteristics of the transaction from the perspective of both the resource provider and the recipient.

Exhibit 3-4 graphically presents judgments required when identifying a contribution or exchange transaction.

Exhibit 3-4

Identifying a Contribution/Exchange Transaction



In certain cases, a transaction may be in part an exchange transaction and in part a contribution. The recipient public broadcasting entity should determine the value that the resource provider receives in the transaction and recognize as a contribution to the recipient only the portion of the value received by the public broadcasting entity that exceeds the value received by the donor in the exchange portion of the transaction.

If the value received by the public broadcasting entity exceeds the value received by the donor, the transaction may be in part a contribution and in part an exchange transaction. For example, if a premium (thank you gift) given to a member of (i.e., an individual contributor to) the station were of greater than nominal value, the fair market value of the premium would represent an exchange transaction with the member/donor. Stations should not recognize *as a contribution* the portion of total value received that represents an exchange transaction with the member/donor. That amount would be recognized separately as revenue and expenditure from an exchange.

Underwriting: Contribution or Exchange Transaction?

Public broadcasting entities often receive underwriting, i.e., grants, contributions, or other asset transfers solicited by the recipient for (and/or restricted by the donor to) use in financing the production of – or the acquisition of broadcast rights for – specific programs.

Many public broadcasters also use the term "underwriting" for asset transfers (other than "membership" or "subscription" contributions) that are solicited for general support of other broadcast activities (e.g., helping to finance the acquisition and transmission of the entire program schedule aired by a public broadcasting station during a certain daypart or longer time period).

Underwriting may be promised by and/or received from individuals, governments, philanthropic foundations or other not-for-profit organizations, or for-profit businesses, and it may be received by a broadcast station, a program distributor that furnishes program matter to broadcast stations, or the original producers of the program matter being broadcast.

Federal law[17] and Federal Communications Commission regulations[18] require broadcasters – including *public* broadcasters – to announce on air, at the time a program is broadcast, by whom or on whose behalf underwriting support was provided, whether to the broadcaster airing the program, to a program distributor that furnishes the program to the broadcaster, or to the original producers of the program matter being broadcast.

Neither laws nor regulations *require* public broadcasters to air credit announcements for general-support underwriting, but nothing prohibits the broadcast of such credit announcements,[19] and many public broadcasters acknowledge on air any significant grants and contributions of general support.

Some public broadcasters establish "rate cards" for general-support underwriting and – regardless whether they are required to broadcast an underwriting credit or not – typically enter into formal written agreements with their underwriters, specifying the number, frequency, and/or scheduling

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[17] 47 U.S.C. § 317

[18] 47 C.F.R. § 73.1212 (known as "the sponsorship identification rule")

[19] See *Letter of Chief, Complaints and Investigations Branch, to Station KUNV(FM)* (July 11, 1988).

of underwriting credit announcements that the public broadcaster promises to air in acknowledgment of the amount of underwriting promised.

Questions often arise about how to account for these underwriting transactions because a donor may consider the underwriting credit announcements to be of equivalent value to that of his grant or contribution to the public broadcasting entity. The language and style of a written agreement may itself appear to document an exchange transaction.

Whether the promised transfer of assets to the public broadcasting entity is reciprocal or non-reciprocal is a critical factor in determining whether the transaction will be treated as a contribution or an exchange transaction.

It is not known, though, whether a donor has ever asked a court to compel a public broadcaster either to broadcast a promised underwriting credit or to return the assets that were transferred because a promised underwriting credit was not broadcast. Therefore, the reciprocal or non-reciprocal nature of these underwriting agreements is uncertain.

Nonetheless, **underwriting credit announcements have long been presumed to be of merely nominal value to the donor, and they are not typically interpreted – <u>in and of themselves</u> – as giving rise to an exchange transaction.**

With respect to federal taxation, for example, Section 513(i) of the Internal Revenue Code exempts from unrelated business taxation of the income of charitable and similar, otherwise tax-exempt organizations, "qualified sponsorship payments" – a similar but somewhat broader concept than "underwriting" – which are defined as:

> *any payment made by any person engaged in a trade or business with respect to which there is no arrangement or expectation that such person will receive any substantial return benefit other than the use or acknowledgement of the name or logo (or product lines) of such person's trade or business in connection with the activities of the organization that receives such payment. Such a use or acknowledgement does not include advertising such person's products or services (including messages containing qualitative or comparative language, price information, or other indications of savings or value, an endorsement, or an inducement to purchase, sell, or use such products or services).* [20]

Internal Revenue Service regulations[21] specify what, on the one hand, may be included in "use or acknowledgement of the name or logo" of a sponsor and therefore excluded from the consideration of "substantial return benefit" that would disqualify a payment from the exemption, and what, on the other hand, constitutes advertising and is therefore not excluded.[22]

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[20] 26 U.S.C. § 513(i)(2)(A)

[21] 26 C.F.R. § 1,513-4

[22] With respect to public broadcasting, the Communications Act defines "advertisement" as:

> . . . any message or other programming material which is broadcast or otherwise transmitted in exchange for any remuneration, and which is intended — **(1)** to promote any service, facility, or product offered by any person who is engaged in such offering for profit; **(2)** to

The IRS regulations, of course, are specifically related to taxation – what sponsorship payments by for-profit businesses are deductible, and what sponsorship income received by not-for-profit entities is subject to unrelated business income taxation (UBIT). The notion that the act of acknowledging sponsors – when not promotional in nature – is no bar to the exemption of "qualified sponsorship payments" from UBIT generally reinforces the long-standing practices among public broadcasting entities and their auditors, both of treating underwriting credit announcements as of merely nominal value, and of recognizing revenue and support from underwriting as contributions.

Note, however, that, in following the guidance of SFAS No. 116, the documentation that may be required to make contributions, or promises to give, both verifiable and measurable may be significantly different from that of revenues from exchange transactions. Auditors may consider many of the current written agreements between public broadcasting entities and their underwriters to be irrelevant or insufficient as documentation of a contribution.

"Presenting Station" Fees for Introducing Programs into Public Broadcasting Distribution: Contribution or Exchange Transaction?

A public broadcasting entity sometimes charges an independent program producer a fee for introducing a program into distribution among public broadcasters by acting, for example, as a "presenting station" in the PBS National Program Service.

Regardless whether such a fee is charged directly to, and paid directly by, the independent program producer, or is simply retained by the public broadcasting entity from assets that the public broadcaster may have solicited or received from third-party underwriters on the program producer's behalf ,[23] the fee that is received or retained for introducing the program into public broadcasting distribution represents an exchange transaction, and not a contribution.

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express the views of any person with respect to any matter of public importance or interest; or
(3) to support or oppose any candidate for political office. (47 U.S.C. 399b(a))

[23] See Section 3.4.2, Contributions Raised or Held for Others, below, for discussion of the accounting for underwriting solicited or received on behalf of others.

The following subsections describe guidance to be followed regarding promises to give (pledges) generally, and then guidance to be applied to each of the following significant types of contribution other than cash:

- Materials, supplies, facilities and property
- Volunteer services not requiring specialized skills
- Services that create or enhance non-financial assets or that require specialized skills
- Advertising and promotion
- Indirect administrative support, and
- Expenses paid by a third party.

3.3.1 Promises to Give (Pledges)

A promise to give is a written or oral agreement to contribute cash or other assets to another entity. A promise carries rights and obligations—the recipient of a promise to give has a right to expect that the promised assets will be transferred in the future, and the maker has a social and moral obligation, and generally a legal obligation, to make the promised transfer.[24]

If the promise to give meets the criteria for recognition, SFAS No. 116 states that the "present value of estimated future cash flows using a discount rate commensurate with the risks involved is an appropriate measure of the fair value of unconditional promises to give cash."[25] Present value refers to the value now of a given sum to be received in the future. Such treatment is similar to that of notes and other receivables of a long-term nature without an explicit interest rate. However, in contrast to other such long-term receivables, the interest element recognized in subsequent years is recognized as additional contribution income (expense for donors) instead of interest income. SFAS No. 116 notes that such treatment is "consistent with accounting for the element of interest involved in certain other transactions, such as the costs of pensions or of other postretirement benefits."[26]

Promises receivable within one year, like trade accounts receivable, need not be discounted. SFAS No. 116 allows for an exception, on practical grounds, for a portfolio of short-term promises resulting from a mass fundraising appeal, even if such payments extend slightly beyond one year. The future cash flows of these promises may be estimated by using the experience an entity has gained from similar appeals in the past. Exhibit 3-5 is a graphical presentation of judgments required when classifying promises to give.

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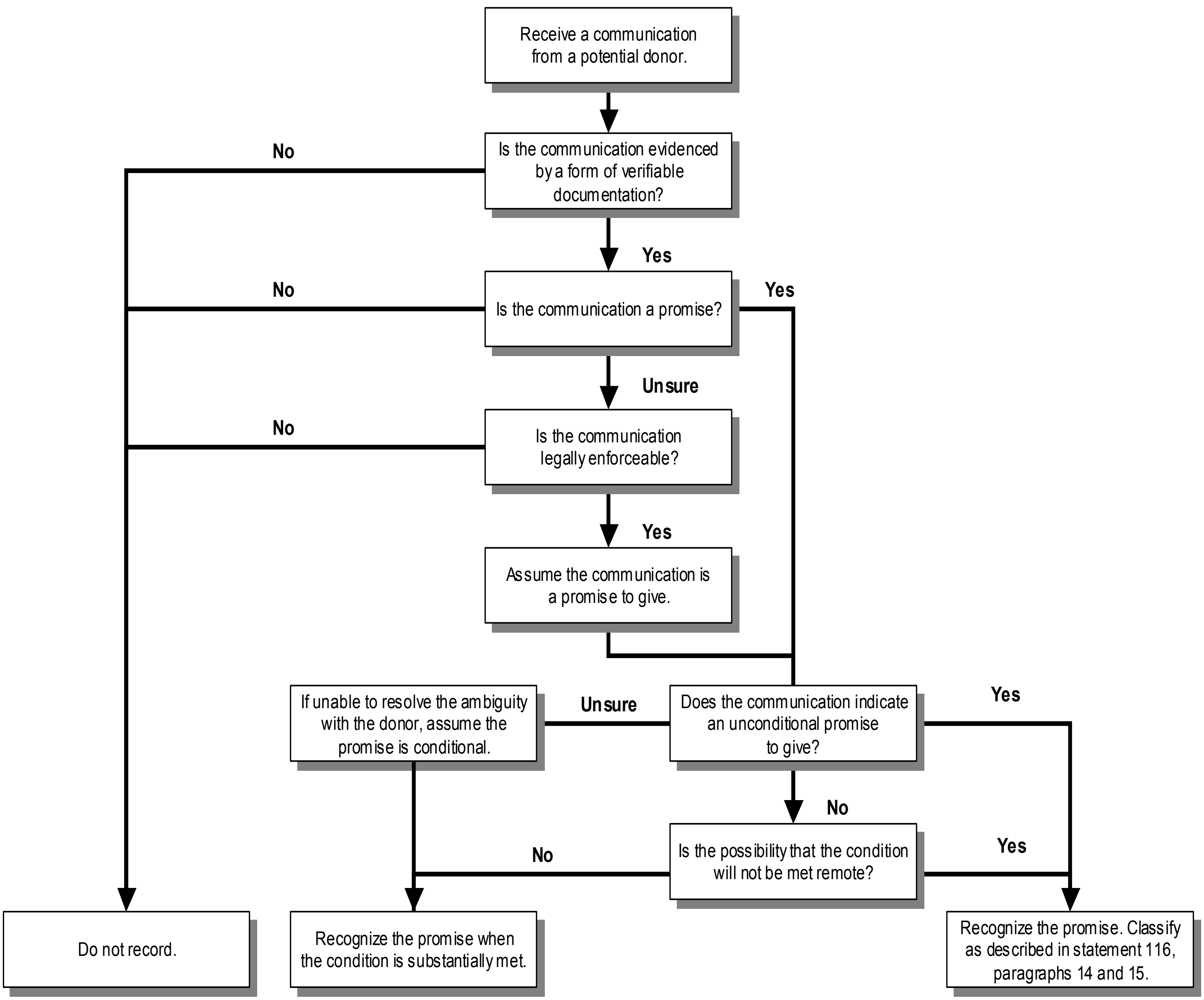
[24] SFAS No. 116, paragraph 87
[25] SFAS No. 116, paragraph 20
[26] SFAS No. 116, paragraph 115

Exhibit 3-5

Identifying Promises to Give



Regardless of the type and duration of the promises involved, an important element in the initial and ongoing valuation of unconditional promises, as with any other receivable, is the establishment and maintenance of an allowance for doubtful receivables. This should be established, based on historical experience and other factors, to cover any uncertainties concerning collectibility.

Public broadcasting entities may receive promises to give that are conditional or unconditional, restricted or unrestricted.

A condition is:

> *A donor stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred or releases the promisor from its obligation to transfer the assets.*[27]

Conditions involve uncertainties that must be resolved before a contribution may be recognized while restrictions do not prevent recognition but merely determine classification of the contribution upon recognition. In the case of conditional promises to give, unless the possibility that such conditions will not be met is remote, no amounts are reflected in the financial statements.

SFAS No. 116 contrasts a donor-imposed *condition* with a donor-imposed *restriction*, which instead:

> *Specifies a use for the contributed assets that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.*[28]

For example, with most CPB grants, including the Community Service Grants (CSGs), federal law imposes certain restrictions as to the period during which and the purposes for which grant funds may be expended.

3.3.2 Materials, Supplies, Facilities, and Property

Contributed materials, supplies, facilities, and property, if significant in amount, should be recorded at their fair value, provided the entity has a clearly measurable and objective basis for determining the value.[29] If the contributed materials, supplies, facilities, and property are such that values cannot reasonably be determined, they should not be recorded as contributions.

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[27] SFAS No. 116, paragraph 7

[28] SFAS No. 116, paragraph 7

[29] APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, paragraph 25, states, "Fair value of a nonmonetary asset transferred to or from an enterprise in a nonmonetary transaction should be determined by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence." In underwriting "trades" – i.e., nonmonetary, or in-kind, underwriting contributions,

The value of contributed facilities should be included as revenue and expense in the statement of financial activity during the period of use. If, however, a public broadcasting entity receives an unconditional promise for the use of a facility for a *specified period of time* then the contribution would be an unconditional promise recorded as a receivable and as "restricted support" at its fair value when received.

Contributions of long-lived assets received without stipulations about how long the donated asset must be used shall be reported as restricted support if it is a public broadcasting entity's accounting policy to imply a time restriction that expires over the useful life of the donated assets. Organizations that adopt a policy of implying time restrictions shall also imply a time restriction on long-lived assets acquired with contributions of cash or other assets restricted for those acquisitions. Time restrictions implied on contributions of long-lived assets expire as the economic benefits of the acquired assets are used up, that is, over their estimated useful lives. In the absence of that policy and other donor-imposed restrictions on the use of the asset, contributions of long-lived assets shall be reported as unrestricted support when the assets are placed in service.

Thus, a public broadcasting entity may recognize the expiration of a restriction on contributions of long-lived assets, or cash or other assets to acquire them, either up-front, when the asset is purchased and/or placed in service, or gradually, in an amount equal each year to that year's depreciation charge (depreciation, like all other expenses under SFAS No. 117, is a charge against unrestricted net assets). A public broadcasting entity should disclose its accounting policy.[30]

Exhibit 3-6 is a graphical presentation of the judgments required when classifying receipts of assets.

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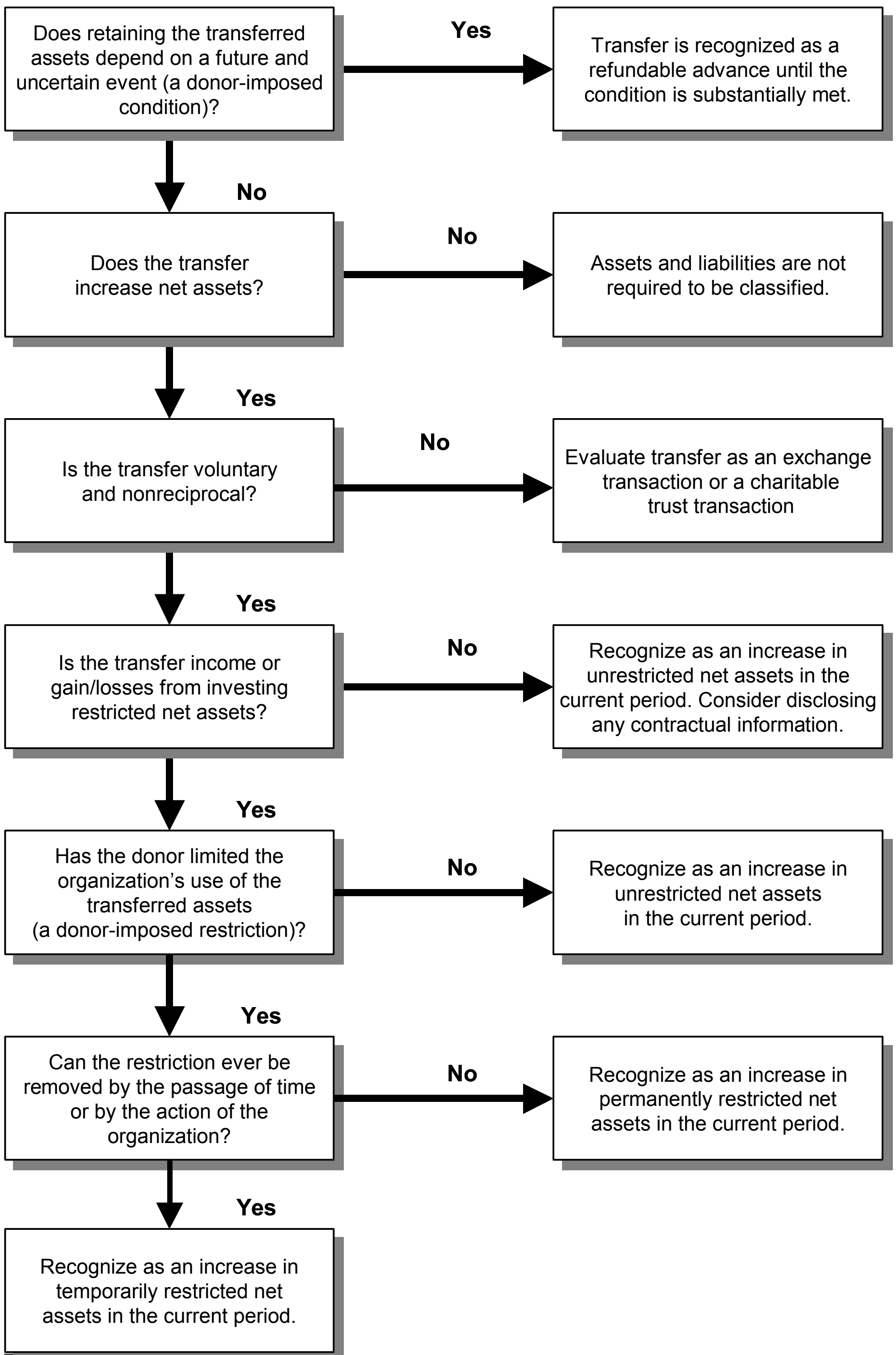
for which the only benefit transferred from the public broadcaster to the donor is that of an on-air acknowledgement, or underwriting credit announcement (see Section 3.3, above) – neither an "underwriting rate card" used by the public broadcaster in soliciting contributions, nor any valuation merely agreed upon by the donor and the recipient without an independent, objective basis, is relevant evidence of fair value of the nonmonetary assets contributed.

[30] SFAS No. 116, paragraphs 16 and 17

Exhibit 3-6

Classifying Receipts of Assets



When accounting for contributed property:

- The entity must obtain legal title (domain and control over the use and disposition) of the property.
- If the donated property is for the continued use of the station, the donor must determine the fair value at the time of the donation. If a reasonable fair value cannot be determined, the donor should use the book value (cost less accumulated depreciation) of the property for establishing the value of the contribution.
- Donated property must be adequately documented by the donor, including description, date of donation, value, and method of valuation. New property must be supported with a vendor invoice.
- In the case of transfers of assets with unresolved conditions, such transactions must be reflected as refundable advances (as liabilities with no revenue recognition) until conditions are resolved.

3.3.3 Volunteer Services Not Requiring Specialized Skills

Contributed volunteer services are services performed for the benefit of a public broadcasting entity. They may be donated directly to the entity, or indirectly through a related organization. They are usually provided by an individual's own free will, without financial compensation.

The nature and extent of donated personal services of volunteers received by public broadcasting entities ranges from the limited participation of many individuals in fundraising activities to active participation by more limited numbers of people in the entity's service programs. Volunteer services most frequently contributed to the public broadcasting entity include fundraising and on-air services. Contributions such as these should not be recorded in the financial statements, but may be disclosed in the notes.

3.3.4 Services That Create or Enhance Non-Financial Assets or That Require Specialized Skills

A nongovernmental public broadcasting entity must recognize contributed services received that (a) create or enhance <u>non-financial assets</u> (such as a professional painter who paints the office of the broadcaster) or (b) require <u>specialized skills</u>, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.[31] An organization may not recognize contributed services received that do not meet one or both of these criteria.

<u>Non-financial assets</u> are not defined in the pronouncement. However, from the use of the term in SFAS No. 107, *Disclosures About Fair Values of Financial Instruments*, and SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, "financial assets" would appear to be assets that meet the definition of "financial instruments"—that is, cash, an ownership interest, or an asset, such as accounts receivable or marketable debt securities entitling the entity owning the asset to a future receipt of cash or another financial instrument. Thus non-financial

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[31] SFAS No. 116, paragraph 9.

assets appear to include physical assets (e.g., property, plant and equipment, or inventory), intangible assets (e.g., patent rights), and other assets (e.g., prepaid expenses).

<u>Specialized skills</u> are defined in SFAS No. 116, paragraph 9, as those of "accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen." Contributed services *should not* be recorded in the financial statements unless *all* of the following circumstances exist:

- The services are provided for activities that are normal and standard
- The public broadcasting entity would normally pay for the kind of services provided (e.g., program guests and program audiences are not normally paid and should not be included)
- The services provided are the same as those, which the donor normally provides to the general public. (For instance, lawyers provide legal services, not broadcasting services. If a lawyer is the host of a program, he or she is not considered to be providing services requiring specialized skills unless the program host is acting as an on-air legal advisor.)

Contributed services should be recorded based on their fair value at the time the services are rendered. There must be a clearly measurable and objective basis for measuring the fair value of the service.[32] For example, an attorney ordinarily bills a client at established rates for services provided. When that attorney provides the same services to a public broadcasting entity without charge or at reduced rates, the public broadcasting entity must obtain from the donor documentation of the value of the donation, based on usual fees charged. A major uncertainty about the existence of value may indicate that a service should not be recognized as a contribution received.[33]

Notes to the financial statements should describe the programs and activities for which the contributed services were used, including the nature and extent of contributed services received, the amount recognized as revenue for the period, and if practicable to disclose, the fair value of contributed services received but not recognized as revenues.[34]

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[32] APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, paragraph 18 states: "The Board concludes that in general accounting for nonmonetary transactions should be based on the fair values [footnote 5: See paragraph 25 for determination of fair value] of the assets (or services) involved which is the same basis as that used in monetary transactions." Paragraph 25 states, "Fair value of a nonmonetary asset transferred to or from an enterprise in a nonmonetary transaction should be determined by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence." In underwriting "trades" – i.e., nonmonetary, or in-kind, underwriting contributions, for which the only benefit transferred from the public broadcaster to the donor is that of an on-air acknowledgement, or underwriting credit announcement (see Section 3.3, above) – neither an "underwriting rate card" used by the public broadcaster in soliciting contributions, nor any valuation merely agreed upon by the donor and recipient without an independent, objective basis, is relevant evidence of fair value of the services contributed .

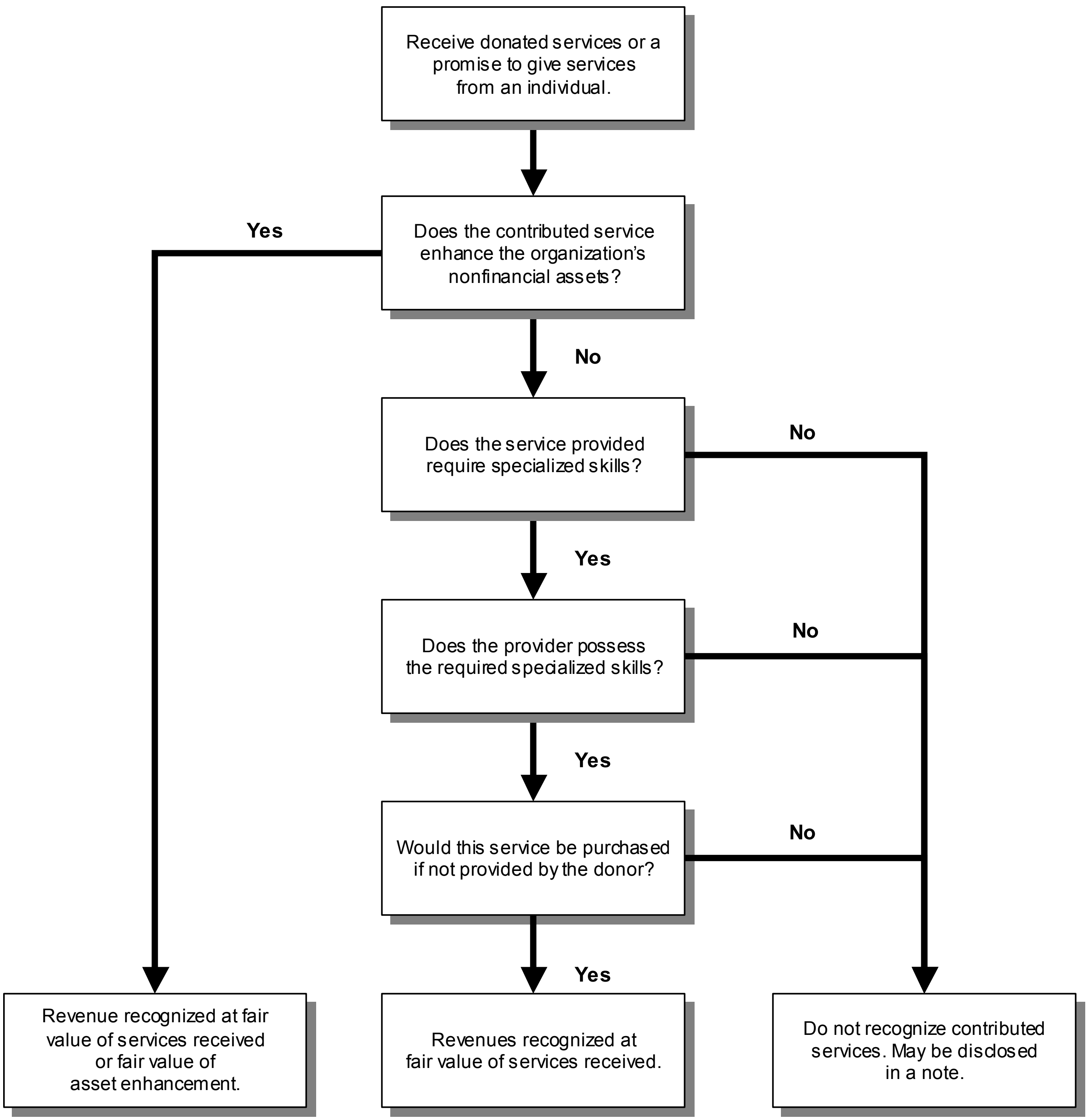
[33] SFAS No. 116, paragraph 19

[34] SFAS No. 116, paragraphs 10 and 19

Exhibit 3-7 is a graphical presentation of judgments required when recording contributed services.

Exhibit 3-7

Contributed Services



3.3.5 Advertising and Promotion

Local and national underwriters of programs produced and/or aired by a public broadcasting entity frequently contribute (directly or in-kind by providing production services) advertising and promotion for their sponsored programs or for the entire program service of a station airing the program.

Commercial broadcasters and other advertising-media businesses (such as newspapers, outdoor advertising companies, and motion picture exhibitors) also frequently contribute in-kind advertising to a public broadcasting entity, in what both donor and public broadcaster often characterize informally as a "barter" or "trade" transaction. SFAS No. 116 defines the type of contributions that must be recorded in order to be consistent with GAAP. Generally, contributed advertising and promotion does meet the criteria for recognition as stated in SFAS No. 116, paragraph 9, and therefore should typically be recorded as contribution revenue.

While reporting of contributed advertising and promotion is allowed, (i) the fair value to the public broadcasting entity of contributed promotion is often difficult to substantiate, and in some cases the fair value of contributed advertising may also be difficult to substantiate,[35] and (ii) there is a concern that contributed advertising and promotion has become of significant commercial value to the underwriter, particularly when the underwriter's identity is featured prominently in the program promotion or when the program promotion is only a part of promotion for the underwriter's own business activities. This fact calls into question whether even substantiated value to the station represents a contribution, an exchange, or some combination of both. Stations should not recognize as a contribution the portion of total value received that represents an exchange transaction with the underwriter.[36]Regardless of what documentation may be required by the public broadcasting entity's auditor to substantiate values recorded in the financial statements, CPB requires public broadcasting entities to maintain the following documentation to substantiate contributed promotion recognized in the financial statements:

- Third-party substantiation of fair value to the public broadcasting entity
- Detail support or confirmation of the promotional costs underwriters have incurred including descriptions by major cost category (air time, print advertisements, internal staff allocations, etc.)
- Documentation of the value of contributed promotion to the underwriter (i.e., to what extent the promotion is an exchange transaction and thus outside the scope of SFAS No. 116)

[35] See footnote 32 in Section 3.3.4, above.
[36] But see also the discussion in Section 3.3, above, under the heading "Underwriting: Contribution or Exchange Transaction".

3.3.6 Indirect Administrative Support

Indirect administrative support generally will qualify for recognition as donated materials, supplies, or facilities under SFAS No. 116. It is usually allocated support applicable to institutional grantees (e.g., those with stations licensed to private colleges or universities). Indirect administrative support represents services provided to a public broadcasting entity by the controlling organization. Examples include allocated space or general administrative services provided at no cost to the public broadcasting entity.

The value for allocated space from the licensee is limited to an annual use value defined as the station's proportionate share of the depreciated value of space occupied.

In computing the portion of the licensee's indirect cost to be allocated to the public broadcasting entity, an institutional licensee must use a reasonable allocation method within the following general guidelines:

- Indirect costs should be allocated into functional categories such as general administrative and physical plant operations. These pools must be traceable to the licensee's accounting records and/or financial statements.

- There must be an equitable basis for allocating the indirect costs to the public broadcasting entity and other benefiting activities. If cost is used as a surrogate for fair value recognition under SFAS No. 116, evidence that it reasonably approximates fair value must be maintained.

- All costs used for the computation of indirect administrative support must be current year costs if they are available. If not, an estimate of current year support should be made using the most recent year information available.

A public broadcasting entity with significant indirect administrative support may refer to the cost principles for federal grantees provided in Office of Management and Budget (OMB) Circulars A-21, *Cost Principles for Educational Institutions* and A-122, *Cost Principles for Non-Profit Organizations* for additional guidance. The station may use its own allocation method within the bounds defined above, or it may use the basic method, which is modeled on the direct allocation method explained in OMB Circular A-21. Regardless of the method used, public broadcasting entities should refer to CPB's *Financial Reporting Guidelines*[37] in completing these calculations, as doing so will simplify the submission of other required filings to CPB.

[37] Corporation for Public Broadcasting, *Financial Reporting Guidelines FY 2004-2005*, https://sgms.cpb.org/help/SGMS_HELP_PROJ/WebHelp/SGMS.htm?Expand=Book1_1

3.4 Transfers

This section provides guidance on accounting for transfers of assets to not-for-profit organizations.

3.4.1 Government Transfers

Public broadcasting entities often receive government financial assistance (from federal as well as state and local agencies) in various forms, an area that SFAS No. 116 broadly refers to as "government transfers." Direct government transfers that most often affect the public broadcasting entity include various types of grants, contracts or appropriations, including amounts made available by cooperative agreements. Indirect government transfers would include grants from CPB.

Each government transfer should be evaluated to determine if it represents a *contribution*, an *exchange transaction*, or an *agency transaction*. Generally, government transfers fulfill some legislative mandate and therefore may not meet the "voluntary" requirement of a contribution. However, the FASB has generally rejected arguments that categorically treat government transfers as exchange transactions.

To determine the proper accounting for government transfers it is first necessary to assess the extent of discretion the public broadcasting entity has over the use of the assets that are received. If the public broadcasting entity has little or no discretion, the transaction is likely to be an agency transaction. Agency transactions are pass-throughs of assets from resource providers to not-for-profit organizations that act as agents for the resource providers in transferring those assets to third-party recipients specified by the resource providers.

If the public broadcasting entity has discretion over the assets' use, the transaction is a contribution, an exchange, or a combination of the two. Assuming that the public broadcasting entity has discretion over the use of the transfer, the guidance presented on the following page should be used to determine the proper accounting treatment as either a contribution or an exchange transaction.

Classifying government transfers as contributions or as exchange transactions may require the exercise of judgment concerning whether a reciprocal transaction has occurred, that is, whether a public broadcasting entity will give up assets, rights, or privileges of approximately equal value to the assets, rights, or privileges received. CPB grants should be classified as contributions and not exchange transactions in that no direct value or specific performance is required from the public broadcasting entity in exchange. An equal value reciprocal transaction, on the other hand, would be recorded as an exchange transaction. Value should be assessed from both the public broadcasting entity's and the government's point-of-view and can be affected by a wide variety of factors. The public broadcasting entity may determine that a portion of the transfer should be recorded as a contribution, with the remainder accounted for as an exchange.

Grants and contracts also need to be reviewed to determine whether they represent unrestricted revenues, temporarily restricted revenues, or balance-sheet-only transactions. Regardless of the net asset classification, material government transfers should generally be reported separately from resources from private sources.

If the government transfer meets the definition of an exchange, unrestricted revenues are recorded as reimbursable expenses as incurred. This may result in recording a receivable for both uncollected and unbilled amounts. However, if cash is received in advance, it would be recorded as a liability until spent.

- ***Grants subject to annual awards***. For grants subject to annual awards, the institution should recognize revenue equal to grant expenditures, but only up to the amount of the grantor's legal commitment.

- ***Multiyear programs***. For multiyear programs that are awarded and appropriated for several years in advance, the institution should recognize revenue for grant expenditures that are reasonably expected to be reimbursed, despite any timing differences in the grantor's annual allocation of appropriations.

If the government transfer is an exchange funded by other than cost reimbursement, the underlying transaction must be investigated. For example, a contract may provide payment based upon the number of procedures performed or people interviewed. Under these types of agreements, revenue would be based upon the performance required (e.g., number of procedures performed, people interviewed). Other types of noncost reimbursement grants and contracts should recognize revenue on the percentage-of-completion method, (net profit or loss recognized, ratably over the term of the grant or contract) or on the completed-contract method (all *net* profit deferred until the end of the term).

If the government transfer meets the definition of a contribution, revenues should be recognized when the requirement of an unconditional promise to give is met. Generally, this will be when an agreement has been fully negotiated and signed off by both parties. If the award is to be funded over several years, the institution would have to assess whether the probability of program termination is remote or not. If not considered remote, the institution has a conditional promise that is not recorded as either a receivable or revenue. Matching grants should be accounted for as conditional contributions (not recorded) until the condition is met (generally, raising matching private funds).

3.4.2 Contributions Raised or Held for Others

In June 1999, FASB issued SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, which established standards for transactions in which a not-for-profit organization (such as a fundraising organization affiliated with a public broadcasting station or with its institutional licensee) or a charitable trust – *the recipient organization* – accepts assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to another entity (such as the public broadcasting entity itself) – *the beneficiary* – that is specified by the donor.

There are two broad types of transactions found in the not-for-profit environment that fall within the scope of the standard, namely:

- Transactions in which the public broadcasting entity solicits and receives funds for, or otherwise facilitates the transfer of assets to, another individual or entity. (**Recipient Organization Transactions**)

- Transactions in which a public broadcasting entity benefits from the fundraising efforts of another organization. (**Specified Beneficiary Transactions**)

In the first type of transaction, using the terminology of SFAS No. 136, the public broadcasting entity would be the recipient organization, and some other individual or entity would be the specified beneficiary.

In the second type of transaction, the public broadcasting entity is the specified beneficiary, and the organization raising funds is the recipient organization.

Recipient Organizations

This type of event occurs most often in public broadcasting when a public broadcasting entity solicits or accepts assets as production underwriting on behalf of an independent program producer for a program that is introduced into distribution among public broadcasters by the public broadcasting entity, which acts, for example, as a "presenting station" in the PBS National Program Service. This type of event would also typically occur when one public broadcasting entity solicits or accepts assets as production underwriting on behalf of other (*not* financially interrelated) public broadcasting entities.

SFAS No. 136 establishes, as a general rule, that a recipient organization that accepts assets from a donor and agrees to use those assets on behalf of or transfers those assets, the return on those assets, or both to a specified beneficiary is not a donee.

Accordingly, the recipient organization should recognize a liability to a specified beneficiary simultaneously with its recognition of *cash or other financial assets* received. If nonfinancial assets are received (e.g., supplies or equipment), the standard permits, but does not require, recognition of these assets and the corresponding liability to the specified beneficiary.

The standard contains two major exceptions to this general rule. Under either exception, the recipient organization is *considered to be a donee* and, accordingly, must recognize the transfer as a contribution.

The first of these exceptions arises in the situation where a donor explicitly grants the recipient organization variance power—the power to change the specified beneficiary of the gift. Generally, gifts made to community foundations are subject to the variance power. Often, colleges and universities are the specified beneficiaries of such gifts.

The second exception covers the situation where a recipient organization (that is not a trustee) and a specified beneficiary are *financially interrelated* organizations (but do not consolidate their financial positions and activities). Paragraph 14 of SFAS No. 136 spells out this exception as follows:

> *If a recipient organization and a specified beneficiary are financially interrelated organizations and the recipient organization is not a trustee, the recipient organization shall recognize a contribution received when it receives assets (financial or non-financial) from the donor that are specified for the beneficiary. For example, a foundation that exists to raise, hold, and invest assets for the specified beneficiary or for a group of*

affiliates of which the specified beneficiary is a member generally is financially interrelated with the organization or organizations it supports and recognizes contribution revenue when it receives assets from the donor.

Paragraph 13 of SFAS No. 136 indicates that for two entities to be financially interrelated, the relationship between them must have both of the following characteristics:

- One organization has the ability to influence the operating and financial decisions of the other.
- One organization has an ongoing economic interest in the net assets of the other.

The first requirement, the ability to influence the operating and financial decisions of another organization, may be demonstrated in several ways, namely:

- The organizations are affiliates.
- One organization has considerable representation on the governing board of the other organization.
- The charter or bylaws of one organization limit its activities to those that are beneficial to the other organization.
- An agreement between the organizations allows one organization to actively participate in policymaking processes of the other, such as setting organizational priorities, budgets, and management compensation.

Generally, the specified beneficiary has an ongoing economic interest in the recipient organization. Paragraph 13(b) of SFAS No. 136 describes such an interest as follows:

If the specified beneficiary has an ongoing economic interest in the net assets of the recipient organization, the beneficiary's rights to the assets held by the recipient organization are residual rights; that is, the value of those rights increases or decreases as a result of the investment, fundraising, operating, and other activities of the recipient organization.

Specified Beneficiaries

A public broadcasting entity would be a specified beneficiary, in the terminology of SFAS No. 136, most often when the recipient organization is, for example, a university or community foundation, the financial position and activities of which would not qualify for consolidation with those of the public broadcasting entity and which might not even meet the criteria for being financially interrelated with the public broadcasting organization.

The general rule of SFAS No. 136 is that a specified beneficiary shall recognize its rights to the assets (financial or non-financial) held by a recipient organization as an asset unless the recipient organization is explicitly granted variance power. Those rights, depending on the relationship with the specified beneficiary, are either an interest in the net assets of the recipient organizations, a beneficial interest, or a receivable. Where the specified beneficiary is financially interrelated with the recipient organization, SFAS No. 136 requires the specified beneficiary to recognize its interest in the net assets of the recipient organization.

Where a specified beneficiary has an unconditional interest in a perpetual trust or similar pool of assets, SFAS No. 136 reaffirms current GAAP as set forth in the *AICPA Audit and Accounting Guide Not-for-Profit Organizations*. The Not-for-Profit Guide requires that such a beneficial interest be recognized as an asset by the specified beneficiary at fair value using a valuation technique such as the present value of the estimated expected future cash flows (which is generally equal to the specified beneficiary's percentage interest in the fair value of assets held in the trust). Changes in the fair value of such an interest would be reflected in the Statement of Activities as a change in net assets by the specified beneficiary. In all other cases, the specified beneficiary should recognize its rights in assets held by the recipient organization as a receivable and contribution revenue in conformity with the provisions of SFAS No. 116 for unconditional promise to give. SFAS No. 116 requires that the receipt of most unconditional promises with payments due in future periods be classified as an increase in temporarily restricted net assets. SFAS No. 136 extends that rule to the classification of revenue and net assets of a specified beneficiary represented by their rights to assets held by recipient organizations.

Where the donor has explicitly granted the recipient organization variance power, SFAS No. 136 indicates that the specified beneficiary only recognizes revenue and an increase in net assets upon the receipt of assets transferred by the recipient organization. This is an important provision for those colleges and universities, which are beneficiaries of, designated funds held by community foundations, which in most cases have been granted variance power.

3.5 Fundraising Costs

Many public broadcasting entities solicit financial support from the public through a variety of membership and underwriting fundraising activities, including on-air pledging, direct mail solicitation, telephone solicitation, and special events. This section provides some specific guidance in accounting for those costs.

3.5.1 Accounting for Fundraising Costs

Fundraising costs, including the cost of special fundraising events, are incurred to persuade potential donors to make contributions to an organization and should be expensed as incurred. Fundraising costs incurred in one period, such as those made to obtain bequests, compile a mailing list of prospective contributors, or solicit contributions in a direct-response activity, may result in contributions that will be received in future periods. These costs also should be expensed as incurred.

3.5.2 Allocation of Fundraising Costs

Some activities within a not-for-profit organization are part fundraising as well as other functions. These are considered *joint activities*.

AICPA Statement of Position 98-2 (SOP 98-2) *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fundraising*, addresses how not-for-profit organizations should account for joint activities. Under SOP 98-2, *joint activities* are defined as follows:

> *An activity that is part of the fundraising function and has elements of one or more other functions, such as program, management and general,*

membership development, or any other functional category used by the entity.

All joint costs of informational materials or activities that include a fundraising appeal should be reported as fundraising expenses if it cannot be demonstrated that a program or management and general function has been conducted in conjunction with the appeal for funds. However, if a program or management and general function has been conducted in conjunction with a fundraising appeal and certain criteria are met, joint costs should be allocated between fundraising and the appropriate program or management and general function.

SOP 98-2 sets forth three criteria on which the accounting for joint activities should be based. These criteria – purpose, audience, and content – require careful consideration and evaluation.

Paragraph 16 of SOP 98-2 requires that:

The cost allocation methodology used should be rational and systematic, it should result in an allocation of joint costs that is reasonable, and it should be applied consistently given similar facts and circumstances.

Total fundraising expense should be disclosed either on the face of the statements or in the notes. Additionally, public broadcasting entities incurring joint costs of informational materials and activities that include fundraising appeals should disclose in their financial statements that such costs have been allocated, the total amount allocated during the period, and the portion allocated to each functional expense category.

3.6 Investments

In November 1995, FASB issued SFAS No.124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 124 provides that investments in equity securities with readily determinable fair values and all debt securities be reported at fair value in the appropriate net asset class. Investments not restricted by donors are to be reported as unrestricted net assets, even if an institution includes those investments as board designated funds functioning as endowment (i.e. quasi-endowment). Income from such investments (dividends, interest) is also to be reported as unrestricted, unless the donor has placed restrictions on that income. Unrealized gains and losses are to be recognized as well as realized gains and losses in the Statement of Activities. The statement also provides guidance on the net asset classifications of realized and unrealized gains and losses.

SFAS No. 124 does not apply to investments other than equity securities with readily determinable fair values or debt securities. It also does not apply to equity securities that are accounted for under the equity method or to investments in consolidated subsidiaries. SFAS No. 124 applies to covered investments, regardless of how the investments were acquired (e.g. in a purchase transaction or as a contribution).

3.6.1 Determining Fair Value

SFAS No. 124 requires that all equity securities with readily determinable fair values and that all debt securities be carried at fair value. Under SFAS No. 124, investments are recorded at acquisition cost if purchased and at a fair value if received as a contribution. According to SFAS No. 124:

> *The fair value of an asset is the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets is the best evidence of fair value and should be used as the basis for measurement, if available. Quoted market prices are easy to obtain and are reliable and verifiable. They are used and relied on regularly and are well understood by donors, creditors, and other users of financial information. (paragraph 58).*

Fair value is best determined as indicated above, by quoted market prices, if available. Initially, fair value would be determined by the acquisition cost, if purchased in an exchange transaction; fair value of contributed equity securities covered under SFAS No. 124 would be available by definition and fair value of contributed debt securities would be ascertained either through quoted market prices, if available, or through other means. According to paragraph 59 of SFAS No. 124:

> *Although quoted market prices are not available for all debt securities, the Board believes that a reasonable estimate of fair value can be made or obtained for the remaining debt securities required to be reported at fair value by this Statement. For debt securities that do not trade regularly or that trade only in principal-to-principal markets, the estimate of fair value should be based on the best information available in the circumstances. The estimate of fair value should consider market prices for similar debt securities and the results of valuation techniques include the present value*

of estimated expected future class flows using a discounted rate commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis. The Board realizes that estimating fair value may require judgment but notes that a considerable degree of judgment is also needed when complying with other long-standing accounting and reporting requirements.

3.6.2 Income

Investment income, such as dividends and interest, must be reported as income when declared and interest would be recognized, on the accrual basis, over time. As these investments are reported at fair value, amortization of premiums and discounts on debt securities would not be required, as such adjustments would be recognized through the adjustments of fair value.

Realized and unrealized gains and losses on investments covered by SFAS No. 124 are to be recognized. Unrealized gains and losses are reported for these investments when still held by the institution. Realized gains and losses are reported when the investments are sold or otherwise disposed of. The reporting of realized gains and losses would not include the previously recognized unrealized gains and losses. For example, a security, purchased for $100,000 was valued at $110,000 at the end of a reporting period, and $10,000 was recognized as an unrealized gain at that time. When the security was sold in the next reporting period for $115,000, a $5,000 realized gain would be recognized.

3.6.3 Net Asset Classification

Investments received by contribution would be reported as revenue in the appropriate net asset class (unrestricted, temporarily restricted, or permanently restricted). Contributed investments are to be reported as unrestricted unless the contributor has placed permanent or temporary restrictions on the use of the principal of the gift.

Investment income, such as dividends, interest, rents, and royalties, is to be recorded as revenue or gain in the unrestricted, temporarily restricted, or permanently restricted net asset class. Investment income should be reported as an increase in unrestricted net assets unless a donor has placed restrictions on the use (but not the expendability) of such income. If restrictions have been placed on the use of income from investments, a reclassification is made, transferring the resources to the unrestricted net asset class, when the restrictions are met.

Generally, gains and losses, both unrealized and realized, on investments would be reported as increases and decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by the contributor or by a law that extends a donor's restriction to those gains or losses. Users should be familiar with the provisions of relevant state law regarding both the classification of gains or losses, and the permitted spending rate on endowments.

When a donor specifies that a gift be invested in perpetuity or for a specified time, a donor restricted endowment fund has been created (permanently restricted for perpetual restrictions, temporarily restricted for specified time restrictions). Again, the general rule applies: unless a donor restriction or a law that extends the donor's restriction exists, then gains and losses would be reported as increases and decreases in unrestricted net assets. Some specific requirements are as follows:

- If a donor specifically indicates that gains and losses are a part of principal, then those gains and losses would be permanently restricted for a permanent endowment and temporarily restricted for a term endowment.
- A donor's restriction that specific investments must be held in perpetuity or for a specific period would result in a requirement that gains and losses are permanently restricted for a permanent endowment and temporarily restricted for a term endowment, respectively.
- In the absence of the two conditions above, if investment income from an endowment is temporarily restricted by a donor, then gains and losses on the investments would be reported as temporarily restricted.
- If investment income from an endowment is unrestricted, then gains and losses on the investments would be reported as unrestricted (again, in the absence of the first two conditions above).
- In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets. (SFAS No.124, paragraph 13)

3.6.4 Financial Reporting

Investments are to be reported in the Statement of Financial Position in conformity with the general requirements of SFAS No. 117, which requires that assets be sequenced either as current or non-current, in order of liquidity.

In the Statement of Activities, revenues resulting from contributed investments would be reported as increases in unrestricted, temporarily restricted, or permanently restricted, as appropriate. Revenues or gains resulting from investment income will be reported as increases in unrestricted net assets, unless donors have placed time or purpose restrictions on that income. Realized and unrealized gains and losses on investments are also reported as changes in unrestricted net assets, unless donor stipulations or legal requirements mandate reporting as restricted net assets. The Not-for-Profit Guide indicates that realized and unrealized losses may be netted against realized and unrealized gains, thus allowing an option in reporting. Finally, investment income and gains that are restricted may be reported as unrestricted if those restrictions are met in the same period as the income and gains are recognized, "provided the institution has a similar policy for recognizing contributions received, reports consistently from period to period, and discloses its accounting policy in the notes to the financial statements."[38]

[38] AICPA Audit and Accounting Guide *Not-for-Profit Organizations*, Chapter 8, paragraph 8.18.

If the organization manages its investments on a total return basis, it is still required to report all of its investment income and net appreciation in the Statement of Activities. However, the Not-for-Profit Guide specifically permits non-profit organizations to separate those amounts between operating and non-operating, with the operating portion generally being the amount determined by the spending rate. If this is done, the following disclosures are required:

- The composition of investment return including, at a minimum, investment income, net realized gains or losses on investments reported at other than fair value, and net gains or losses on investments reported at fair value

- A reconciliation of investment return to amounts reported in the statement of activities if investment return is separated into operating and non-operating amounts, together with a description of the policy used to determine the amount that is included in the measure of operations and a discussion of circumstances leading to a change, if any, in that policy.[39]

In the Statement of Cash Flows, cash receipts from dividends and interest that are unrestricted are included in cash receipts from operations. However, SFAS No.117 amended SFAS No. 95, *Statement of Cash Flows*, to require that investment income restricted to long-term purposes would be reported as cash flows from financing activities. This would include investment income that is required to be reinvested and investment income that is restricted to investment in property, plant, and equipment.

3.6.5 Disclosure Requirements

For the Statement of Activities, SFAS No. 124 requires:

- The composition of investment return including, at a minimum, investment income, net realized gains or losses on investments reported at other than fair value, and net gains or losses on investments reported at fair value.

- A reconciliation of investment return to amounts reported in the statement of activities if investment return is separated into operating and non-operating amounts, together with a description of the policy used to determine the amount that is included in the measure of operations and a discussion of circumstances leading to a change, if any, in that policy.

For the Statement of Financial Position, SFAS No. 124 requires:

- The aggregate carrying amount of investments by major types, for example, equity securities, U.S. Treasury securities, corporate debt securities, mortgage-backed securities, oil and gas properties, and real estate.

- The basis for determining the carrying amount for investment other than equity securities with readily determinable fair values and all debt securities.

- The method(s) and significant assumptions used to estimate the fair values of investments other than financial institutions if those investments are reported at fair value.

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[39] AICPA Audit and Accounting Guide *Not-for-Profit Organizations*, Chapter 8, paragraph 8.24.

- The aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at the reporting date is less than the level required by donor stipulation or law.

- For each period in which a Statement of Financial Position is presented, the organization should disclose the nature of and carrying amount for each individual investment or group of investments that represents a significant concentration of credit risk or market risk.

3.7 Program Production

This section provides guidance on accounting for program production revenue by public broadcasting entities.

3.7.1 Independently Funded Program Production

When the funding for a program or series is in part or in its entirety underwritten by sources independent of the broadcaster, the relationship for accounting purposes is essentially that of a performance-type contract, and therefore should be accounted for under the percentage-of-completion or completed-contract methods of accounting. In such instances, the broadcaster has entered into an agreement or agreements with one or more funding parties to produce a program or series of programs for future airing and/or distribution to others. Independent sources of funding may include direct grants, contributions, or other funds restricted to the direct support of specified programming. For financial reporting purposes, independent sources of funding do not include designations of member donations or other unrestricted station resources allocated to fund specific programming. These other funds are often used to supplement specific program grants, but do not constitute a performance-type contract subject to the accounting specified in SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*.[40] When accounting for productions supported by unrestricted or nonprogram-specific funds, the guidance under the next subsection should be followed.

Determining a Basic Accounting Policy for Contracts

In accounting for performance contracts, the basic accounting policy decision is the choice between the two generally accepted methods: percentage-of-completion method and the completed-contract method. The determination of which of the two methods is preferable should be based on a careful evaluation of circumstances; because the two methods are *not* acceptable alternatives for the same circumstances. As a result of evaluating individual contracts, a contractor should be able to establish a basic policy to follow in accounting for most contracts. In the notes to the financial statements on accounting policies, public broadcasting entities should disclose the method or methods of determining revenue and programming expenses related to production contracts.

Percentage-of-Completion Method

Appropriate use of the percentage-of-completion method depends on the station's ability to make reasonably dependable estimates of the extent of progress toward completion, total contract revenues (funding), and contract costs (final programming expense). The percentage-of-completion method is preferable as an accounting policy in circumstances in which reasonably dependable estimates can be made and in which all the following conditions exist:

- Agreements executed by the parties include provisions that clearly specify enforceable rights regarding services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement.

[40] SOP 81-1, Accounting *for Performance of Construction-Type and Certain Production-Type Contracts.*

- The funding sources can be expected to satisfy their obligations under the contract.
- The broadcasters can be expected to perform their contractual obligations.

An entity without the ability to update and revise estimates continually with a degree of confidence would not meet the essential requirement of making reliable estimates. If costs are incurred in advance of an executed agreement in anticipation of a programming contract, such costs should be accounted for as *preproduction costs*. For a contract that was expected to fully fund a given production for which loss is anticipated, generally accepted accounting principles require recognition of the entire anticipated loss as soon as the loss becomes evident.

An entity using the percentage-of-completion method as its basic accounting policy should use the completed-contract method for a single contract or a group of contracts for which reasonably dependable estimates cannot be made or for which other inherent uncertainties make estimates questionable. Such a departure from the basic policy, if material, should be disclosed.

Completed-Contract Method

Under the completed-contract method, revenue is recognized only when a production is completed or substantially completed. During the production period, funding received and related costs are accumulated on the balance sheet as deferred revenues and inventory of programming.

All revenue and expense related to the production should be recognized in the period in which *all* of the following conditions are met:

- The programming is available for airing
- The programming has been accepted by all funding or other third parties that possess contractual rights to review the material prior to airing
- No conflicting license agreements prevent the programming from being aired immediately

Circumstances of Use

In general, the use of the completed-contract method is recommended for circumstances where levels of profit or loss on productions are not readily determinable. However, for circumstances in which there is an assurance that no loss will be incurred on a production, the percentage-of-completion method based on a zero profit margin, rather than the completed-contract method, is recommended. The significant difference between the percentage-of-completion methods applied on the basis of a zero profit margin and the completed-contract method relates to effects on the operating statement. Under the zero profit margin approach to applying the percentage-of-completion method, equal amounts of revenue and cost, measured on the basis of performance during the period, are presented in the statement of activities; whereas under the completed-contract method, performance for a period is not reflected in the statement of activities, and no amount is presented in the statement of activities until the production is completed. The zero profit margin approach to applying the percentage-of-completion method gives users of general-purpose financial statements an indication of the volume of the broadcaster's program production activity and of the use of its economic resources.

The completed-contract method may be used as a broadcaster's basic accounting policy, even if the criteria *are met* for using the percentage-of-completion method, if financial position and results of operation would not vary materially from those resulting from use of the percentage-of-completion method (for example, when an entity has primarily short-term production agreements). Although generally accepted accounting principles do not formally distinguish on the basis of length between long-term and short-term contracts, the basis for recording revenue on contracts of short duration poses relatively few problems. In accounting for such productions, revenue ordinarily is recognized when performance (programming) is substantially complete and accepted. Under those circumstances, revenues and costs in the aggregate for all contracts would be expected to result in a matching of revenues with the period overhead or fixed costs similar to that achieved by use of the percentage-of-completion method. The completed-contract method is also *preferable* in circumstances in which accounting estimates cannot meet the criteria for reasonable dependability discussed above. An entity using the percentage-of-completion method as its basic accounting policy should depart from the policy and use the completed-contract method for productions that individually do not meet the criteria required for the percentage-of-completion method.

Combining Contracts

A series of productions may be so closely related that they are, in effect, parts of a single project, and accounting for the programs individually may not be feasible or appropriate. Under those circumstances, consideration should be given to combining such productions for revenue recognition purposes.

A series of programs to be produced may be combined for accounting purposes if the contracts:

- Are negotiated as a package with the same funding source or sources
- Constitute in essence an agreement to perform a single project
- Require closely interrelated production activities with substantial common costs that cannot be separately identified with, or reasonably allocated to, specific programs
- Are performed concurrently or in a continuous sequence under the same project management

Contracts that meet all of these criteria may be combined for revenue recognition and for determining need for a provision for losses. The criteria should be applied consistently to contracts with similar characteristics in similar circumstances.

Segmenting Contracts

Programming agreements often separately specify funding for various phases of a production effort. Although the level of detail budgeting and reporting of costs required by funding sources will vary, amounts are, at a minimum, generally designated by the sponsor to separately fund the production and promotion phases. Such budgetary designations should not give rise to separate accounting or "segmenting" of the contract for revenue and profit recognition purposes. A programming agreement may be "segmented" (divided for revenue recognition purposes) only if:

(1) The producing broadcaster submitted proposals on separate phases of the production effort, and
(2) The sponsor/funding sources had the right to accept the proposals individually or in total.

Many funding sources will permit a "profit" that is realized on the production phase to be added to the original promotion budget for the same production. Regardless of whether a production qualifies to be segmented for accounting purposes, the producing broadcaster should consider whether a sponsor will request return of funds for any phase that is completed "under budget." If such liabilities are probable and estimable, they should be accrued in the period in which they become evident.

Measuring Progress on Production Contracts

Under the percentage-of-completion method, meaningful measurement of the extent of progress toward completion is essential since this factor is used in determining the amounts of estimated contract revenue and expense recognized in any given period.

In practice, most broadcasters measure the status of program production based on the extent of total expenses incurred to date relative to budgeted or total estimated expenses. In most instances, this measure will be the most appropriate measure of progress toward completion for purposes of recognizing revenue and expense for a reporting period under the percentage-of-completion method. However, in connection with measuring progress towards completion, stations must consider the production's estimated cost to complete to ensure identification of any losses subject to accrual.

If a broadcaster believes that some measure other than cumulative expenses better represents the progress of the production effort (such as cumulative direct labor hours or direct labor expense) then such measures may be used. The method of measuring progress toward completion must be applied consistently from period to period. If significant capital expenditures are incurred early in the production phase *that have no use except for the related production,* such amounts should be considered programming costs. However, they should be excluded from the cumulative costs and total estimated costs in determining the percentage-of-completion used to record earned revenue, if such inclusion would otherwise significantly distort the true progress of the production. Capital expenditures with significant use beyond the production for which they are initially acquired should be treated as fixed assets and depreciated rather than included in programming costs.

Estimated Cost to Complete

As already noted, the estimated cost to complete is a significant variable in the process of determining revenue earned and is thus a significant factor in accounting for programming contracts. Current estimates may be determined in a variety of ways, and may or may not vary from the original estimate. The following practices should be followed:

- Systematic and consistent procedures that are correlated with the cost accounting system should be used to provide a basis for periodically comparing actual and estimated costs.
- In estimating total production costs, the quantities *and* prices of all significant elements of cost should be identified.

Elements of Production Costs

Production costs encompass all costs required to either purchase or produce a program, public television or radio, including as appropriate the production medium, stories and scenarios;

salaries of cast, directors, producers, extra talent, engineers, technicians, stagehands, and miscellaneous staff; cost of set construction and operations, props, wardrobe, and all accessories; cost of sound synchronization, lighting, depreciation, and amortization of studio equipment and leasehold improvements; and rental of facilities. It is appropriate to use allocation methods in determining amounts to be accounted for as production costs if the methods result in a systematic and rational assignment of costs to all programs produced during the period. Production costs do not include management and general expenses or other costs of supporting activities as defined in these *Principles*. Advances and guaranteed amounts paid to independent producers should be accounted for as program costs and the related liability recorded for guarantees.

The cost of program inventories may include expenditures for program rights to books, stage plays, original screenplays, musical scores, etc. If stories and scenarios are adapted to the production techniques for a program, the cost of the adaptation should be added to the inventory cost of the particular program. Unless such program materials are acquired for a specific planned production, related costs should be expensed when incurred. Similarly, research and development costs not incurred in connection with a specific planned future production should be charged to expense when incurred.

Preproduction Costs

In practice, broadcaster may incur costs in anticipation of future programming in a variety of circumstances. Preproduction costs are often incurred in connection with the performance of a major production. In some circumstances, follow-on or future programming from the same funding source is anticipated. Such costs may include labor, overhead, rework, or other costs.

The following guidance should be followed in accounting for preproduction costs:

- Costs that are incurred for a specific anticipated production and that will result in no future benefit unless the contract is obtained should not be included in contract costs or inventory before the receipt of the contract. However, such costs may be otherwise deferred, subject to evaluation of their probable benefit, if the costs can be directly associated with a specific anticipated contract and if their recoverability from that contract is probable.

- Costs incurred for assets such as the purchase of production equipment, materials or supplies that are expected to be used in connection with specific anticipated contracts may be deferred outside the contract cost or inventory classification if their recovery from future production funding or from other dispositions of assets is probable.

- Learning or start-up costs incurred in connection with current programming and in anticipation of follow-on or future programming should be charged entirely to existing contracts. A direct relationship between such costs and the anticipated future programming is difficult to establish, and the receipt of future program funding generally cannot reasonably be anticipated.

- Costs appropriately deferred in anticipation of a contract should be included in contract costs on the receipt of the anticipated contract.

- Costs related to an anticipated contract that are charged to expenses as incurred because their recovery is not considered probable should not be restated by a credit to income on the subsequent receipt of the contract.

Ability to Produce Reliable Cost Estimates

Broadcasters with significant ongoing production operations generally have the ability to produce reasonably dependable estimates, and for such stations the percentage-of-completion method of accounting is preferable in most circumstances. The method should be applied to individual programs or series, as appropriate, based on the specifics of the funding agreement (see subsection “Combining Contracts” above).

Instances arise where some level of “profit” is anticipated on funded productions. However, a broadcaster may only be able to reliably estimate total funding and costs in ranges of amounts. If, based on the information arising in estimating such ranges, the broadcaster can determine the amounts in the ranges that are most likely, those amounts should be used in accounting for the contract under the percentage-of-completion method.

In many circumstances, estimating the ultimate costs precisely may be impractical, except to ensure that no loss will be incurred. In those circumstances, a broadcaster should use a zero estimate of profit; with equal amounts of revenue and cost recognized in the financial statements until results can be estimated more precisely. A change from a zero estimate of profit to a more precise estimate should be accounted for as a change in an accounting estimate. If some level of profit is anticipated but under the terms of the agreement must be returned to the grantor, a liability should be accrued for any excess of revenue over costs in applying the percentage-of-completion method.

The ability to produce reasonably dependable estimates depends on the procedures and personnel that provide financial or production information on the status of programming contracts. It encompasses systems and personnel not only within the accounting department but of all areas of the grantee that participate in production control, cost control, administrative control, or accountability for programming. Previous reliability of a broadcaster’s estimating process is usually an indication of continuing reliability, particularly if the present circumstances are similar to those that prevailed in the past.

Estimating is an integral part of any contractor’s operating activities, and it is always necessary to revise estimates on contracts continually as the work progresses. The fact that circumstances may necessitate frequent revision of the estimates does not indicate that the estimates are unreliable for accounting purposes in selecting a basic policy for contracts.

Change in Accounting Methods

An accounting change to either the completed-contract method or to the percentage-of-completion method should be made retroactively, if material, by restating the financial statements of prior periods using available historical information. If restatement is impractical, the cumulative effect on the fund balance at the beginning of the period in which the method is first applied should be included in determining excess of revenues over expenses for that period.

Provisions for Anticipated Losses on Contracts

If a production is initially *fully* underwritten by third parties but current estimates of production costs indicate a loss, a provision for the entire loss on the contract should be made. Provisions for losses should be made in the period in which they become evident under the percentage-of-completion method or the completed-contract method. The loss need not be recognized if it can be demonstrated that it is *probable* that additional third-party underwriting *specific to the production* will be obtained. The costs used in arriving at the estimate loss on a contract should include all costs of the type otherwise allocable to production.

If a production is funded *in part by* independent sources but also substantially by the producing broadcaster's unrestricted funds (for this purpose, unrestricted funds would include monies restricted to support programming in general, but not dedicated to a specific production) then only the independently funded portion should be accounted for under performance-type contract accounting. If costs are subsequently estimated to exceed original estimates in these circumstances, no provision for losses is generally appropriate. Although a greater proportion of the production costs must, as a result, be internally funded, these cost "overruns" do not result in a liability subject to accrual. The revised cost estimates should, however, be used to measure the progress towards completion if the percentage-of-completion method is used for the independent funding. For such jointly funded productions, the independent funding should be considered earned (recognized as revenue) to the extent of progress towards completion of the production as a whole.

The provision for loss arises because estimated cost for production contracts exceeds estimated revenue. Consequently, the provision for loss should be accounted for in the statement of activities as an additional contract cost rather than as a reduction of contract revenue, which is a function of the total available funding, not cost.

Provisions for losses on contracts should be shown separately as liabilities on the statement of financial position, if significant, except when related costs are accumulated on the statement of financial position, in which case the provision may be deducted from the accumulated costs. In a classified statement of financial position, a provision shown as a liability should be shown as a current liability.

Capitalization of Interest

If a producing broadcaster incurs significant interest costs (whether or not incurred to fund programming activities), interest should be capitalized, if material, as an element of production costs in conformity with SFAS No. 34, *Capitalization of Interest*. Because interest expense is otherwise recognized as a period expense, its inclusion as a contract cost under *either* revenue recognition method is generally immaterial, unless productions span several years and the producing broadcaster incurs *significant* interest costs.

3.7.2 Productions Not Independently Funded

When a public broadcasting entity undertakes programming production without either full or partial underwriting of the production costs, the entity generally assumes greater risk as to the ultimate recovery of such costs. Many public broadcasting entities “self-fund” such productions because outside funding is either unavailable or may be available under terms the broadcaster deems unduly restrictive. Such programming is funded from restricted funds available to pay for programming generally or unrestricted funds designated by management or the governing board to support programming efforts.

Production activities funded internally by the broadcaster generally do not involve a contractual commitment to provide a product or service to or on behalf of a “customer” or independent funding party. Therefore, contract accounting for production costs is not appropriate in such circumstances; however the producing entities should have some other means of tracking the costs of these production activities. Existing GAAP for commercial motion picture producers provide appropriate accounting guidance for production costs and related revenues in these circumstances.[41]

In general, production costs are capitalized as inventory as long as their recoverability is reasonably assured. Revenues, if any, should not be recognized until licensing agreements are in place, and *each* of the following criteria are met:

(1) The license period has commenced.
(2) The license fee of each program is known.
(3) The cost of each program is known or reasonably determinable.
(4) Collectibility of the full license fee is reasonably assured.
(5) The program has been accepted by the licensee in accordance with the conditions of the license agreement.
(6) The program is available for its first airing. Unless a conflicting license prevents usage by the licensee, restrictions under the same license agreement or another license agreement with the same licensee on the timing of subsequent airings do not affect this condition.

The amount of revenue (license fee) for each program ordinarily is specified in the contract, and the present value of that amount, computed in conformity with the provisions of APB Opinion 21, *Interest on Receivables and Payables* should be recognized as revenue when each of the conditions above are met.

Production costs capitalized relating to specific programming should be amortized so that current amortization expense bears the same ratio to total capitalized program costs as current gross revenues bear to anticipated total gross revenues. If the program is to be aired locally but not licensed, costs should be amortized over the expected number of broadcasts.

[41] SFAS No. 63. *Financial Reporting by Broadcasters.*

Revenue from Licensing Agreements

Ordinarily, when the conditions specified above for recognizing licensing fees are met, both the licensee and licensor (producer) are contractually obligated under a noncancellable license agreement and are able to perform in compliance with all the significant terms of the license agreement. If significant factors raise doubt about the obligation or ability of either party to perform under the agreement, revenue recognition is delayed until such factors no longer exist. Insignificant factors, such as the actual delivery of program material, are not a sufficient basis for delaying revenue recognition.

Due to the uncertainties of the estimating process, anticipated total gross revenue may vary from actual total gross revenues. Estimates of anticipated total gross revenues are reviewed periodically and revised when necessary to reflect more current information. When anticipated total gross revenues are revised, a new denominator is determined to include only the anticipated total gross revenues from the beginning of the current year; the numerator (actual gross revenues for the current period) is not affected. The revised fraction is applied to the unrecovered film costs (production and other capitalized film costs) as of the beginning of the current year.

Participations

If it is anticipated that compensation will be payable under a participation agreement, including residuals, the total expected participation shall be charged to expense in the same manner as amortization of production costs, that is, in the same ratio as current gross revenues bear to anticipated total gross revenues.

Program Valuation

Unamortized production costs should be compared with their net realizable value each reporting period on a program-by-program basis. If estimated future gross revenues are not sufficient to recover the unamortized costs, other direct distribution expenses, and participations, the unamortized costs shall be written down to net unrealizable value. Program costs that are written down to net realizable value during a fiscal year may be written back up during that same fiscal year in an amount not to exceed the current year write-down, if the producer increases the estimate of future gross revenues. Program costs that are reduced to net realizable value at the end of a fiscal year are not to be written back up in subsequent fiscal years.

3.8 Financial Reporting for a Not-for-Profit Public Broadcasting Entity

3.8.1 Overview of Reporting Requirements

Public broadcasting entities must submit to CPB financial statements prepared in conformity with GAAP. **The financial statements submitted to CPB should be those of the grant recipient and not solely those of the licensee. Stand-alone financial statements should be submitted to CPB, even if that broadcasting entity reports to a parent organization.** Public broadcasting entities that provide biennial financial statements must provide CPB with an annual breakout of finances, either in side-by-side presentation or in separate financial statements.

SFAS No.117, *Financial Statements of Not-for-Profit Organizations,* is the primary authoritative guidance covering the presentation of financial statements for not-for-profit organizations. Because of the significance of this pronouncement to the reporting requirements of the nongovernmental public broadcasting entities, this section presents a summary of some of the more significant provisions. Illustrated financial statements of a public broadcasting entity and examples of notes that typically accompany the financial statements of a public broadcasting entity are shown at the end of this section.

3.8.2 Purpose and Required Components of Financial Statements

The primary purpose of financial statements, including accompanying notes, is to provide information about the following:

- The amount and nature of an organization's assets, liabilities, and net assets
- The effects of transactions and other events and circumstances that change the amount and nature of net assets
- The amount and kinds of inflows and outflows of economic resources during a period and the relation between the inflows and outflows
- How an organization obtains and spends cash, its borrowing and repayment of borrowing, and other factors that may affect its liquidity
- The service efforts of an organization[42]

A complete set of financial statements of a not-for-profit organization shall include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and accompanying notes to financial statements.[43] Examples of each of these are provided at the end of this section.

SFAS No. 117 specifies certain basic information to be reported in financial statements of not-for-profit organizations. Its requirements generally are no more stringent than requirements for business enterprises. A set of financial statements includes, either in the body of financial statements or in the accompanying notes, the information required by GAAP *that is not*

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[42] SFAS No. 117, paragraph 5
[43] SFAS No. 117, paragraph 6

specifically exempt for not-for-profit organizations and is required by applicable specialized accounting and reporting principles and practices.[44]

The degree of aggregation and order of presentation of items of assets and liabilities in statements of financial position or of items of revenues and expenses in statements of activities of not-for-profit organizations, although not specified by SFAS No. 117, generally should be similar to those required or permitted for business enterprises.[45]

3.8.3 Comparative Financial Statements

Financial statements of the current period should show totals of all classes of net assets and be presented with comparative totals from the financial statements for the prior reporting period. However, where it is intended to present financial statements of the prior period as well as the current period in conformity with generally accepted accounting principles, care must be taken that there is sufficient disclosure of restrictions in the summarized comparative totals and in the supporting notes.

Although comparative financial statements are encouraged but not required under FASB GAAP, CPB has long required them from public broadcasting entities unless prior approval is obtained for their omission.

3.8.4 Statement of Financial Position

The primary purpose of a statement of financial position is to provide relevant information about an organization's assets, liabilities, and net assets and about their relationships to each other at a moment in time. The information provided in a statement of financial position, used with related disclosures and information in other financial statements, helps donors, members, creditors, and others to assess:

- The organization's ability to continue to provide services
- The organization's liquidity, financial flexibility, ability to meet obligations, and needs for external financing[46]

SFAS No. 117 requires that certain minimum information be shown either on the face of the statement of financial position or in the accompanying notes. Unless special permission is granted by CPB, comparative statements are required. Required information includes:

- Total amount of assets, liabilities, and net assets
- The total amount of each class of net assets–unrestricted, temporarily restricted, or permanently restricted
- Information about restrictions on net assets
- Information about liquidity

[44] SFAS No. 117, paragraph 7
[45] SFAS No. 117, paragraph 8
[46] SFAS No. 117, paragraph 9

CPB established the following principles in 1990, which continue to remain in effect:

- Fixed Assets
- Interfund Borrowings
- Designations of Fund Balances
- Licensed Programming
- Amortization of Purchased Programming
- Program Valuation
- Endowment and Similar Funds
- Gifts of Future Interests

Fixed Assets

Purchased fixed assets should be capitalized at cost. Donated fixed assets should be recorded at their fair value at the date of the gift. Entities that have not previously capitalized their fixed assets should do so retroactively. If historical costs are unavailable for assets already in service, another reasonable basis may be used to value the assets. Other bases might be appraisals based on replacement cost or property tax assessments. An alternative basis should be used only if historical cost information is unavailable and only to establish a value at the date the public broadcasting entity adopts this accounting principle.

Subsequent additions should be recorded at cost (fair value for donated assets). The basis of valuation and amount of any assets pledged to secure outside borrowings should be disclosed in the financial statements.

Various public broadcasting entities are provided fixed assets by their licensee. Fixed assets in such instances must be reported in the financial statements of the broadcasting entity if they were acquired specifically for *or* are used primarily for the operation of the station. Such assets should be reported on the balance sheet regardless of whether the station or licensee holds title to the asset or whether the station is required to pay for the use of the asset. Contributed fixed assets in such instances should be accounted for as both property on the balance sheet and a capital addition on the statement of financial activity. Depreciation of fixed assets is required over the useful lives of each asset or asset class.

Interfund Borrowings

On rare occasions, a governing board may authorize borrowings from restricted or endowment funds. The entity should determine whether interest should be accrued. Interfund borrowings should be considered permanent and recorded as transfers if it becomes evident that contemplated sources or funds for repayment are not readily available. There may be legal prohibitions against lending such funds and against recording such transfers. If so, appropriate disclosure should be made.

Designations of Fund Balances

The governing board may designate a portion of an unrestricted fund balance for a specific purpose. The designation is a proper managerial function of the board and should be disclosed if material on the balance sheet and explained in notes to the financial statements. However, such designations of fund balances are not expenses and should not be shown as such in the statement of activities.

Licensed Programming

Broadcast rights for programs or a series of programs produced for public radio or television may be sold by producers or distributors to broadcasters for airing under contract. These agreements generally allow one or more airings of each program in the package. However, certain licenses permit unlimited airings during a specified period. Fees stipulated in the agreement are usually payable in installments over a period that is generally shorter than the period of the licensing agreement.

The broadcaster (licensee) should account for a license agreement for program material as a purchase of a right or group of rights.

The broadcaster records an asset and a liability for rights acquired and obligations incurred under a license agreement when the license period begins and all of the following conditions have been met:

- The cost of each program is known or reasonably determinable.
- The program material has been accepted by the licensee in accordance with the condition of the license agreement.
- The program is available for its first broadcast. Except when a conflicting license prevents usage by the broadcaster, restrictions under the same license agreement or another license agreement with the same licensor on the timing of subsequent airings shall not affect this availability condition.

The asset shall be segregated on the balance sheet between current and noncurrent based on estimated time of usage. The liability shall be segregated between current and non-current based on the payment terms of the license agreement.

A broadcaster licensee shall report the asset and liability for a broadcast license agreement either (1) at the present value of the liability calculated in conformity with the provisions of APB Opinion No. 21, *Interest on Receivables and Payables,* or (2) at the gross amount of the liability. If the present value approach is used, the difference between the gross and net liability shall be accounted for as interest in conformity with Opinion 21.

Amortization of Purchased Programming

The capitalized costs to be amortized of licensed programming should be allocated to individual programs within a package on the basis of the relative value of each to the broadcaster, which ordinarily is specified in the contract. The capitalized costs should be amortized based on the estimated number of future airings, except that licenses providing for unlimited airings may be amortized over the period of the agreement because the estimated number of future airings may not be determinable.

Feature programs should be amortized on a program-by-program basis. However, amortization as a package may be appropriate if it approximates the amortization that would have been provided on a program-by-program basis. Program series and other syndicated products shall be amortized as a series. If the first airing is more valuable to a station than subsequent broadcasts, an accelerated method of amortization shall be used. However, the straight-line amortization method may be used if each airing is expected to be of equal value to the station. Generally, estimated revenues will be the primarily indicator of expected value of future airings. Management may elect to use other systematic methods of amortization if the results would not vary materially from the use of the methods outlined above.

If a licensee determines that the benefit derived after initial broadcast is negligible or not susceptible to reasonable estimation, the entire costs should be charged to expense when the program is first broadcast.

Program Valuation

The capitalized costs of rights to program materials shall be reported in the balance sheet at the lower of unamortized cost or estimated net realizable value on a program-by-program, series, or package basis, as appropriate. This guidance should be followed regardless of the method of program acquisition – licensed or produced.

If a management's expectations of the programming usefulness of a program, series, or package are revised downward, it may be necessary to write down unamortized cost to estimated net realizable value. A write-down from unamortized cost to a lower estimated net realizable value establishes a new cost basis.

Endowment and Similar Funds

The endowment and similar funds generally includes resources classified as endowment funds, term endowment funds, and annuity and life income gifts. The following concepts guide the financial accounting and reporting of endowment and similar funds.

Endowment funds are those for which donors or other external agencies have stipulated under the terms of the gift instrument creating the fund that the principal of the fund is not expendable – that is, it is to remain inviolate in perpetuity and is to be invested for the purpose of producing present and future income, which may be expended or added to the principal.

Term endowment funds are like endowment funds, except that all or part of the principal may be utilized after a stated period of time or upon the occurrence of a certain event.

Funds designated by the governing board of a station, rather than a donor or other external agency, are not endowment funds but board designations of unrestricted or restricted funds. Since these funds are not required by the donor to be retained and invested, the principal – as well as the income – may be totally utilized at the discretion of the governing board, subject to any donor-imposed restrictions on use.

Prevailing legal opinion in some states holds to the trust fund theory in which the endowment "principal" is construed to include not only the original value of the fund when initially established and subsequent enhancements by additional donations, but also the appreciation in value of investments of the fund.

To the contrary, other legal opinions and jurisdictions hold to the corporate law concept, under which all gains and losses in the value of endowed investments are treated as income transactions, and therefore as an adjustment to yield and available for operations as income. A substantial number of states have adopted the model Uniform Management of Institutional Funds Act, which permits the prudent use of appreciation in the value of investments.

Most organizations only consider traditional investment yield (dividends, interest, rents, royalties, and the like) as income available for the endowment's specified purpose, and exclude from that category capital appreciation on investment transactions. This follows the classical trust or fiduciary accounting principle.

Stations should report any appreciation utilized from investments of endowment and similar funds as a transfer from the endowment fund to the fund expending these resources. Sales and purchase commissions should be netted against endowment income before allocation to individual funds.

When endowment funds are invested in real estate, the income should be reported on a net basis after allocating all costs of operating and managing the properties.

Income from investments of endowment and similar funds should be reported, depending on specification of the gift instrument, within restricted current funds as deferred support, deferred capital support in the plant fund, or a capital addition to endowment, if required to be reinvested.

If no restrictive specifications are made by the donor, endowment income should be reported as unrestricted revenue.

Each endowment and similar fund should be accounted for separately. Each fund should have its own cash and investments accounts, unless the assets are pooled with the assets of another fund, in which case the fund should hold shares in the pool. Funds must be invested separately if required by the terms of the gift instrument.

Liabilities of endowment funds consist of any form of indebtedness against the assets representing investments, as well as amounts due to other fund groups.

Capital additions to the balances of endowment funds consist of gifts and bequests restricted to endowment, income required to be added to principal by the gift instrument, and gains and losses on investments. Fundraising expenses should not be charged against gift principal unless they relate directly to the proceeds of a campaign, and the advice of counsel has been received. If so charged, the expenses should be reported as separate deductions, if material, and not netted against capital additions.

Upon termination, the unrestricted principal of term endowments should be clearly identified and disclosed as a transfer of fund balance, so that there is no inference that a new gift has been received. If the gift instrument specifies that the principal be restricted to a fund other than unrestricted, a transfer to deferred support should be recognized by that fund.

Both types of funds – endowment and term endowment – should be reported in the endowment and similar funds section of the balance sheet and the identity of the two types should be clearly differentiated in the fund balance section. Fund balances in this group may be further subdivided according to the manner in which the income from their investments may or must be used.

Gifts of Future Interests

Donors sometime make gifts of future interests. Such gifts usually are accounted for as annuity funds or life income funds. These funds generally result from planned-giving arrangements under which a donor places a gift corpus in the custody of a donee organization, such as a station. In return, the donor retains a life interest in the realized investment return produced by the principal amount (life income fund) or an agreed-upon fixed return (annuity fund). Termination of the agreement, often at the death of the donor or his/her beneficiary, generally provides for reversion of the principal to the donee organization.

At the date of the gift, the present value of the estimated liability resulting from an annuity gift should be recorded, based on the donor's life expectancy. Any excess in the amount of the annuity gift over the recognized liability should be recorded as support in the year of the gift if the principal may be expended immediately as general support. If not immediately expendable, the excess should be reported as deferred support. The principal amount of life income gifts, in which the donor reserves the right to all income generated from the gift for life should be entirely recorded, as deferred support in the balance sheet in the period the gift is received. Amounts previously recorded as deferred support should be reflected as support or a capital addition at the future date when the terms of the annuity or life income gifts have been met.

Annuity and life income funds should be separately identified in the endowment and similar funds group. If significant in amount, these funds should be reported in a separate fund group. Funds should not be included in the balance sheet if they are held in trust by others under a legal trust instrument created by a donor independently of the reporting entity and are neither in the possession nor under the control of the entity, but are held and administered by outside fiscal agents with the public broadcasting entity deriving income from such funds. (The funds contemplated by this paragraph are those of which the public broadcasting entity is not the ultimate beneficiary of any principal amount.) The existence of such funds "held in trust by others" should be disclosed either parenthetically in the endowment funds groups in the balance sheet or in the notes to the financial statements. Significant income from such trusts should be reported separately.

Assets, Liabilities, and Net Assets

The statement of financial position should focus on the reporting entity as a whole.[47] The total amount of assets, liabilities, and net assets as well as the balance for each class of net assets must be displayed on the face of the financial statement. Information about assets and liabilities is generally provided by aggregating items that possess similar characteristics into reasonably homogenous groups, such as cash and cash equivalents, accounts payable, and land, building, and equipment.

[47] SFAS No. 117, paragraph 10.

Classes of Net Assets

Net assets are displayed in three classes initially set forth in Statement of Financial Accounting Concepts (SFAC) No. 6, *Elements of Financial Statements*: permanently restricted, temporarily restricted, and unrestricted.[48] Restrictions on net assets arise solely from donor-imposed restrictions.[49]

[48] SFAC No. 6, paragraphs 11-13,18,19, and 52.
[49] SFAS No. 117, paragraph 13.

A brief description of each of the three classes of net assets is provided below:

- *Permanently restricted net assets* result from donor-imposed restrictions which stipulate that the resources be maintained permanently. However, the public broadcasting entity may expend all or part of the income or other economic benefits derived from the donated assets. Permanently restricted net assets arise primarily from contributions. Changes in this class of net assets result generally from gains or losses on investment transactions (if they must be retained permanently), income from investments that must, by donor stipulation, be added to the permanent endowment, or a transfer of endowment assets to another entity by judicial or similar authority. When determining the proper classification of gains realized on permanently restricted net assets, the public broadcasting entity should look first to donor intent, and, if not apparent, then to state law.

- *Temporarily restricted net assets* result from donor-imposed restrictions that permit the public broadcasting entity to expend the donated assets as specified and are satisfied by either passage of time or actions of the public broadcasting entity. Temporarily restricted net assets may be restricted to support a particular operating activity; for example, investment for a term (i.e., term endowment), use in a future period, acquisition or use of a long-lived asset, or expenditures of restricted grants and contracts. (With most CPB grants, including the Community Service Grants (CSGs), federal law imposes certain restrictions as to the period during which and the purposes for which grant funds may be expended.)

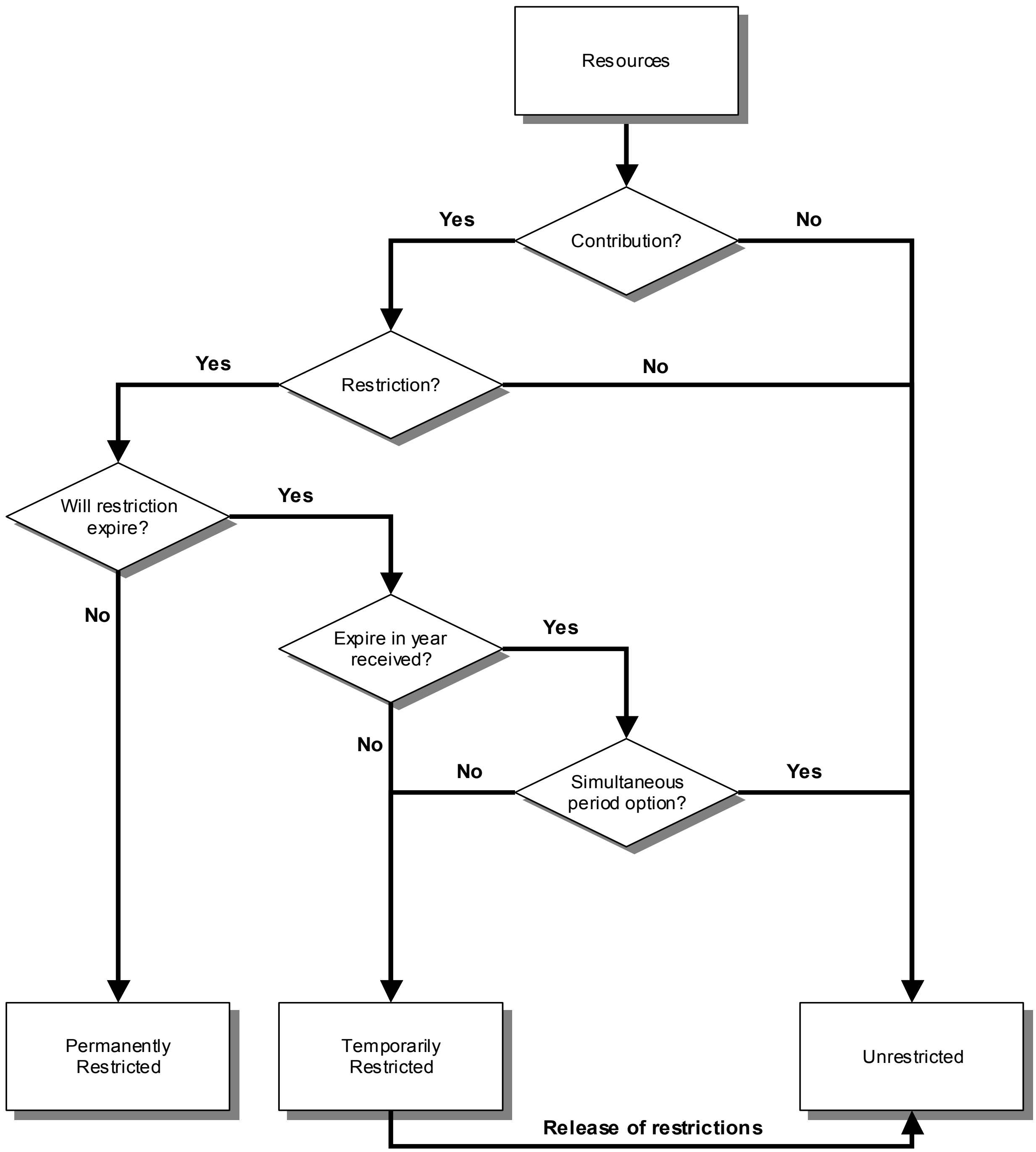
- *Unrestricted net assets* result from revenues from providing services, producing and delivering goods, receiving unrestricted contributions, and earning dividends or interest from investments (if not temporarily restricted), less expenses incurred in providing services and performing various administrative functions.[50] Any limits on the use of unrestricted net assets are generally imposed by the public broadcasting entities board of directors or management or by exchange transactions, such as financial covenants in indebtedness agreements. *Such limits are not sufficient to require classification of such net assets as temporarily restricted or permanently restricted.*

Exhibit 3-8 provides a graphical presentation of decisions required when classifying net assets.

[50] SFAS No. 117, paragraph 16.

Exhibit 3-8

Classification of Net Assets Under SFAS Nos. 116 and 117



Restrictions on Net Assets

SFAS No. 117 requires information to be disclosed regarding types of restrictions on net assets (i.e., the type and amount of the general components of permanently restricted and temporarily restricted net assets). This information may be presented on the balance sheet but may generally be more appropriate in the notes. Information concerning permanent restrictions includes those imposed by a donor or by relevant law or judicial authority. Information concerning temporary restrictions must also represent explicit intentions of donors, which include both purpose restrictions and net assets not available for use until passage of time or occurrence of a future event (e.g., term endowments and life income funds gifts).

Consistent with the FASB definitions of restricted classes of net assets (i.e., they arise only from donor-imposed restrictions), use limitation arising from exchange transactions–principally contractual restrictions such as government contracts or sinking funds for debt service–are included with the unrestricted net assets class.

Liquidity

Information about liquidity, the nearness to cash of assets or liabilities, may be provided in a number of different ways–for example, by providing a classified statement of financial position; sequencing assets according to their nearness to cash, or liabilities according to the nearness of their maturity on the face of the statement of financial position, disclosing relevant information in the notes; or some combination of the above.

A classified statement of financial position segregates assets and liabilities between current and noncurrent. These terms are defined by ARB No. 43.[51] Information about liquidity in the notes to the financial statements could be presented in narrative form, tables, or both.

Statement Format

SFAS No. 117 does not prescribe any one format of the statement of financial position so long as the minimum disclosure requirements are met by the organization. The public broadcasting entity therefore may choose from a variety of different formats. The most important choice available in preparing the statement of financial position is the degree of aggregation/disaggregation to incorporate into the statement. Two models, among those acceptable, and a brief description of each follow:

- *Single Column "Corporate" Model* is the most highly aggregated of the reporting models in that it presents a single column of assets, liabilities, and total for each class of net assets. This presentation results in a very concise statement; additional information concerning assets, liabilities, and net assets may always be provided in the notes. Assets and liabilities are aggregated into reasonably homogenous groups such as receivables, payables, fixed assets, and indebtedness and sequenced in the statement of financial position according to their relative liquidity. Information about liquidity could also be presented by segregating the balance sheet between current and non-current assets and

[51] ARB No. 43, Chapter 3A, *Working Capital Current Assets and Current Liabilities.*

liabilities. Information concerning the nature of restrictions on net assets should be contained in the notes.

Exhibit 3-9. Statement of Financial Position (Corporate Model) for a Non-Governmental Public Broadcaster following FASB

Public Broadcaster
Statement of Financial Position
For Years Ended June 30, 200X and 200X-1

	200X	200X-1
Assets:		
Cash and cash equivalents	$ 1,067,049	$ 1,123,641
Accounts receivable, less allowance for doubtful accounts of $14,715 and $15,928, respectively	108,508	96,819
Member pledges receivable, less allowance for uncollectible pledges of $23,455 and $27,058, respectively	15,637	18,039
Endowment pledges receivable, less allowance for uncollectible pledges of $36,800 and discount of $9,650	321,550	-
Due from University Foundation, net	471,723	463,793
Investment in common stock	50,000	50,000
Prepaid expenses and other assets	37,302	57,998
Property, plant and equipment, at cost		
Building	2,360,377	2,068,372
Equipment and other	2,615,065	2,110,068
Furniture and fixtures	228,022	221,375
	5,203,464	4,399,815
Less accumulated depreciation	2,166,358	1,676,606
Property, plant and equipment, net	3,037,106	2,723,209
Total assets	**$ 5,108,875**	**$ 4,533,499**
Liabilities and net assets:		
Accounts payable	$ 35,470	$ 35,189
Accrued expenses	187,629	165,836
Due to University, net	471,723	463,793
Deferred revenue	79,476	92,760
Total liabilities	774,298	757,578
Net assets:		
Unrestricted	3,717,447	3,498,644
Temporarily restricted	605,280	265,977
Permanently restricted	11,850	11,300
Total net assets	4,334,577	3,775,921
Total liabilities and net assets	**$ 5,108,875**	**$ 4,533,499**

The accompanying notes are an integral part of these financial statements.

The primary advantage of the single-column corporate model is that it is most analogous to the financial statements used by business enterprises. Consequently, it may be easier to understand for many users of the public broadcasting entity's financial statements who are more familiar with business enterprises' financial statements. This model also presents the clearest picture of the public broadcasting entity as a whole since it focuses on totals rather than fund accounting groups.

- *"Net Asset Class" Model* is a multicolumn or disaggregated balance sheet with a column for each class of net assets and a total column.

This statement must also be comparative in reporting to CPB.

Exhibit 3-10. Statement of Financial Position (Net Asset Class Model) for a Non-Governmental Public Broadcaster following FASB

Public Broadcaster
Statement of Financial Position
For Years Ended June 30, 200X and 200X-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 200X	Total 200X-1
Assets:					
Cash and cash equivalents	$ 1,049,510	$ 17,539	$ -	$ 1,067,049	$ 1,123,641
Accounts receivable, less allowance for doubtful accounts of $14,715 and $15,928, respectively	108,508	-	-	108,508	96,819
Member pledges receivable, less allowance for uncollectible pledges of $23,455 and $27,058, respectively	12,742	2,895	-	15,637	18,039
Endowment pledges receivable, less allowance for uncollectible pledges of $36,800 and discount of $9,650	-	321,550	-	321,550	-
Due from University Foundation, net	325,923	145,800	-	471,723	463,793
Investment in common stock	-	37,160	12,840	50,000	50,000
Prepaid expenses and other assets	26,493	10,809	-	37,302	57,998
Property, plant and equipment, at cost					
Building	2,360,377	-	-	2,360,377	2,068,372
Equipment and other	2,300,044	315,021	-	2,615,065	2,110,068
Furniture and fixtures	228,022	-	-	228,022	221,375
	4,888,443	315,021		5,203,464	4,399,815
Less accumulated depreciation	2,148,754	17,604	-	2,166,358	1,676,606
Property, plant and equipment, net	2,739,689	297,417	-	3,037,106	2,723,209
Total assets	**$ 4,262,865**	**$ 833,170**	**$ 12,840**	**$ 5,108,875**	**$ 4,533,499**
Liabilities and net assets:					
Accounts payable	$ 26,526	$ 7,954	$ 990	$ 35,470	$ 35,189
Accrued expenses	107,700	79,929	-	187,629	165,836
Due to University, net	381,417	90,306	-	471,723	463,793
Deferred revenue	29,775	49,701	-	79,476	92,760
Total liabilities	545,418	227,890	990	774,298	757,578
Net assets:					
Unrestricted:				3,717,447	3,498,644
Investment in land, buildings and equipment	1,436,075	-	-		
Operating surplus	2,281,372	-	-		
Temporarily restricted:				605,280	265,977
For support of programming and production	-	496,432	-		
For purchase of buildings and equipment	-	108,848	-		
Permanently restricted to investment:				11,850	11,300
For support of any public broadcasting activities	-	-	11,850		
Total net assets	3,717,447	605,280	11,850	4,334,577	3,775,921
Total liabilities and net assets	**$ 4,262,865**	**$ 833,170**	**$ 12,840**	**$ 5,108,875**	**$ 4,533,499**

The accompanying notes are an integral part of these financial statements.

3.8.5 Statement of Activities

The primary purpose of a statement of activities is to provide relevant information about (a) the effects of transactions and other events and circumstances that change the amount and nature of net assets, (b) the relationships of those transactions and other events and circumstances to each other, and (c) how the organization's resources are used in providing various programs or services. The information provided in a statement of activities, used with related disclosures and information in the other financial statements, helps donors, creditors, and others to (1) evaluate the public broadcasting entity's performance during a period, (2) assess a public broadcasting entity's service efforts and its ability to continue to provide services, and (3) assess how public broadcasting management has discharged its stewardship responsibilities and other aspects of its performance.[52]

The minimum requirements for the statement of activities include:

- Amount of change in total net assets
- Amount of change in each of the three classes of net assets: unrestricted, temporarily restricted, and permanently restricted
- All revenues, expenses, gains, and losses for the period classified by and reported in the class of net assets they affect
- Revenues reported as increases in unrestricted net assets unless the use of the asset is limited by donor-imposed stipulations
- Gains and losses reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law
- Expenses reported as decreases in unrestricted net assets
- Reporting expenses by function either in the statement of activities or in the notes to the financial statements
- The amount of expired donor-imposed restrictions that increase one class of net assets and simultaneously decrease another class of net assets

Change in Total Net Assets

The statement of activities should focus on the organization as a whole and report the amount of the change in total net assets for the period with an appropriate caption (e.g., change in net assets).

The change in total net assets should articulate with the total net assets reported in the statement of financial position.[53]

Change in Classes of Net Assets

The statement of activities should report the amount of change in permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets for the period.[54] Increases or decreases in each class result from revenues, expenses, gains and losses, and reclassifications.

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[52] SFAS No. 117, paragraph 17.
[53] SFAS No. 117, paragraph 18.

Classification of Revenues, Expenses, Gains and Losses

The statement of activities should report all revenues, expenses, gains, and losses for the period classified by and reported in the class of net assets they affect. This statement should provide relevant information about the effects of transactions and other events and circumstances that change the amount and nature of an organization's net assets. This statement affirms that information about revenues, expenses, gains, and losses is relevant and emphasizes four measures of their effects—change in the amount of an organization's net assets and change in the amounts of an organization's permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.[55] SFAS No. 117 sets forth the rules for the appropriate classification of revenues, expenses, gains, and losses. Information about revenues, expenses, gains, losses, and reclassifications is generally provided by aggregating items that possess similar characteristics into reasonably homogeneous groups,[56] such as contributions, government grants, program production and distribution revenue and expense, and station operations.

Revenues and Contributions

Revenues are inflows or other enhancements of assets that result from the public broadcasting entity delivering or producing goods, rendering services, or other activities that constitute the public broadcasting entity's major operations. Revenues are increases in unrestricted net assets unless the use of the asset received is limited by a donor-imposed restriction. For example, fees for program production and distribution, magazine sales, and corporate underwriting are generally unrestricted. Revenues resulting from other exchange transactions are similarly unrestricted.

Classification of revenue arising from contributions is made according to the provisions of SFAS No. 116. Contributions are generally classified and reported as unrestricted revenue in the absence of a donor's explicit stipulation or circumstances surrounding the receipt of a contribution that evidences the donor's implicit restriction on use. For example, donor-restricted contributions are reported as restricted support increasing temporarily or permanently restricted net assets depending on the type of restriction. However, SFAS No. 116 permits certain exceptions to these general rules of classification. Donor-restricted contributions with restrictions which are met in the same reporting period that the contribution is made may be reported, depending on an organization's accounting policy, as revenues of either the unrestricted or temporarily restricted net asset class.

Gains and Losses

A statement of activities should report gains and losses recognized on investments and other assets (or liabilities) as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. For example, net gains on investment assets, to the extent recognized in financial statements, are reported as

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[54] SFAS No. 117, paragraph 19.
[55] SFAS No. 117, paragraph 103.
[56] SFAS No. 117, paragraph 19.

increases in unrestricted net assets unless their use is restricted to a specific purpose or future period.[57]

In the absence of explicit donor restrictions, classification of gains and losses will depend on the provisions of state law governing spending of gains on endowment assets. For example, if a public broadcasting entity's governing board determines that the relevant law requires the organization to retain permanently some portion of gains on investment assets of endowment funds, such amount will be reported as an increase in permanently restricted net assets. The remainder of gains would be classified as an increase in either unrestricted net assets or temporarily restricted net assets depending upon provisions of the relevant law and/or the stipulations of the donor. In other words, all gains on endowment funds must be reflected as increases in unrestricted or temporarily restricted net assets, except to the extent that they are required to be retained in permanently restricted net assets either by donor stipulation or by state law. Additional guidance on accounting for investments is provided in *Section 3.6* of the *Principles*.

Expenses

Expenses are outflows or other uses of assets or incurrence of liabilities from delivering or producing goods, rendering services, or carrying out other activities which constitute the public broadcasting entity's major operations. All expenses are reported as decreases in unrestricted net assets.

To help donors, creditors, and others in assessing an organization's service efforts, including the costs of its services and how it uses resources, a *statement of activities or notes to financial statements must provide information about expenses reported by their functional classification such as major classes of program services and supporting activities*. Public broadcasting entities are also encouraged to provide information about expenses by their natural classification such as salaries, rent, electricity, interest expense, depreciation, awards and grants to others, and professional fees, in a matrix format or in the notes.[58]

Program services are the activities that result in services being distributed to constituencies and/or members that fulfill the purposes or mission for which the public broadcasting entity exists. Those services are the major purpose for the organization.[59] For example, a public broadcasting entity may have programs for production, programming, support, and community affairs.

Supporting activities are all activities of a not-for-profit organization other than program services. Generally, they include management and general, fundraising and membership-development activities.

Management and general activities include oversight, business management, general record keeping, budgeting, financing, and related administrative activities, and all management and administration except for direct conduct of program services or fundraising activities.

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[57] SFAS No. 117, paragraph 22.
[58] SFAS No. 117, paragraph 26.
[59] SFAS No. 117, paragraph 27.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor mailing lists; conducting special fundraising events; preparing and distributing fundraising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others.

Membership-development activities include soliciting for prospective members and membership dues, membership relations, and similar activities.[60]

Reclassification Between Classes of Net Assets

Expiration of donor-imposed restrictions simultaneously increases one class of net assets and decreases another. This information is required to be reported separately on the statement of activities. Transactions resulting from reclassification do not meet the definition of revenues, expenses, gains, or losses and are unique to not-for-profit organizations. An example of reclassification would be a term endowment contribution received in a prior year with a restriction that the principal not be used for a period of time but thereafter be available for any institutional purpose. Upon expiration of the time restriction, the amount of net assets would be reclassified to unrestricted net assets. Another example would be use of contributions received for a particular purpose, such as specific program expenses. Because the expenses recorded for the purpose are unrestricted, the public broadcasting entity must first use and reclassify temporarily restricted net assets available for that purpose to match the unrestricted expenses.

Statement Formats for Statement of Activities

A public broadcasting entity may use a format for the statement of activities different from the formats used for the statements of financial position and cash flows so long as the net asset balances relate to the statement of financial position. Appendix C to SFAS No. 117 presents examples of alternative formats for the statement of activities. The reader should keep in mind that these sample financial statements are illustrative, not prescriptive. They illustrate how some of the disclosure requirements of SFAS No. 117 may be met, but are not the only formats permitted.

Two formats illustrated within SFAS No. 117:

- *Single column "pancake" format*. The single column format reports information vertically into three sections:
  - Changes in unrestricted net assets
  - Changes in temporarily restricted net assets
  - Changes in permanently restricted net assets.

Each of the sections reports items of revenues, expenses, gains, and losses for that net asset class. The changes in each net asset class and the total change in net assets are reported. The primary advantage of this format is that it makes presentation of multi-year comparative information easiest.

[60] SFAS No. 117, paragraph 28.

Exhibit 3-11. Statement of Activities (single column format) for a Non-Governmental Public Broadcaster following FASB

Public Broadcaster
Statement of Activities
For the years ended June 30, 200X and 200X-1

	Total	
Changes in unrestricted net assets:	**200X**	**200X-1**
Revenues and gains:		
Pledges and contributions	$ 1,581,734	$ 1,487,049
University appropriations	465,815	483,720
Underwriting contributions	752,593	721,623
In-kind contributions	979,048	194,195
Donated administration	521,089	532,629
Other income	123,387	255,639
Total unrestricted revenues and gains	**4,423,666**	**3,674,855**
Net assets released from restrictions:		
Satisfaction of activity restrictions	278,560	199,401
Satisfaction of time restrictions	352,910	405,368
Total net assets released from restrictions	631,470	604,769
Total unrestricted revenues, gains, and other support	**5,055,136**	**4,279,624**
Expenses and other deductions:		
Program and production	1,800,147	1,768,144
Broadcasting	513,912	465,418
Depreciation	500,611	213,052
Public information	340,644	316,894
Management and general	556,605	588,273
Fundraising	859,010	864,376
Underwriting	265,404	246,417
Total unrestricted expenses and other deductions	**4,836,333**	**4,462,574**
Increase in unrestricted net assets	**218,803**	**(182,950)**
Changes in temporarily restricted net assets:		
Pledges and contributions	398,365	12,000
Grant revenue	572,408	682,748
Net assets released from restrictions	(631,470)	(604,769)
Increase in temporarily restricted net assets	**339,303**	**89,979**
Changes in permanently restricted net assets:		
Pledges and contributions	550	6,300
Increase in permanently restricted net assets	**550**	**6,300**
Increase (decrease) in net assets	**558,656**	**(86,671)**
Net assets at beginning of year	3,775,921	3,862,592
Net assets at end of year	**$ 4,334,577**	**$ 3,775,921**

The accompanying notes are an integral part of these financial statements.

- *Multicolumn format*. The multicolumn format reports revenues, expenses, gains, and losses in a columnar format with a column for each class of net assets and a total column.

This model most clearly makes evident the effects of expiration of donor-imposed restrictions resulting in reclassifications of net assets. It also permits the display of totals of individual revenue items such as contributions and investment income for the entity as a whole.

This statement must also be comparative in reporting to CPB.

Exhibit 3-12. Statement of Activities (multicolumn format) for a Non-Governmental Public Broadcaster following FASB

Public Broadcaster
Statement of Activities
For the years ended June 30, 200X and 200X-1

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Revenues, gains, and other support:								
Pledges and contributions	$ 1,581,734	$ 1,487,049	$ 398,365	$ 12,000	$ 550	$ 6,300	$ 1,980,649	$ 1,505,349
University appropriations	465,815	483,720	-	-	-	-	465,815	483,720
Underwriting contributions	752,593	721,623	-	-	-	-	752,593	721,623
In-kind contributions	979,048	194,195	-	-	-	-	979,048	194,195
Donated administration	521,089	532,629	-	-	-	-	521,089	532,629
Grant revenue	-	-	572,408	682,748	-	-	572,408	682,748
Other income	123,387	255,639	-	-	-	-	123,387	255,639
Total revenues, gains, and other support	**4,423,666**	**3,674,855**	**970,773**	**694,748**	**550**	**6,300**	**5,394,989**	**4,375,903**
Net assets released from restrictions								
Satisfaction of activity restrictions	278,560	199,401	(278,560)	(199,401)	-	-	-	-
Satisfaction of time restrictions	352,910	405,368	(352,910)	(405,368)	-	-	-	-
Total revenues, gains, and other support after release from restrictions	**5,055,136**	**4,279,624**	**339,303**	**89,979**	**550**	**6,300**	**5,394,989**	**4,375,903**
Expenses and other deductions:								
Program and production	1,800,147	1,768,144	-	-	-	-	1,800,147	1,768,144
Broadcasting	513,912	465,418	-	-	-	-	513,912	465,418
Depreciation	500,611	213,052	-	-	-	-	500,611	213,052
Public information	340,644	316,894	-	-	-	-	340,644	316,894
Management and general	556,605	588,273	-	-	-	-	556,605	588,273
Fundraising	859,010	864,376	-	-	-	-	859,010	864,376
Underwriting	265,404	246,417	-	-	-	-	265,404	246,417
Total expenses and other deductions	**4,836,333**	**4,462,574**	**-**	**-**	**-**	**-**	**4,836,333**	**4,462,574**
Change in net assets	**218,803**	**(182,950)**	**339,303**	**89,979**	**550**	**6,300**	**558,656**	**(86,671)**
Net assets at beginning of year	3,498,644	3,681,594	265,977	175,998	11,300	5,000	3,775,921	3,862,592
Net assets at end of year	**$ 3,717,447**	**$ 3,498,644**	**$ 605,280**	**$ 265,977**	**$ 11,850**	**$ 11,300**	**$ 4,334,577**	**$ 3,775,921**

3.8.6 Statement of Cash Flows

SFAS No. 117 requires not-for-profit organizations to include a statement of cash flows as one of the basic financial statements. This was done by amending SFAS No. 95, *Statement of Cash Flows* (November 1987), to include both for-profit and not-for-profit entities. The amendments to SFAS No. 95 are stated in SFAS No. 117, paragraph 30.

The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of a public broadcasting entity during a period.[61] The information provided in the statement of cash flows, used with related disclosures and information in the statement of net assets, statement of activities, and accompanying notes, should help creditors, donors, and others to assess the public broadcasting entity's ability to generate positive future cash flows; the ability to meet its obligations; determine the needs for external financing; reasons for differences between changes in net assets and associated cash receipts and payments; and the effects of the public broadcasting entity's financial position on both its cash and noncash investing and financing transactions during a period.

The minimum requirements for the statement of cash flows include:

- Total changes in cash and cash equivalents
- Total amount of net cash provided by or used for investing activities, financing activities, and operating activities
- Significant non-cash financing and investing activities
- Reconciliation of change in total net assets to net cash provided by or used for operating activities

Changes in Cash and Cash Equivalents

The statement of cash flows discloses the change in cash and cash equivalents during the year. Cash and cash equivalents include not only currency on hand but demand deposits with financial institutions. Cash equivalents also include investments that are short-term and highly liquid. Short-term is defined as investments with original maturities of three months or less. These include, for example, Treasury Bills, commercial paper, money market funds, and repurchase agreements.

Cash Provided by Investing, Financing, and Operating Activities

The statement of cash outflows is divided into three sections—investing activities, financing activities, and operating activities.

- *Investing Activities* include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant and equipment, and other productive assets, that is, assets held for or used in the production of goods or services by the public broadcasting entity (other than materials that are part of the inventory).[62]

[61] SFAS No. 117, paragraph 29.

[62] SFAS No. 95, *Statement of Cash Flows,* paragraph 15.

- *Financing Activities* include obtaining resources from owners and providing them with a return on, and a return of, their investment; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.[63]

- *Operating Activities* include all transactions and other events that are not defined as investing or financing activities. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.[64]

Examples of operating, investing, and financing activities of a public broadcasting entity are presented on the following page.

[63] SFAS No. 95, paragraph 21.
[64] SFAS No. 95, paragraph 22.

Exhibit 3-13. Examples of Operating, Investing, and Financing Activities of a Public Broadcasting Entity

Activity	Inflow	Outflow
Operating	• Cash receipts from members, grants and other support (donors) • Cash received from donations and pledges • Cash received from interest on notes • Cash received for instructional television • Production and program underwriting • Cash received from State Appropriations • Cash received from Community Service Grants • Cash received Insurance Proceeds • Cash received from University Appropriations • Interest, dividend, and other investment income that by donor stipulation must be used to increase a permanent or term endowment • All other cash receipts that do not stem from transactions defined as investing or financing activities	• Cash paid to suppliers and vendors • Interest paid on indebtedness • Payments to employees • Cash paid for auction merchandise
Investing	• Proceeds from sales of property, plant and equipment • Cash received from sale of debt or equity securities of other entities (investments) • Cash received from collection of principal on loans made to another entity	• Payments to acquire property, plant, and equipment • Purchase debt or equity securities of other entities (investments) • Cash paid to make loans to another entity • Cash paid to purchase loans from another entity
Financing	• Cash received from sale of loans made by the entity • Proceeds from a line of credit • Proceeds from issuing long-term debt such as bonds and notes • Receipts from contributions that are restricted for purposes of creating permanent or term endowments • Receipts from contributions that are restricted for purposes of acquiring, constructing, and improving land, buildings, or equipment	• Principal payments on long-term debt such as notes, advances, and bonds • Refunds to donors of gifts that were restricted to creating permanent or term endowments • Refunds to donors of gifts that were restricted to acquiring, constructing or improving land, buildings, or equipment

Significant Non-Cash Investing and Financing Activities

SFAS No. 95 requires that information about all significant investing and financing activities which affect recognized assets and liabilities but do not result in cash receipts or cash payments be disclosed either in narrative form or in a schedule. Examples of non-cash investing and financing activities include acquiring property, plant, or equipment by assuming directly related liabilities.

Reconciliation of Total Changes in Net Assets to Net Cash Provided by (Used for) Operations

SFAS No. 95 requires that the total change in net assets be reconciled to the net cash provided by (used for) operating activities. This reconciliation includes all items that change net assets but do not affect cash provided by (used for) operating activities because they (1) represent items not requiring cash outlay (e.g., depreciation and amortization); (2) are classified as investing or financing activities; or (3) represent the effects of deferred past operating receipts (deferred revenue) and accruals of future expected cash payments and receipts (payables and receivables).[65] Examples of reconciling items for computing operating cash flow of a public broadcasting entity are presented on the following page.

[65] SFAS No. 117, paragraph 57.

Exhibit 3-14. Examples of Reconciling Items for Computing Operating Cash Flow of a Public Broadcasting Entity

These are examples of items that are either added back to or deducted from the change in net assets in order to reconcile to net cash provided or used by operating activities.

Additions	Deductions
Items That Do Not Result from Cash Receipts and Disbursements	
• Depreciation expense • Amortization of bond discount • Amortization of intangible assets	• Amortization of bond premium • Donated assets • Decrease in allowance for doubtful accounts
Adjustments That Are Related to Investing or Financing Activities	
• Loss on disposition of property and equipment • Net realized and unrealized losses on investments • Restricted contributions and bequests • Gifts for endowment	• Gain on disposition of property and equipment assets • Net realized and unrealized gains on investments • Increase in cash restricted to investing activities • Contributions restricted for capital additions • Increase in deferred contributions restricted for capital additions • Increase in film rights • Loss from affiliates
Changes in Current Assets and Liabilities	
• Decrease in accounts and grants receivable (pledges) • Decrease in inventories • Decrease in costs incurred for programs not yet broadcast (prepaids) • Decrease in costs incurred for incomplete non-series programs (prepaids) • Decrease in licensed program rights (unexpired) • Increase in accounts payable and accrued expenses • Increase in deferred revenue • Increase in license program rights obligation • Increase in salaries and wages payable • Increase/decrease in due to/from	• Increase in accounts and grants receivable (pledges) • Increase in inventories • Increase in costs incurred for programs not yet broadcast (prepaids) • Increase in costs incurred for incomplete non-series programs (prepaids) • Increase in licensed program rights (unexpired) • Decrease in accounts payable and accrued expenses • Decrease in deferred revenue • Decrease in license program rights obligation • Decrease in salaries and wages payable • Decrease/increase in due to/from

Method of Presentation of the Statement of Cash Flows

In reporting cash flows from operating activities, a public broadcasting entity has two options—the direct method or the indirect method.

Direct Method reports cash inflows and cash outflows by the major classes of specific activity: operating, investing and financing. In order to prepare the statement using the direct method, detailed information concerning the changes in asset and liability accounts by caption are needed.

If a public broadcasting entity chooses the direct method of presentation, it must also provide a reconciliation of the total changes in net assets to net cash provided by (used for) operating activities.

Exhibit 3-15. Statement of Cash Flows (direct method) for a Non-Governmental Public Broadcaster following FASB

Public Broadcaster
Statement of Cash Flows
For the years ended June 30, 200X and 200X-1

	200X	200X-1
Cash flows from operating activities:		
Cash received from CPB	$ 490,000	$ 465,500
Cash received from contributors and underwriting	2,340,000	2,215,370
Interest received	120,919	250,526
Cash received from grants & donations	1,349,100	653,400
Cash paid to employees	(2,325,000)	(2,322,000)
Grants paid	(4,590)	(3,000)
Cash paid to rent & other office services	(1,739,000)	(1,625,000)
Cash paid to suppliers	(616,713)	(648,074)
Cash received from university appropriations	433,200	448,221
Net cash provided by (used in) operating activities	47,916	(565,057)
Cash flows from investing activities:		
Purchase of furniture and equipment	(104,508)	(51,525)
Net cash used in investing activities	(104,508)	(51,525)
Net decrease in cash and cash equivalents	(56,592)	(616,582)
Cash and cash equivalents, beginning of year	1,123,641	1,740,223
Cash and cash equivalents, end of year	**1,067,049**	**1,123,641**
Reconciliation of change in net assets to net cash used by operating activities:		
Change in net assets	$ 558,656	$ (86,671)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	500,611	213,052
Gifts of property, plant and equipment	(710,000)	-
Changes in assets and liabilities:		
Accounts receivable, net	(11,689)	6,202
Pledges receivable, net	(319,148)	25,405
Prepaid expenses and other assets	20,696	(10,542)
Due from University Foundation, net	(7,930)	(463,793)
Accounts payable	281	(121,487)
Accrued expenses	21,793	18,751
Due to University, net	7,930	(145,903)
Deferred revenue	(13,284)	(71)
Net cash provided by (used in) operating activities	47,916	(565,057)
Supplemental disclosure of noncash activities:		
Write-off of fully depreciated property, plant and equipment	$10,859	$159,490

The accompanying notes are an integral part of these financial statements.

Indirect Method determines the net cash provided by (used for) operating activities by adjusting the net change in total net assets by the effects of accruals and deferrals of past and future operating activities such as receivables, payables, inventory, and prepaid expenses; the effects of items not requiring cash such as depreciation of property, plant, and equipment and amortization of discounts and premiums on investments and indebtedness; and items recorded as investing or financing activities.

Exhibit 3-16. Statement of Cash Flows (indirect method) for a Non-Governmental Public Broadcaster following FASB

Public Broadcaster
Statement of Cash Flows
For the years ended June 30, 200X and 200X-1

	200X	200X-1
Cash flows from operating activities:		
Change in net assets	$ 558,656	$ (86,671)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	500,611	213,052
Gifts of property, plant and equipment	(710,000)	-
Changes in assets and liabilities:		
Accounts receivable, net	(11,689)	6,202
Pledges receivable, net	(319,148)	25,405
Prepaid expenses and other assets	20,696	(10,542)
Due from University Foundation, net	(7,930)	(463,793)
Accounts payable	281	(121,487)
Accrued expenses	21,793	18,751
Due to University, net	7,930	(145,903)
Deferred revenue	(13,284)	(71)
Net cash provided by (used in) operating activities	47,916	(565,057)
Cash flows from investing activities:		
Purchase of furniture and equipment	(104,508)	(51,525)
Net cash used in investing activities	(104,508)	(51,525)
Net decrease in cash and cash equivalents	(56,592)	(616,582)
Cash and cash equivalents, beginning of year	1,123,641	1,740,223
Cash and cash equivalents, end of year	**$1,067,049**	**$1,123,641**
Supplemental disclosure of noncash activities:		
Write-off of fully depreciated property, plant and equipment	$10,859	$159,490

The accompanying notes are an integral part of these financial statements.

3.8.7 Reporting Expenses by Functional Classification

SFAS No. 117 requires nonprofit organizations to present information about expenses by function, such as major programs or services and major classes of supporting services. This information may be communicated either in the statement of activities or in the notes to the financial statements.[66] CPB encourages reporting expenses in a matrix showing both functional classification and natural, or object, classification, as a supplemental statement commonly referred to as a "Statement of Functional Expenses" or as a note to the financial statements.

The functional classifications should conform as closely as possible to the specific program and supporting activities captions that have become standard for public broadcasting and are outlined in this section.

The Statement of Activities should present costs separately for each significant program and supporting activity. Program services are those directly related to the public broadcasting station's mission. Supporting services do not relate directly to the purposes for which the broadcasting entity exists, and are generally categorized into fundraising, membership development, and management and general expenses.

Functional reporting classifications for program services vary according to the nature of the service rendered. For most public broadcasting entities, several separate services are identifiable, and, in such cases, expenses for program services should be reported separately. The purposes of the various functions should be clearly described, and each functional classification should include all direct and directly allocable costs not properly classified as supporting services (for example, certain types of production overhead).

In order to identify a service as a program cost, the following criteria should be applied:

- The service contributes directly to the achievement of the broadcasting entity's objectives, goals, or missions.
- The service requires a significant amount of the entity's resources.

The following program costs are considered typical for most public broadcasting entities and, at a minimum, should be reported in the Statement of Activities if applicable.

Program Services

Programming and Production

This function consists of the production and/or acquisition of programming and conducting program operations. This category includes such functions as program development, program planning, equipment operation, and editing.

Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in activities, should be included in this classification:

[66] SFAS No. 117, paragraph 57.

- Broadcast rights for programs or series or rights to use or adapt published materials
- Program planning and research (script writing, printing, and consulting)
- Directors, producers, cast, stagehands, engineers, technicians, and other personnel involved
- Rental of facilities, wardrobes, or production equipment
- Space, supplies, and other station resources used
- Repair and maintenance of programming and production equipment
- Set construction and operation, sound synchronization, lighting, props, or wardrobe
- Depreciation and amortization of station equipment and leasehold improvements used
- National Public Radio (NPR) membership dues and Public Radio International affiliate fees
- The portion of the Public Broadcasting Service (PBS) Programming Assessment and PBS/SIP related to this function

Broadcasting

This function consists principally of program transmission and interconnection. Also included are scheduling and engineering. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in these activities, should be included in this classification:

- Scheduling programs for airing
- Repair and maintenance of broadcasting equipment
- Depreciation of antenna, transmission, and other broadcasting equipment
- Distribution and interconnection fees
- The portion of the PBS Programming Assessment related to this function
- Web hosting and streaming fees

Program Information and Promotion

This function consists of informing the viewing or listening public of specific available program services. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in those activities, should be included in this classification:

- Producing or acquiring “spots” designed for the promotion of specific programs
- Materials and related supplies used for promoting programs and services
- Advertising in newspapers or other media
- Preparing, reproducing, and distributing program guides
- Travel and related expenses of promotion
- The portion of PBS Programming Assessment related to this function

Supporting Services

Fundraising and Membership Development

Fundraising consists of inducing others to contribute money, securities, time materials, or facilities. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in those activities, should be included in this classification:

- Costs incurred in the solicitation of underwriting funds and grants

- Costs of membership development
- Acquiring and distributing fundraising material
- Designing, printing, and distributing leaflets or posters for fundraising
- Meetings for the purpose of improving fundraising techniques
- Services of fundraising consultants and talent
- Developing and maintaining contributor records
- Committee meetings dealing with fundraising policies and issues, including the preparation of minutes and reports of such meetings
- Program and production costs of broadcast appeals for funds
- Mailing costs related to fundraising
- Direct costs of special fundraising activities and auctions

Care should be taken to ensure the public broadcasting entity considers the guidance contained in SOP No. 98-2 (discussed earlier in *Section 3.5* of the *Principles*: Fundraising Costs) when allocating the cost of joint activities (fundraising costs).

Underwriting and Grant Solicitation

Underwriting development consists of soliciting program underwriting funds and general support grants from foundations, corporation, or governments. This line should be used if costs are significant and shown separately in the financial statements adjacent to the caption for fundraising and membership development.

Management and General

This function consists of supervising and controlling overall, day-to-day operations, including accounting and office service departments. It also includes resources and activities whose costs are not directly identified with another function, but which are indispensable to the conduct of those activities and to an organization's existence. This includes expenses for the overall direction of the entity's general board activities, business management, general recordkeeping, budgeting and related purposes. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in those activities, should be included in the classification:

- Personnel administration, including recruiting
- Accounting, auditing, and budgeting
- Legal services of a general (non-program) nature
- All occupancy costs not specifically identifiable to other functions
- General office functions, such as switchboard, receptionist, mail services, and maintenance of general office files
- Purchase and distribution of office supplies and equipment
- Maintenance of operations manuals, directors committee lists, and expenses related to board and administrative committee meetings
- Depreciation of buildings, furnishings, and equipment used in management and general functions
- The Association of Public Television Stations and regional organization dues, the non-programming portion of payments to PBS, and National Public Radio representation

Depreciation and Amortization

Depreciation and amortization consist of the allocation of the cost, or other carrying value, of physical and intangible assets over their estimated useful lives. Because depreciation does not represent a function itself, it should appear as a caption only in a schedule of functional expenses. Depreciation or amortization must be allocated to the various functional categories (both program and supporting) in the Statement of Activities. Allocation should be made using a systematic and appropriate basis developed for this purpose.

Example

The following is an example of the preferred matrix presentation, showing expenses by both functional and natural classifications:

Exhibit 3-17. Example Schedule of Functional Expenses by Natural Classifications

	PROGRAM SERVICES				SUPPORT SERVICES				TOTAL	
	Programming and Production	Broadcasting	Program Information and Promotion	Total Program Services	Management and General	Fundraising and Membership Development	Underwriting and Grant Solicitation	Total Support Services	200X	200X –1
Salaries, wages, benefit	$ 160,691	$ 56,233	$ -	$ 216,924	$ 77,130	$ 37,960	$ 20,780	$ 135,870	$ 352,794	$ 330,077
Occupancy	21,160	30,600	-	51,760	13,218	15,100	10,600	38,918	90,678	81,685
Production costs	51,375	-	-	51,375	-	29,376	-	29,376	80,751	76,450
Programming costs	106,695	-	-	106,695	-	-	-	-	106,695	101,967
Repairs and maintenance	6,387	8,192	-	14,579	1,582	810	718	3,110	17,689	18,781
Conferences, meetings	4,736	617	522	5,875	5,118	2,526	1,205	8,849	14,724	12,679
Advertising	42	-	23,750	23,792	-	2,250	1,583	3,833	27,625	26,028
Printing	21,012	102	4,314	25,428	487	18,125	572	19,184	44,612	42,160
Professional services	1,490	600	13,160	15,250	8,936	43,390	3,156	55,482	70,732	65,898
Office supplies	486	310	549	1,345	240	320	215	775	2,120	1,470
Postage	2,140	-	-	2,140	2,382	13,448	428	16,258	18,398	16,409
Depreciation	17,600	25,060	-	42,660	250	140	53	443	43,103	41,875
Totals	$ 393,814	$ 121,714	$ 42,295	$ 557,823	$ 109,343	$ 163,445	$ 39,310	$ 312,098	$ 869,921	$ 815,479

3.8.8 Reporting Expenses by Natural Classification

SFAS No.117 does not require not-for-profit organizations (other than voluntary health and welfare organizations) to present expenses by natural classifications. However, SFAS No.117 encourages organizations to provide the information, where it is useful in understanding the ability of an organization to continue to provide services and about the nature of the costs of providing those services.[67]

The following object expense descriptions are provided as guidance for use by all public broadcasting entities when summarizing and are presenting expenses by natural classification.

[67] SFAS No. 117, paragraph 62.

Salaries. Salaries and wages earned by a public broadcasting entity's regular employees (full or part-time) and by temporary employees, including office temporaries, other than consultants and others engaged on an individual contract basis.

Employee Benefits. Amounts paid and accrued by a public broadcasting entity under its own or other (private) employee health and retirement benefit plans, including voluntary employee termination or retirement payments outside a formal plan. Additionally, any other employee benefits would be captured in this expense category. Examples are:

- Accident insurance premiums
- Medical and hospital plan premiums
- Pension or retirement plan costs
- Educational benefits

Payroll Taxes. Social security taxes and compensation insurance premiums, payable by employers under federal, state, or local laws. Examples are:

- F.I.C.A. payments (employer's share)
- Unemployment insurance premiums
- Workmen's compensation insurance
- Disability insurance premiums

Programming. Costs incurred to acquire or produce programming. Examples are:

- Program acquisition costs
- Production costs (other than those identified in other expense categories) including sets, props, film, tapes, wire service fees, utilities, etc.

Professional Services. Fees and expense (including in-kind contributions) of professionals and consultants who are not employees of the public broadcasting entity and are engaged as independent contractors for specified services on a fee or other individual contract basis. If in-kind contributions are significant, they should be separately identified. Examples are:

- Legal, auditing and general consulting fees and expenses
- Payments to professional actors and actresses, or other talent expenses
- Technical consultants

Office Supplies. Costs of materials and other supplies used by a public broadcasting entity. Examples are:

- Stationery, typing, accounting, and other office materials
- Paper, toner, and duplicating materials

Telephone and telecommunications. All telephone, telecopy, mailgram, Internet access, Web hosting and similar expenses.

Postage and Shipping. Postage, parcel post, trucking, and other delivery expenses, including shipping materials.

Occupancy. All costs arising from an entity's occupancy and use of owned or leased land, buildings, and offices. This excludes costs reported in other categories. Examples are:

- Office and studio rentals
- Building and equipment insurance
- Mortgage interest
- Electricity, heat, and other utilities
- Janitorial and other maintenance services under contract
- Building and grounds maintenance

Advertising. Costs associated with the production of the advertisement, including design layout, printing, etc., for use by the entity and costs for the advertising media.

Rental and Maintenance of Equipment. Cost of renting and maintaining equipment, such as studio equipment, transmitters, towers, satellite/microwave equipment, computers, calculators and other equipment.

Printing, Publications, and Graphics. Costs of printing, graphics, commercial artists and suppliers for plates, artwork, proofs, photographs, leaflets, films and other information materials, including the cost of purchased publications, program guides, technical journals, books, and pamphlets.

Travel. Expenses of travel and transportation for employees of the public broadcasting entity. Examples are:

- Transportation fees, mileage allowances, hotels, meals, and incidental expenses
- Local bus and taxicab fares
- Automobile expenses of operating owned or leased vehicles
- Allowances for use of employees' automobiles on business for the entity
- Business meals

Conferences, Conventions and Meetings. Expenses of conducting meetings related to an entity's activities. Examples are:

- Meeting space and equipment rentals
- Meeting program, notices, badges, and related printing costs
- Meeting food costs
- Speakers' honoraria and expenses
- Conference and convention registration fees for staff participants

Miscellaneous. All expenses not reportable in another object classification.

Depreciation and Amortization. Allocation of the cost, or other carrying value, of physical and intangible assets over their estimated useful lives. Provision for depreciation or amortization is intended to spread the cost of such assets over the period that their use benefits the program or supporting activities. It should not be viewed as a means of funding replacement.

3.8.9 Notes to Financial Statements

The notes are an integral part of the financial statements and necessary for the financial statements to be complete. The purpose of the notes to financial statements is threefold: (1) to provide information required by GAAP that is not contained on the face of the financial statements themselves; (2) to provide information which is necessary for the financial statements not to be misleading; and (3) to provide other information which a public broadcasting entity believes will be of use to readers of its financial statements. This section provides sample notes to financial statements for a not-for-profit public broadcasting entity.

Authoritative accounting literature specifies the content and extent of disclosure required in the notes to the financial statements. Notes should also generally present comparative information for the prior period. The following notes are examples taken from the financial statements of public broadcasting entities for use as sample formats and language. As such, the items and amounts do not agree to the example financial statements presented elsewhere in *Section 3*. The Summary of Significant Accounting Policies, which is traditionally footnote #1, is presented separately as *Section 3.8.10*.

3.8.10 Summary of Significant Accounting Policies

APB Opinion 22 requires that all significant accounting policies followed by an enterprise be disclosed in its financial statements. The Summary of Significant Accounting Policies (SOSAP) generally either appears as the first note or follows a background information note that provides a description of the public broadcasting entity, including all stations and their related organizations, locations, and other information such as mission, etc. The background note will assist the users of the financial statements in obtaining a sense of the size and purpose of the reporting entity.

In general, the disclosure in the SOSAP should provide information to allow readers to make judgments as to the appropriateness of principles relating to recognition of revenue and expenses and allocation of asset costs to current and future periods. In particular, it should encompass accounting principles and methods that involve any of the following:

- A selection from existing acceptable accounting alternatives
- Principles and methods peculiar to public broadcasting in which the reporting entity operates, even if such principles and methods are predominantly followed in public broadcasting
- Unusual or innovative applications of GAAP (and, as applicable, of principles and methods peculiar to public broadcasting in which the reporting entity operates)

The SOSAP is an important note since it describes the basis of accounting and the accounting principles used in the preparation and presentation of the financial statements. This note assists users in comparing a public broadcasting entity's financial statements with others since differences in accounting policies can be identified, such as how a public broadcasting entity accounts for production revenues.

The items that should be disclosed in this note are:

- The classification of net assets (permanently restricted, temporarily restricted, and unrestricted) and definition of each class

- Description of the fund accounting groups, if any, such as general fund or endowment fund and their relationship to the classes of net assets
- Classification of revenues, expenses, gains, and losses
- Classification of appreciation of endowment investments and availability for operations
- The recognition of revenues for contributions, including unconditional promises to give
- The valuation of contributions, especially the discounting of long-term unconditional promises to give and the provision of an allowance for uncollectible contributions receivable
- The classification of contributions in relation to donor stipulations or lack thereof
- The accounting policy concerning classification of contributions with donor-imposed restrictions that may be met in the same reporting period in which the contribution is received
- The accounting policy concerning release of restrictions on gifts of long-lived assets or of cash or other assets used to acquire them—either over the useful life of the long-lived asset or at the time of acquisition of such long-lived assets

Following are examples of select disclosures only and do not necessarily represent all required note disclosures for a specific public broadcasting entity.

Exhibit 3-18. Example Notes to Financial Statements for a Non-Governmental Public Broadcaster following FASB

PUBLIC BROADCASTER

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization and Operation

Public Broadcaster is a public service radio station whose purpose is to serve the educational and cultural needs of the southwestern Anystate community. Public Broadcaster is governed by the Board of Trustees of Anyname University (the "University"), a private university chartered under the laws of Anystate. Anyname University Foundation, Inc. (the "Foundation") has been established as the gift-receiving arm of the University and also serves as the gift-receiving arm of Public Broadcaster. As such, the accompanying statements of financial position and related statements of activities and statements of cash flows reflect the assets owned by the University and the Foundation, designated for use by Public Broadcaster. Public Broadcaster is administered by the Vice President of University Relations and Development and permanent staff. Public Broadcaster is funded mainly by federal and state grants, appropriations from the University, community fundraising and underwriting contributions.

Basis of Accounting

The accounts of Public Broadcaster are maintained in conformity with the principles of not-for-profit accounting. The accompanying financial statements have been prepared on an accrual basis.

Basis of Presentation

Public Broadcaster reports net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Public Broadcaster and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. This category includes unrestricted assets, uncollected pledges and property.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that will be met either by actions of Public Broadcaster and/or the passage of time. This category includes grants received by Public Broadcaster and endowment pledges.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by Public Broadcaster. The donors of these assets permit Public Broadcaster to use the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as a “release of restrictions” in the accompanying statements of activities.

Concentration of Risk and Liquidity

The Board of Trustees approved an investment policy, the objective of which is to provide sufficient liquidity to meet Public Broadcaster’s cash needs, to maximize the return on available capital, and to assure the safety of the funds by investing only in high quality instruments with a diversification of issues.

Cash and Cash Equivalents

Cash and cash equivalents as presented in the accompanying financial statements are defined as cash held on account with the Foundation and grant funds made available for use by the University Governmental Reporting Department.

Inventories

Inventories consist of products for sale related to public radio programs. Inventories are stated based on the lower of cost (average cost method) or market value.

Property, Plant and Equipment

Public Broadcaster follows the University policy to expense property additions less than $2,500 in the year purchased. Fixed assets are reported at cost or, in the case of donated property, at estimated fair value determined as of the date of receipt. Depreciation is computed on a straight-line basis over the estimated useful lives of the asset as follows:

Asset Category	Estimated Useful Life (in years)
Buildings	40
Furniture and fixtures	10
Equipment	7-10
Automobiles	5
Computers	3

Licensed Program Rights

Program series and other syndicated products are recorded at the lower of unamortized cost, based on the gross amount of the related liability, or estimated net realizable value. Generally these programs and products are amortized on a straight-line basis over the period of the license agreement.

The licensed program rights are segregated on the balance sheet between current and noncurrent based on the amortization period.

Costs Incurred for Programs Not Yet Broadcast

Costs incurred for programs not yet broadcast are recorded as a deferred asset. Such costs relate to programs produced by Public Broadcaster that will be broadcast subsequent to December 31. Programs to be completed and broadcast within one year are classified as current assets whereas programs to be completed and broadcast in more than one year are classified as long-term. At December 31, 200X, there were no long-term costs incurred for programs not yet broadcast. As the programs are broadcast, the costs incurred will be included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.

Gifts of Long-Lived Assets

Public Broadcaster reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Public Broadcaster reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Gains on Permanently Restricted Net Assets

The board of trustees has interpreted state law as requiring the preservation of the purchasing power (real value) of the permanent endowment funds unless explicit donor stipulations specify how net appreciation must be used. To meet that objective, Public Broadcaster's endowment management policies require that net appreciation be retained permanently in an amount necessary to adjust the historic dollar value of original endowment gifts by the change in the Consumer Price Index. After maintaining the real value of the permanent endowment funds, any remainder of total return is available for use and transfer to unrestricted net assets.

Income Taxes

Public Broadcaster is a service of Anyname University (the "University"), a private university chartered under the laws of Anystate and a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code.

Public Broadcaster's activities relating to the operation of its radio station and its gaming activities are exempt both from paying federal income taxes pursuant to Section 501(a) of the Internal Revenue Code and from paying state income taxes.

Public Broadcaster also has unrelated business income under Section 511 of the Internal Revenue Code. This income arises from building and tower rent, concession income at their gaming sites, and sales of certain products and services.

Split-Interest Agreements and Perpetual Trusts

Public Broadcaster's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the public broadcasting entity serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts and other changes in estimates of future benefits.

Public Broadcaster is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in estimates of future receipts.

Revenue Recognition

Unrestricted contributions, pledges, and grants are recognized as revenue in the Statement of Activities upon receipt. Other unrestricted revenues are recognized as earned either upon receipt or accrual. State appropriation support is reported as unrestricted revenue. Expenditures of unrestricted funds are recognized as expenses when expended or upon incurrence of the related liability.

Pledges and Contributions

Public Broadcaster engages in periodic fundraising campaigns manifested by offering some special radio programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to Public Broadcaster for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. Contributions including unconditional promises to give and membership receipts are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors. An allowance for uncollectible contributions receivable is provided based upon Public Broadcaster management's judgment including such factors as prior collection history and type of contribution. All member pledges receivable are promises to give within one year of June 30, 200X. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of Public Broadcaster. This usage is consistent with appeals for contributions and pledges.

In-kind Contributions

Contributed materials, supplies, facilities, and property are recorded at their estimated fair value at the date of donation. Public Broadcaster reports gifts of equipment, professional services, materials and other nonmonetary contributions as unrestricted revenue in the accompanying statements of activities.

If the fair value of contributed materials, supplies, facilities, and property cannot be reasonably determined they are not recorded. Donated personal services of nonprofessional volunteers, as well as national and local programming services, are not recorded as revenue and expense as there is no objective basis available to measure the value of such services.

Contributed advertising and promotion are recorded at the fair value of the contribution portion of the total value received.

Restricted Support

Public Broadcaster reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Changes in Designation of Prior Contributions

An amount included in temporarily restricted net assets at June 30, 200X may have a change in designation in the future per the donor's request. This transfer would occur between temporarily restricted and permanently restricted when the conditions of the Famousname Foundation Challenge grant are met.

Grants

Certain grants are restricted for the purchase of equipment and for the payment of certain operational expenses. When Public Broadcaster is notified as a recipient of these grants, the amounts are included as temporarily restricted grant revenue in the accompanying statements of activities.

Corporation for Public Broadcasting Community Service Grants

The Corporation for Public Broadcasting is a private, nonprofit grantmaking organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain General Provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These General Provisions pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

The CSGs are reported on the accompanying financial statements as increases in temporarily restricted net assets until satisfaction of the time and purpose restrictions, after which they are reported as a release from temporarily restricted net assets and an increase in unrestricted net assets.

Indirect Administrative Support

Public Broadcaster receives administrative support from the University. Indirect administrative support consists of allocated institutional support and physical plant costs incurred by the University for which the Public Broadcaster receives benefits. The fair value of this support is recognized in the Statements of Activities as indirect administrative support and also as expense in the management and general functional expense category. For the years ended June 30, 200X and 200X-1, indirect support was calculated using the University's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The approved rate was modified to exclude certain cost components – departmental and sponsored projects administration, library and student services – that do not benefit the Public Broadcaster. The University also provides office, studio and tower facilities, the benefit for which is included as a building use allowance in the approved rate.

Production Revenue

Public Broadcaster uses the percentage-of-completion method of accounting for production revenue, whereby the cumulative production revenue earned equals the ratio of costs incurred to the estimated total costs at completion applied to the total committed revenues from outside sponsors. Production costs include charges by subcontractors plus all direct labor and other direct costs. Indirect and general and administrative expenses are charged to expense as incurred.

Cost estimates on programs are reviewed periodically as the work progresses and adjustments, if needed, are reflected in the period in which the estimates are revised.

Program and Production Underwriting

Revenue for program underwriting is recorded on a pro-rata basis for the period covered, and for production underwriting on an estimated percentage-of-completion basis.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of financial activity and changes in net assets and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

Production Costs

Production costs incurred in connection with Public Broadcaster's arrangements with the Jazz Concert Network are capitalized. Public Broadcaster amortizes these costs over the life of the initial licensing period.

Advertising Costs

Advertising costs are expensed in the period in which they are incurred.

Commissions

Public Broadcaster has agreements with independent consultants to solicit and acquire funds for program underwriting and other activities related to public broadcasting. The agreements provide for payment of commissions to the consultants based on varying percentages of funds received.

Operating Leases

Public Broadcaster leases tower space for certain repeater stations from third parties under lease agreements. The leases are accounted for as operating leases and are for various terms ranging from 5 to 10 years, with additional renewal options.

Public Broadcaster leases space on the University towers to various third parties using five-year leases with renewal options. Tower rental income is included as "other income" in the statements of activities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Public Broadcaster's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 200X-1 financial statements to conform to the current year presentation.

2. Cash and Cash Equivalents

At December 31, 200X and 200X-1, the cash and cash equivalents accounts consisted of the following:

	Unrestricted Fund	
	200X	200X-1
Cash on hand and in checking	$4,386	$4,670
Savings accounts	4,994	4,606
Money market accounts	10,000	10,000
Certificates of deposit	14,000	8,000
Total	$33,380	$27,276

At December 31, 200X Public Broadcaster holds certificates of deposit with maturities ranging from September 25, 200X+1 to February 15, 200X+2.

3. Investments in Securities

	Cost	Fair Value
June 30, 200X		
Permanently Restricted:		
Anyfund Growth Fund	$87,000	$69,461
Anybank Special Equity Fund	19,000	14,956
Otherbank Money Market Fund	12,000	12,471
	$118,000	$96,888

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 200X and 200X-1:

	June 30 200X	June 30 200X-1
Permanently restricted		
Interest and dividends	$64	$93
Realized gain (loss)	95	527
Unrealized gain (loss)	(21,112)	11,518
Total investment gain (loss)	($20,953)	$12,138

4. Receivables

Public Broadcaster's largest receivables are for grants due from corporations, foundations and government agencies. At June 30, 200X, a total of approximately $650,000 is due from the ABC Company, various federal government agencies, and the RST Company.

5. Endowment Fund Contributions and Challenge Grant

Public Broadcaster is conducting an endowment campaign in response to a challenge from the Famousname Foundation. The pledges receivable for the endowment total $368,000 (before allowances and discounts).

The amount included in temporarily restricted net assets at June 30, 200X, which may have a change in designation in the future per the donor's request, is approximately $398,365. This transfer would occur between temporarily restricted and permanently restricted when the conditions of the Famousname Foundation Challenge grant are met.

6. Property, Plant and Equipment

Property and equipment are stated at cost and consist of the following at June 30, 200X and 200X-1:

	200X	200X-1
Land	$75,391	$65,378
Buildings	1,404,981	1,303,890
Transmitter and tower	2,240,874	2,130,432
Studio and technical equipment	5,976,312	5,763,981
Furniture, fixtures, and equipment	882,744	862,569
Vehicle	112,591	102,356
	10,692,893	10,228,606
Less: accumulated depreciation	7,662,476	7,189,533
Net property and equipment	$3,030,417	$3,039,073

Depreciation expense was $472,943, and $432,699 for the years ended December 31, 200X and 200X-1.

Construction in progress includes the costs incurred through June 30, 200X, for the initial planning and design of a new transmitter at New City, Anystate, the replacement and upgrade of the transmitter and related equipment at Channel 123 in Anycity, Anystate, and the replacement and upgrade of the tower and transmission system at Channel 456 at Othercity, Anystate. Construction in progress at June 30, 200X, included the costs incurred for the New City project and the modification and upgrading of various translator sites.

During fiscal years 200X and 200X-5, Public Broadcaster received federal funding from the National Telecommunications and Information Administration for two capital expenditure projects, in the amount of $37,858 and $120,415, respectively. As a condition of this funding, the Federal government has a priority reversionary interest on certain equipment. The liens expire on July 31, 200X+10 and February 28, 200x+15, respectively.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	200X	200X-1
Programming and Production activities:		
Purchase of equipment	$3,060	$2,040
Research	4,256	2,837
Educational seminars and publications	1,520	1,013
Broadcasting activities:		
Homeland security	2,240	1,493
Educational seminars and publications	2,158	1,439
Management and general activities:	2,968	1,979
Buildings and equipment	2,150	1,433
Annuity trust agreements	2,850	1,900
For periods after December 31, 200X	3,140	2,093
	$24,342	$16,227

8. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	200X	200X-1
Investment in perpetuity, the income from which is expendable to support:		
Programming and production activities	$27,524	$18,349
Broadcasting activities	13,662	9,108
Management and general activities	13,662	9,108
Any activities of the public broadcasting entity	81,972	54,648
	136,820	91,213
Endowment requiring income to be added to original gift until fund's value is $2,500	2,210	1,473
Paid-up life insurance policy that will provide proceeds upon death of insured for an endowment to support general activities	280	187
Land required to be used to relocate transmitter	3,000	2,000
	$142,310	$94,873

9. Gains on Permanently Restricted Net Assets

In 200X, the total return on Pool A was $18,000 (10.6 percent), of which $4,620 was retained permanently to preserve the real value of the original gifts. The remaining $13,380 was available for appropriation by the board of trustees. Under Public Broadcaster's endowment spending policy, 5 percent of the average of the market value at the end of the previous 3 years is appropriated, which was $7,500 for the year ended June 30, 200X.

10. Long-Term Debt

	200X	200X-1
As of June 30, 200X and 200X-1, long-term debt consisted of the following:		
Notes payable to the Trust for Excellence in Broadcasting ("the Trust")	$950,000	$950,000

In January, 200X-3, Public Broadcaster issued notes payable to the Trust in the amount of $950,000. The notes are secured by the equipment owned by Public Broadcaster and are scheduled to mature on January 1, 200X+2, or such later date as may be approved by resolution of the Trust, but not later than January 1, 200X+7.

Interest on the notes at a rate of 4.6% is payable semiannually in January and July. Interest expense for the notes for the years ended June 30, 200X and 200X-1 was approximately $43,700 each year.

11. Corporation for Public Broadcasting Community Service Grants

The Community Service Grants received and expended during the most recent fiscal years were as follows:

		Expended			
Year of Grant	Grants Received	200X-3 & Prior	200X-2	200X-1	Uncommitted Balance at June 30, 200X
200X-3	$1,284,880	974,582	310,298	—	—
200X-2	$1,281,438	99,114	872,568	309,756	—
200X-1	$1,224,643	—	97,218	998,385	129,040
200X-XX	$1,543,224	—	—	34,094	1,509,130

12. State Appropriations

This classification includes financial resources provided to Public Broadcaster through budgetary authorizations of the State Assembly. State appropriations utilized were as follows:

	200X	200X-1
Authorized State Appropriations	$7,850,011	$7,630,902
Unexpended Appropriation	(510098)	(607827)
Accrual Adjustments	(111470)	25841
Operating Fund	7228443	7048916
Property Fund	389520	1284768
Total	$7,617,963	$8,333,684

The operating fund includes state appropriation support expended for capital outlay during fiscal years 200X and 200X-1 of $371,116 and $357,228, respectively. These capital additions were transferred to the property fund for financial reporting purposes.

13. Indirect Administrative Support

Public Broadcaster receives administrative support from the University. Indirect administrative support consists of allocated institutional support and physical plant costs incurred by the University for which the Public Broadcaster receives benefits. The fair value of this support is recognized in the Statements of Activities as indirect administrative support and also as expense in the management and general functional expense category. For the years ended June 30, 200X and 200X-1, indirect support was calculated using the University's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The approved rate of 29% was modified to exclude certain cost components that do not benefit the Public Broadcaster. The approved rate was modified to exclude departmental and sponsored projects administration, library and student services resulting in an applied rate of 18%. The University also provides office, studio and tower facilities, the benefit for which is included as a building use allowance in the approved rate. The value of this support included in the Statements of Activities was $375,000 and $350,000 for the years ended June 30, 200X and 200X-1, respectively.

14. Operating Lease Commitments and Contingencies

For the years ended June 30, 200X and 200X-1, lease expense for tower space for certain repeater stations leased from third parties totaled $48,417 and $58,877, respectively.

Future minimum operating lease commitments at June 30, 200X are as follows:

Fiscal Year	
200X+1	$16,220
200X+2	16,220
200X+3	16,220
200X+4	16,220
200X+5	16,220
Thereafter	46,000

During fiscal years 200X and 200X-1, Public Broadcaster recorded $58,437 and $39,620, respectively, as rental income from leases of space on the University towers to various third parties. Future minimum rentals due are as follows:

Fiscal Year	
200X+1	$74,262
200X+2	63,022
200X+3	51,338
200X+4	50,144
200X+5	39,958
Thereafter	174,771

15. Benefit Plans

Substantially all of the permanent employees of Public Broadcaster are included in the University Retirement Plan, a 401(a) defined contribution plan. Under the plan, Public Broadcaster contributes, for each active participant, an amount equal to 5% of the participant's gross annual wages, plus 5% of the participant's gross annual wages in excess of the year's Social Security wage base. Participants become vested in the plan after five years of service with Public broadcaster. Expenses incurred by Public Broadcaster on behalf of the plan totaled approximately $73,000 and $81,000 for the years ended June 30, 200X and 200X-1, respectively.

Public Broadcaster also offers a 403(b) Tax-Sheltered Annuity Plan for substantially all of its permanent employees. The plan is a voluntary pay deferral plan that enables participants to contribute up to 12% of their respective annual wages per year, or the maximum amount allowed per ERISA requirements, whichever is less. Public Broadcaster makes a matching contribution amount of 25% of the first 6% contributed by each participant. Participants are 100% vested in the plan at all times. Expenses paid by Public Broadcaster on behalf of the plan totaled approximately $24,000 and $28,000 for the years ended June 30, 200X and 200X-1, respectively.

16. Allocation of Joint Costs

For the years ended June 30, 200X and 200X-1, approximate joint costs incurred for information activities that included fund-raising appeals were allocated as follows:

	200X	200X-1
Fundraising	$289,196	$258,797
Program information	163060	152040
	$452,256	$410,837

17. Related Party Transactions

Public Broadcaster receives administrative support from the Foundation and the University, and monetary support from the University. However, Public Broadcaster reimburses the University for all expenditures in excess of appropriations. Administrative support provided by the Foundation is valued based on the salaries of the Foundation's staff and their proportionate amount of time spent on support of Public Broadcaster. The statements of financial position and the statements of activities include the following related party amounts for the years ended June 30, 200X and 200X-1:

For the year ended June 30, 200X:

Related Party Transactions	Statement Line Item	University	Foundation
In-kind contributions	In-kind contributions/ Donated administration	$521,089	$ 10,635
Expenses in excess of Appropriations	Due to University, net	$471,723	
	Due from Foundation, net		$471,723
Appropriations	University appropriations	$465,815	

For the year ended June 30, 200X-1:

Related Party Transactions	Statement Line Item	University	Foundation
In-kind contributions	In-kind contributions/ Donated administration	$532,629	$12,036
Expenses in excess of Appropriations	Due to University, net	$463,793	
	Due from Foundation, net		$463,793
Appropriations	University appropriations	$483,720	

3.9 Example Financial Statements for a Not-for-profit Public Broadcasting Entity

This section provides sample financial statements for a not-for-profit public broadcasting entity. While reviewing provisions of SFAS No. 117, readers should keep in mind that its purpose is to address how to display assets, liabilities, net assets, revenues, expenses, gains, and losses specific in the financial statements.

[Corporate Model]

Public Broadcaster
Statement of Financial Position
For Years Ended June 30, 200X and 200X-1

	200X	200X-1
Assets:		
Cash and cash equivalents	$ 1,067,049	$ 1,123,641
Accounts receivable, less allowance for doubtful accounts of $14,715 and $15,928, respectively	108,508	96,819
Member pledges receivable, less allowance for uncollectible pledges of $23,455 and $27,058, respectively	15,637	18,039
Endowment pledges receivable, less allowance for uncollectible pledges of $36,800 and discount of $9,650	321,550	-
Due from University Foundation, net	471,723	463,793
Investment in common stock	50,000	50,000
Prepaid expenses and other assets	37,302	57,998
Property, plant and equipment, at cost		
Building	2,360,377	2,068,372
Equipment and other	2,615,065	2,110,068
Furniture and fixtures	228,022	221,375
	5,203,464	4,399,815
Less accumulated depreciation	2,166,358	1,676,606
Property, plant and equipment, net	3,037,106	2,723,209
Total assets	**$ 5,108,875**	**$ 4,533,499**
Liabilities and net assets:		
Accounts payable	$ 35,470	$ 35,189
Accrued expenses	187,629	165,836
Due to University, net	471,723	463,793
Deferred revenue	79,476	92,760
Total liabilities	774,298	757,578
Net assets:		
Unrestricted	3,717,447	3,498,644
Temporarily restricted	605,280	265,977
Permanently restricted	11,850	11,300
Total net assets	4,334,577	3,775,921
Total liabilities and net assets	**$ 5,108,875**	**$ 4,533,499**

The accompanying notes are an integral part of these financial statements.

[Net Asset Class Model]

Public Broadcaster
Statement of Financial Position
For Years Ended June 30, 200X and 200X-1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 200X	Total 200X-1
Assets:					
Cash and cash equivalents	$ 1,049,510	$ 17,539	$ -	$ 1,067,049	$ 1,123,641
Accounts receivable, less allowance for doubtful accounts of $14,715 and $15,928, respectively	108,508	-	-	108,508	96,819
Member pledges receivable, less allowance for uncollectible pledges of $23,455 and $27,058, respectively	12,742	2,895	-	15,637	18,039
Endowment pledges receivable, less allowance for uncollectible pledges of $36,800 and discount of $9,650	-	321,550	-	321,550	-
Due from University Foundation, net	325,923	145,800	-	471,723	463,793
Investment in common stock	-	37,160	12,840	50,000	50,000
Prepaid expenses and other assets	26,493	10,809	-	37,302	57,998
Property, plant and equipment, at cost					
Building	2,360,377	-	-	2,360,377	2,068,372
Equipment and other	2,300,044	315,021	-	2,615,065	2,110,068
Furniture and fixtures	228,022	-	-	228,022	221,375
	4,888,443	315,021		5,203,464	4,399,815
Less accumulated depreciation	2,148,754	17,604	-	2,166,358	1,676,606
Property, plant and equipment, net	2,739,689	297,417	-	3,037,106	2,723,209
Total assets	**$ 4,262,865**	**$ 833,170**	**$ 12,840**	**$ 5,108,875**	**$ 4,533,499**
Liabilities and net assets:					
Accounts payable	$ 26,526	$ 7,954	$ 990	$ 35,470	$ 35,189
Accrued expenses	107,700	79,929	-	187,629	165,836
Due to University, net	381,417	90,306	-	471,723	463,793
Deferred revenue	29,775	49,701	-	79,476	92,760
Total liabilities	545,418	227,890	990	774,298	757,578
Net assets:					
Unrestricted:				3,717,447	3,498,644
Investment in land, buildings and equipment	1,436,075	-	-		
Operating surplus	2,281,372	-	-		
Temporarily restricted:				605,280	265,977
For support of programming and production	-	496,432	-		
For purchase of buildings and equipment	-	108,848	-		
Permanently restricted to investment:				11,850	11,300
For support of any public broadcasting activities	-	-	11,850		
Total net assets	3,717,447	605,280	11,850	4,334,577	3,775,921
Total liabilities and net assets	**$ 4,262,865**	**$ 833,170**	**$ 12,840**	**$ 5,108,875**	**$ 4,533,499**

The accompanying notes are an integral part of these financial statements.

[Single-Column Format]

Public Broadcaster
Statement of Activities
For the years ended June 30, 200X and 200X-1

	Total 200X	Total 200X-1
Changes in unrestricted net assets:		
Revenues and gains:		
Pledges and contributions	$ 1,581,734	$ 1,487,049
University appropriations	465,815	483,720
Underwriting contributions	752,593	721,623
In-kind contributions	979,048	194,195
Donated administration	521,089	532,629
Other income	123,387	255,639
Total unrestricted revenues and gains	**4,423,666**	**3,674,855**
Net assets released from restrictions:		
Satisfaction of activity restrictions	278,560	199,401
Satisfaction of time restrictions	352,910	405,368
Total net assets released from restrictions	631,470	604,769
Total unrestricted revenues, gains, and other support	**5,055,136**	**4,279,624**
Expenses and other deductions:		
Program and production	1,800,147	1,768,144
Broadcasting	513,912	465,418
Depreciation	500,611	213,052
Public information	340,644	316,894
Management and general	556,605	588,273
Fundraising	859,010	864,376
Underwriting	265,404	246,417
Total unrestricted expenses and other deductions	**4,836,333**	**4,462,574**
Increase in unrestricted net assets	**218,803**	**(182,950)**
Changes in temporarily restricted net assets:		
Pledges and contributions	398,365	12,000
Grant revenue	572,408	682,748
Net assets released from restrictions	(631,470)	(604,769)
Increase in temporarily restricted net assets	**339,303**	**89,979**
Changes in permanently restricted net assets:		
Pledges and contributions	550	6,300
Increase in permanently restricted net assets	**550**	**6,300**
Increase (decrease) in net assets	**558,656**	**(86,671)**
Net assets at beginning of year	3,775,921	3,862,592
Net assets at end of year	**$ 4,334,577**	**$ 3,775,921**

The accompanying notes are an integral part of these financial statements.

[Multi-Column Format]

Public Broadcaster
Statement of Activities
For the years ended June 30, 200X and 200X-1

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Revenues, gains, and other support:								
Pledges and contributions	$ 1,581,734	$ 1,487,049	$ 398,365	$ 12,000	$ 550	$ 6,300	$ 1,980,649	$ 1,505,349
University appropriations	465,815	483,720	-	-	-	-	465,815	483,720
Underwriting contributions	752,593	721,623	-	-	-	-	752,593	721,623
In-kind contributions	979,048	194,195	-	-	-	-	979,048	194,195
Donated administration	521,089	532,629	-	-	-	-	521,089	532,629
Grant revenue	-	-	572,408	682,748	-	-	572,408	682,748
Other income	123,387	255,639	-	-	-	-	123,387	255,639
Total revenues, gains, and other support	**4,423,666**	**3,674,855**	**970,773**	**694,748**	**550**	**6,300**	**5,394,989**	**4,375,903**
Net assets released from restrictions								
Satisfaction of activity restrictions	278,560	199,401	(278,560)	(199,401)	-	-	-	-
Satisfaction of time restrictions	352,910	405,368	(352,910)	(405,368)	-	-	-	-
Total revenues, gains, and other support after release from restrictions	**5,055,136**	**4,279,624**	**339,303**	**89,979**	**550**	**6,300**	**5,394,989**	**4,375,903**
Expenses and other deductions:								
Program and production	1,800,147	1,768,144	-	-	-	-	1,800,147	1,768,144
Broadcasting	513,912	465,418	-	-	-	-	513,912	465,418
Depreciation	500,611	213,052	-	-	-	-	500,611	213,052
Public information	340,644	316,894	-	-	-	-	340,644	316,894
Management and general	556,605	588,273	-	-	-	-	556,605	588,273
Fundraising	859,010	864,376	-	-	-	-	859,010	864,376
Underwriting	265,404	246,417	-	-	-	-	265,404	246,417
Total expenses and other deductions	**4,836,333**	**4,462,574**	**-**	**-**	**-**	**-**	**4,836,333**	**4,462,574**
Change in net assets	**218,803**	**(182,950)**	**339,303**	**89,979**	**550**	**6,300**	**558,656**	**(86,671)**
Net assets at beginning of year	3,498,644	3,681,594	265,977	175,998	11,300	5,000	3,775,921	3,862,592
Net assets at end of year	**$ 3,717,447**	**$ 3,498,644**	**$ 605,280**	**$ 265,977**	**$ 11,850**	**$ 11,300**	**$ 4,334,577**	**$ 3,775,921**

The accompanying notes are an integral part of these financial statements.

[Direct Method]

Public Broadcaster
Statement of Cash Flows
For the years ended June 30, 200X and 200X-1

	200X	200X-1
Cash flows from operating activities:		
Cash received from CPB	$ 490,000	$ 465,500
Cash received from contributors and underwriting	2,340,000	2,215,370
Interest received	120,919	250,526
Cash received from grants & donations	1,349,100	653,400
Cash paid to employees	(2,325,000)	(2,322,000)
Grants paid	(4,590)	(3,000)
Cash paid to rent & other office services	(1,739,000)	(1,625,000)
Cash paid to suppliers	(616,713)	(648,074)
Cash received from university appropriations	433,200	448,221
Net cash provided by (used in) operating activities	47,916	(565,057)
Cash flows from investing activities:		
Purchase of furniture and equipment	(104,508)	(51,525)
Net cash used in investing activities	(104,508)	(51,525)
Net decrease in cash and cash equivalents	(56,592)	(616,582)
Cash and cash equivalents, beginning of year	1,123,641	1,740,223
Cash and cash equivalents, end of year	**1,067,049**	**1,123,641**
Reconciliation of change in net assets to net cash used by operating activities:		
Change in net assets	$ 558,656	$ (86,671)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	500,611	213,052
Gifts of property, plant and equipment	(710,000)	-
Changes in assets and liabilities:		
Accounts receivable, net	(11,689)	6,202
Pledges receivable, net	(319,148)	25,405
Prepaid expenses and other assets	20,696	(10,542)
Due from University Foundation, net	(7,930)	(463,793)
Accounts payable	281	(121,487)
Accrued expenses	21,793	18,751
Due to University, net	7,930	(145,903)
Deferred revenue	(13,284)	(71)
Net cash provided by (used in) operating activities	47,916	(565,057)
Supplemental disclosure of noncash activities:		
Write-off of fully depreciated property, plant and equipment	$10,859	$159,490

The accompanying notes are an integral part of these financial statements.

[Indirect Method]

Public Broadcaster
Statement of Cash Flows
For the years ended June 30, 200X and 200X-1

	200X	200X-1
Cash flows from operating activities:		
Change in net assets	$ 558,656	$ (86,671)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	500,611	213,052
Gifts of property, plant and equipment	(710,000)	-
Changes in assets and liabilities:		
Accounts receivable, net	(11,689)	6,202
Pledges receivable, net	(319,148)	25,405
Prepaid expenses and other assets	20,696	(10,542)
Due from University Foundation, net	(7,930)	(463,793)
Accounts payable	281	(121,487)
Accrued expenses	21,793	18,751
Due to University, net	7,930	(145,903)
Deferred revenue	(13,284)	(71)
Net cash provided by (used in) operating activities	47,916	(565,057)
Cash flows from investing activities:		
Purchase of furniture and equipment	(104,508)	(51,525)
Net cash used in investing activities	(104,508)	(51,525)
Net decrease in cash and cash equivalents	(56,592)	(616,582)
Cash and cash equivalents, beginning of year	1,123,641	1,740,223
Cash and cash equivalents, end of year	**$1,067,049**	**$1,123,641**
Supplemental disclosure of noncash activities:		
Write-off of fully depreciated property, plant and equipment	$10,859	$159,490

The accompanying notes are an integral part of these financial statements.

Section 4

Accounting and Reporting for Public Broadcasting Entities Following GASB

4 ACCOUNTING AND REPORTING FOR PUBLIC BROADCASTING ENTITIES FOLLOWING GASB

4.1 Overview

This section provides an overview for accounting and reporting for public broadcasting entities following GASB. Public broadcasting entities must submit to CPB financial statements that have been prepared in conformity with GAAP. The financial statements submitted to CPB should be those of the grant recipient and not solely those of the controlling institution that is the licensee. Stand-alone financial statements should be submitted to CPB, even if the public broadcasting entity reports to a parent organization.

For the financial statements submitted to CPB, the term "government-wide" – as used in GASBS No. 34 – refers to the entire public broadcasting entity (including any component units or related organizations whose financial activities may be consolidated with that of the public broadcasting entity), but *not* including elements of a parent government or governmental organization that may be the licensee but that are not primarily engaged in activities related to public broadcasting. That is, in these *Principles,* the meaning of the term "public-broadcasting-entity-wide" is specifically ***not*** the ordinary meaning that "government-wide" has in GASBS No. 34, where it is used to refer to the primary government, or highest level of aggregation.

Public broadcasting entities that elect to provide CPB their financial statements biennially must provide CPB with an annual breakout of their finances, either in side-by-side presentation or in separate financial statements for each fiscal year, with each of those statements also showing comparative data for the prior fiscal year.

GASBS Nos. 34 and 35 generally require two sets of financial statements, the entity-wide and the fund level. The complete GASBS No. 34 financial statements may include the following:

- *Public-broadcasting-entity-wide financial statements* consisting of Management's Discussion and Analysis (MD&A), a Statement of Net Assets and a Statement of Activities, notes to the financial statements, and required supplementary information (RSI) other than MD&A. The statements should report information about the public broadcasting entity as a whole without displaying individual funds or fund types. They should measure and report all assets, liabilities, revenues, expenses, gains and losses of the entire public broadcasting entity. Each statement should distinguish between the governmental and business-type activities of the public broadcasting entity and between the public broadcasting entity as a whole and its discretely presented component units by reporting each in separate columns. Fiduciary activities, whose resources are not available to finance the public broadcaster's activities, should be excluded from the public-broadcasting-entity-wide statements.[68]

[68] GASBS No. 34, paragraph 12.

- *Governmental fund financial statements* consisting of statements that focus on information about the public broadcasting entity's major governmental funds, including its blended component units. Governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting.
- *Proprietary fund financial statements* consisting of statements that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows of the public broadcasting entity's major proprietary funds, including its blended component units. Proprietary fund financial statements (including enterprise and internal service funds) should be prepared using the economic resources measurement focus and the accrual basis of accounting.
- *Fiduciary fund financial statements* consisting of statements that focus on information about the public broadcasting entity's fiduciary funds and components units that are fiduciary in nature. Fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting.

The complete GASBS No. 34 financial statements include the following:

- Management's Discussion and Analysis (MD&A)
- Public-Broadcasting-Entity-Wide Financial Statements
- Fund Financial Statements
  - Major Funds
  - Governmental Funds
  - Enterprise Funds
  - Internal Service Funds
  - Fiduciary Funds

Public broadcasting entities engaged only in business-type activities should use enterprise fund accounting. **CPB encourages all public broadcasting entities to use enterprise fund accounting**, but the decision whether to do so must be made by each grantee, in consultation with its independent auditors.

The guidance and examples (MD&A, financial statements, and notes to the financial statements), in *Section 4.9.1* are for public broadcasting entities that consist solely of one or more proprietary enterprise funds.

For grantees that use governmental fund accounting (whether entirely for governmental-type funds, or in combination with one or more proprietary funds), the public broadcasting entity must provide:

- Public-broadcasting-entity-wide financial statements, on a full accrual basis,
- Governmental fund financial statements, on a modified accrual basis, and
- A supplementary schedule reconciling the public-broadcasting-entity-wide and the governmental fund statements. This supplementary schedule should be included in the

scope of the audit of the public broadcasting entity. Discussion and examples for such grantees are included in *Section 4.10*.

4.1.1 Basis of Accounting

The accrual basis of accounting is generally accepted as providing a more appropriate record of an entity's transactions over a given period of time than the cash basis or other comprehensive basis of accounting.

Under accrual basis accounting, goods and services purchased are recorded as assets or expenses at the time the liabilities arise, which is normally when title to the goods passes or when the services are received. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date under accrual accounting and should not be reported as expenses nor included in liabilities on the balance sheet. However, significant commitments should be disclosed in the notes to the financial statements, and as such, an organization may designate in its balance sheet the portion of the fund balance so committed. Under accrual basis accounting, revenues are recognized when earned and expenses are recorded in the period incurred.

In some cases, the modified accrual basis of accounting is called for under GAAP. (The modified accrual basis applies to governmental funds, which are discussed in Section 4.2.2). Under the modified accrual basis, revenues are recognized when they become measurable and available. Liabilities are generally recorded for all obligations that will be liquidated with "expendable available financial resources." Liabilities and expenditures do not include encumbrances, but most state and local governments consider encumbrances to be expenditures for *budgetary reporting* within the financial statements. Thus, encumbrances outstanding at year-end often represent a difference between "net income" for budgetary reporting and for other financial statement reporting. See Section 4.10.2 for further discussion of budgetary reporting within the financial statements.

Differences in the treatment of fixed assets and long-term debt between the accrual and modified accrual bases of accounting can lead to major differences in net income under proprietary-fund and governmental-fund accounting.

4.1.2 Reporting Under GASB Nos. 34 and 35

In June 1999, GASB issued GASBS No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The purpose of this statement is to establish standards for external general-purpose financial statements provided by state and local governments and related organizations and requires significant changes to the financial presentations previously used by governments, including governmental public broadcasting entities. In GASBS No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* issued in November 1999, GASB made the same reporting requirements applicable to public colleges and universities.

The issuance of these pronouncements presents significant changes in external financial statement reporting requirements for state and local governments. These pronouncements not only change the financial statements, but they also impact certain accounting and disclosure treatments. Restatement of prior year financial statements is encouraged unless restatement is not practical.[69]

Section 4 of the *Principles* presents all information assuming stations are reporting under GASBS Nos. 34 and 35.

4.1.3 AICPA Audit and Accounting Guide Audits of State and Local Government Units

AICPA Audit and Accounting Guide *Audits of State and Local Government Units (GASB 34 Edition)*, (the State and Local Government Guide) is prepared by the AICPA and provides guidance for the audits of governmental financial statements that are prepared in conformity with GAAP and is based on pronouncements issued or cleared by GASB. Currently there are two versions of the *AICPA Audit and Accounting Guide: Audits of State and Local Governments*. The State and Local Government Guide referred to in these *Principles* is the GASB 34 edition dated September 1, 2002.

The State and Local Government Guide applies to all state and local governments. Governmental organizations are subject to GAAP for state and local governments as well as public corporations. Other organizations are governmental organizations if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state and local governments; or

- The potential for unilateral dissolution by a government with the net assets reverting to a government; or

- The power to enact and enforce a tax levy.[70]

[69] GASBS No. 34, paragraph 144

[70] *AICPA Audit and Accounting Guide: Audits of State and Local Governments (GASB 34 Edition),* paragraph 1.01.

The State and Local Government Guide consists of 16 chapters of various subject matters, and background information including key Statements of Position issued by the AICPA.

Chapter	Subject
1	Overview and Introduction
2	Financial Reporting
3	The Financial Reporting Entity
4	Planning the Audit
5	Cash, Investments, and Investment Related Activity
6	Revenues and Receivables
7	Capital Assets
8	Expenses/Expenditures and Liabilities
9	Interfund, Internal and Intra-Entity Activity and Balances
10	Entity and Financial Statements Reconciliations
11	The Budget
12	Special Purpose and State Governments
13	Concluding the Audit
14	Audit Reporting
15	Comprehensive Bases of Accounting Other Than Generally Accepted Accounting Principles
16	Auditor Association with Municipal Securities Filings

Since the State and Local Government Guide is considered category (b) GAAP under the GAAP hierarchy, it is important to have a working knowledge of the State and Local Government Guide. In addition, the State and Local Government Guide contains numerous examples and illustrations to assist the user in the preparation of financial statements.

4.2 Fund Accounting

Governmental accounting is structured on the basis of a group of defined, specialized funds. In fund accounting, resources are classified for accounting and reporting purposes into funds associated with classes of restrictions as to the nature and purposes of activities using those resources. Fund accounting is often used to facilitate observance of limitations when there are significant restricted resources. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Although separate accounts may be maintained for each fund, funds that have similar characteristics are typically grouped in preparing financial statements.

An entity may report on a fund accounting basis or on a single fund basis. Many public broadcasting entities receive resources restricted for particular purposes, and use fund accounting to classify those resources. If an entity has significant restricted resources and does not report on a fund accounting basis, the financial statements should disclose all material restrictions and observe the basic requirements.

Governments typically report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds (which are addressed in the following sections of the *Principles*.)

A substantial majority of the governmental public broadcasting entities currently report using the proprietary fund model, but some others use the governmental fund model. There is merit to the idea of consistency with the model in which the public broadcasting activity is represented in the larger government's financial statements. CPB does not require that public broadcasting entities conform to the model used by their controlling governments. **Given the objective of achieving the greatest possible uniformity in reporting by all public broadcasting entities, CPB encourages all entities following GASB to report using proprietary fund accounting.**

If the public broadcasting entity is part of a larger primary government that requires it to follow the governmental model, the public broadcasting entity must provide a supplemental schedule showing adjustments from the modified accrual basis under the governmental model to the full accrual basis under the enterprise model. This supplementary schedule should be included in the scope of the audit of the public broadcasting entity.

Regardless of the fund model followed, these *Principles* are not meant to give public broadcasting entities the flexibility to choose among different fund models for specific transactions or from year to year.

The Focus of Major Fund Reporting

The focus of governmental and proprietary fund financial statements is on major funds. Fund statements should present the financial information of each major fund in a separate column. Non-major funds should be aggregated and displayed in a single column.

The reporting public broadcasting entity's main operating fund (the general fund or its equivalent) should always be reported as a major fund.[71] Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria: [72]

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the public broadcasting entity's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) should be reported as a major fund.

4.2.1 Proprietary Funds

Proprietary funds use the flow of economic resources approach and include a measurement of "net income". The proprietary fund includes all assets and liabilities related to these activities. Proprietary fund reporting focuses on the determination of operating income changes in net assets (or cost recovery), financial position, and cash flows.

This category includes the following types of funds:

- Enterprise – Accounts for activities for which a fee is charged to external users for goods and services
- Internal service – Accounts for any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis

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[71] In the financial statements that public broadcasting entities are required by law to submit to CPB, the "reporting government" is the public broadcasting entity, together with any financially interrelated organizations for which the financial statements are combined or consolidated with the financial statements of the public broadcasting entity. It is not the broader, controlling government or governmental entity.

[72] GASBS No. 34, paragraph 76

Enterprise funds

Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*:[73]

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payment – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

- Laws or regulations require that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Organizations with activities that meet the criteria of an enterprise fund[74] must be accounted for as a proprietary enterprise fund. **While public broadcasting entities may not meet any of the above three criteria, enterprise fund accounting is appropriate and strongly encouraged.**

Public broadcasting entities presenting stand-alone financial statements as an enterprise fund would be considered a "special purpose government engaged only in business-type activities."[75] Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. These activities are usually reported in enterprise funds.[76] Accordingly, the reporting guidance in *Section 4.9* and the example financial statements and footnotes in *Section 4.11* are for proprietary enterprise funds.

Internal service funds

Internal service funds should be used only if the reporting public broadcasting entity is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.[77]

4.2.2 Governmental Funds

Governmental fund reporting focuses primarily on the sources, uses, and balances of currently expendable financial resources and often has a budgetary orientation.

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[73] GASBS No. 34, paragraph 67.
[74] GASBS No. 34, paragraph 67
[75] GASBS No. 34, paragraph 138
[76] GASBS No. 34, paragraph 15
[77] GASBS No. 34, paragraph 68.

The governmental fund category includes the following types of funds[78]:

- General – Accounts for all financial resources except those required to be accounted for in another fund
- Special revenue – Accounts for the proceeds of special revenue sources (other than special assessments, expendable trusts or capital projects) that are legally restricted in purpose
- Capital projects – Accounts for financial resources used to acquire or construct material capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds
- Debt service – Accounts for accumulation of resources used to pay long-term debt principal and interest
- Special Assessment Funds—Accounts for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied

4.2.3 Fiduciary Funds

Fiduciary funds should be used to report assets that are held in a trustee or agency capacity for others and therefore cannot be used to support the public broadcasting entity's own programs. Fiduciary fund reporting focuses on net assets and changes in net assets.

The fiduciary fund category includes:

- Pension (and other employee benefit) trust funds
- Investment trust funds
- Private-purpose trust funds
- Agency funds

The three types of trust funds should be used to report resources held and administered by the reporting public broadcasting entity when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.[79]

[78] GASBS No. 34, paragraph 66.
[79] GASBS No. 34, paragraph 70.

4.3 Financially Interrelated Organizations

In order to present meaningful financial statements that fully and fairly disclose financial position and results of operations, the financial statements of interrelated organizations should generally be combined or consolidated with the financial statements of the public broadcasting entity.

Public broadcasting entities are most frequently financially interrelated with three types of organizations: fundraising organizations, affiliated stations, and subsidiaries. A brief description of each is provided below:

- *Fundraising Organizations* are organizations whose primary purpose is to raise funds and/or otherwise support the public broadcasting entity. They are often called "Friends" (e.g., "The Friends of Station WXYZ"). Friends groups have various organizational structures. They may be separate not-for-profit corporate entities or unincorporated committees or chapters. Some are very formally organized with separate governing boards, written bylaws and charters, etc. Others consist of loose affiliations of volunteers who operate under the direct supervision of station management. Past financial reporting practices by Friends have varied widely, ranging from no financial reports to complete, separately-issued financial statements audited by an independent public accountant.

  Despite their diverse nature, virtually all Friends groups that are engaged in fundraising frequently do so in the name of particular stations and make reference to the call letters, broadcast frequency, or another trade name or identity used by the stations in broadcasting. Many Friends organizations manage significant financial resources—resources that were solicited from the public by representing that the funds were to be used for the benefit of the public broadcasting entity.

  Another type of fundraising organization with which public broadcasting entities may be interrelated is a university's foundation. Such a foundation may be organized primarily to receive grants and contributions, to transfer funds to, and/or to make expenditures on behalf of various elements of the university. Such foundations are often deemed to be component units of a public college or university on behalf of which they raise funds, and are combined or consolidated with the financial statements of the university as a whole. Nevertheless, even if a university foundation provides a significant portion of the public broadcasting entity's total support and revenue, supporting the public broadcasting activities may be such a small part of the foundation's overall activity that combining or consolidating the foundation's financial activities with those of the public broadcasting entity is not appropriate. In such circumstances, the public broadcasting entity should disclose the relationship in notes to the financial statements, but not combine or consolidate financial reporting.

- *Affiliated Stations* are two or more broadcast stations under common control. Some legal entities oversee operations of two or more stations that are essentially independent of one another managerially, and may share resources only through a licensee's annual budget process. Other affiliated stations are very centralized in nature and share management and governance as well as physical facilities and certain contributed support.

- *Subsidiaries* are organizations that are legally owned by the public broadcasting entity, through stock ownership or other means of direct control. Ownership in a for-profit subsidiary is generally evidenced by an investment in the voting stock or representation on the controlling board of directors of the subsidiary. Ownership of a not-for-profit subsidiary may be evidenced in various ways because not-for-profit organizations may exist in various legal forms, such as corporations issuing ownership certificates, membership corporations issuing membership certificates, joint ventures, and partnerships, among other forms.[80]

The reporting entity of a government is defined in GASBS No. 14 *The Financial Reporting Entity*, as amended by GASBS No. 39.

Investments in For-Profit Majority-Owned Subsidiaries

Government organizations with a controlling financial interest in a for-profit entity through direct or indirect ownership of a majority voting interest in that entity should follow the guidance in GASBS Nos. 14 and 39.

Financially Interrelated Not-for-Profit Organizations

A legally separate, tax-exempt organization should be reported as a component unit if all of the following criteria are met:[81]

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary public broadcasting entity,[82] its component units or its constituents.

- The primary public broadcasting entity, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

- The economic resources received or held by an individual organization that the specific primary public broadcasting entity, or its component units, is entitled to, or has the ability to otherwise access, are significant to the public broadcasting entity as a whole.

[80] SOP 94-3, paragraph 10.
[81] GASBS No. 39, paragraph 40a
[82] In the financial statements that public broadcasting entities are required by law to submit to CPB, the "primary government" is the public broadcasting entity, together with any financially interrelated organizations for which the financial statements are combined or consolidated with the financial statements of the public broadcasting entity. It is not the broader, controlling government or governmental entity.

4.4 Cash and Investments

This section addresses specific requirements pertaining to the accounting for cash and certain investments by governmental public broadcasting entities.

4.4.1 Deposits and Investments, including Repurchase Agreements

In April 1986, GASB issued GASBS No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements.* This statement requires certain note disclosures about:

- A governmental public broadcasting entity's deposits with financial institutions, investments (including repurchase agreements), and reverse repurchase agreements;
- The types of investments authorized by legal or contractual provisions; and
- Significant violations during the period of legal or contractual provisions related to deposits and investments.

The term securities as used in this section include securities underlying repurchase agreements and investment securities.

The following disclosures are required for the deposit and investment portfolio as of the financial statement date.

- If the bank balances of deposits as of the balance sheet date are entirely insured or collateralized with securities held by the entity or by its agent in the entity's name, that fact should be stated. If not, disclosures must be made about the level of credit risk associated with deposits and investments, including the fair value of total deposits, if not separately displayed on the balance sheet (or statement of net assets), classified in these three categories of credit risk:

  (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name;
  (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and
  (3) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)[83]

- The fair value of investments (including repurchase agreements) as of the financial statement date should be disclosed in total and for each type of investment. The disclosure of fair value by type of investment should be classified in these three categories of credit risk:

  (1) Insured or registered in the entity's name, or securities held by the entity or its agent in the entity's name;

[83] GASBS No. 3, paragraph 67

(2) Uninsured and unregistered, with securities held by the counter party's (the other party to the transaction) trust department or agent in the entity's name; and
(3) Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the entity's name. (This includes the portion of the fair value of any repurchase agreement that exceeds the fair value of the underlying securities.)[84]

- For reverse repurchase agreements,

    (1) The source of authorization for their use;
    (2) Significant violations during the period of legal or contractual provisions related to the agreements; and
    (3) Summary information about the credit risk associated with the agreements as of the balance sheet date.

Liabilities resulting from reverse repurchase and fixed-coupon reverse repurchase agreements are required to be shown as "Obligations under reverse repurchase agreements" and should not be netted with the related assets on the balance sheet. Interest costs associated with reverse repurchase and fixed-coupon reverse repurchase agreements are required to be shown as interest expenditure/expense and are not to be netted with the interest income from the related investments. Income from repurchases and reverse repurchase agreements are required to be accounted for as purchases and sales of investments, with gains or losses on those investments recognized.

4.4.2 Governmental External Investment Pools

In March 1997, GASB issued GASBS No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools,* which established accounting and financial reporting standards for all investments held by governmental external investment pools. For most other governmental entities, it establishes fair value standards for investments in (a) participating interest-earning investment contracts, (b) external investment pools, (c) open-end mutual funds, (d) debt securities, and (e) equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values. Participating investment contracts are investments whose value is affected by market (interest rate) changes. They participate because they are negotiable or transferable, or their redemption value considers market rates.

Governmental entities should report investments at fair value in the balance sheet (or statement of net assets). Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.[85] However, governmental entities are permitted to report certain money market investments at amortized cost, provided that the investment has a remaining maturity of one year or less at time of purchase.[86] This statement also provides for generally reporting the fund's current share price as fair value of investments in open-end mutual funds and external investment pools.

[84] GASBS No. 3, paragraph 68
[85] GASBS No. 31, paragraph 7
[86] GASBS No. 31, paragraph 9

All investment income, including changes in the fair value of investments, should be reported as revenue in the operating statement (or statement of activities). When identified separately as an element of investment income, the change in the fair value of investments should be captioned net increase (decrease) in the fair value of investments. Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements.[87] If the investment income associated with one fund is assigned to another fund for other than legal or contractual reasons, for example, management decision, the income should be recognized in the fund that reports the investments. The transfer of that income to the recipient fund should be reported as an operating transfer.

[87] GASBS No. 31, paragraph 13.

4.5 Contributions

Contributions received include expenses paid on behalf of a public broadcasting entity by others outside the reporting entity (excluding amounts paid by organizations that are consolidated or combined in the financial statements of the public broadcasting entity, since such amounts are eliminated in consolidation). In-kind contributions are frequently received by public broadcasting entities as promises to give (i.e., pledges of) services, materials, supplies, facilities, property, advertising, or promotion. CPB also considers indirect administrative support to be a contribution when it is provided by a "parent institution" licensee that, while not legally distinct, is outside the scope of the public broadcasting entity for which financial statements are prepared and submitted to CPB. (Among the public broadcasting entities that would normally follow GASB, this would generally be the case only when the licensee is a public college or university or a school board that has delegated management and operation of the public broadcasting station(s) to a division or department that has no discrete legal identity or status.)

The following subsections describe accounting principles to be applied to non-exchange transactions – promises to give (pledges) and cash contributions generally, and then principles to be applied to each of the significant types of contribution other than cash:

- Non-exchange transactions
- Donated materials, supplies, facilities and property
- Contributed nonprofessional volunteer services
- Contributed professional services
- Contributed advertising and promotion
- Indirect administrative support

4.5.1 Non-exchange Transactions

Voluntary non-exchange transactions typically consist of contributions of cash and other financial resources (i.e., stocks, grants, etc.) or pledges/promises to give. Non-exchange transactions may also include in-kind contributions of non-financial resources, such as services or property, or pledges/promises to give such non-financial resources.

Underwriting: Voluntary Non-Exchange Transaction or Exchange Transaction?

Governmental public broadcasting entities – or Friends groups or foundations whose financial activities are consolidated with those of a governmental entity in the public broadcasting entity's financial statements – often receive underwriting, i.e., grants, contributions, or other asset transfers solicited by the recipient for (and/or restricted by the donor to) use in financing the production of – or the acquisition of broadcast rights for – specific programs.

Many public broadcasters also use the term "underwriting" for asset transfers (other than "membership" or "subscription" contributions) that are solicited for general support of other broadcast activities (e.g., helping to finance the acquisition and transmission of the entire program schedule aired by a public broadcasting station during a certain daypart or longer time period).

Underwriting may be promised by and/or received from individuals, governments, philanthropic foundations or other not-for-profit organizations, or for-profit businesses, and it may be received by a broadcast station, a program distributor that furnishes program matter to broadcast stations, or the original producers of the program matter being broadcast.

Federal law[88] and Federal Communications Commission regulations[89] require broadcasters – including *public* broadcasters – to announce on air, at the time a program is broadcast, by whom or on whose behalf underwriting support was provided, whether to the broadcaster airing the program, to a program distributor that furnishes the program to the broadcaster, or to the original producers of the program matter being broadcast.

Neither laws nor regulations *require* public broadcasters to air credit announcements for general-support underwriting, but nothing prohibits the broadcast of such credit announcements,[90] and many public broadcasters acknowledge on air any significant grants and contributions of general support.

Although the practice is rarer among *governmental* public broadcasting entities, some public broadcasters – or their related Friends groups or foundations – establish “rate cards” and execute formal written agreements with their underwriters, specifying the number, frequency, and/or scheduling of underwriting credit announcements that the public broadcaster promises to air in acknowledgment of the amount of underwriting promised.

Questions often arise about how to account for these underwriting transactions because a donor may consider the underwriting credit announcements to be of equivalent value to that of his grant or contribution to the public broadcasting entity. The language and style of a written agreement may itself appear to document an exchange transaction.

Whether the promised transfer of assets to the public broadcasting entity is reciprocal or non-reciprocal is a critical factor in determining whether the transaction will be treated as a voluntary non-exchange transaction or an exchange transaction.

It is not known, though, whether a donor has ever asked a court to compel a public broadcaster either to broadcast a promised underwriting credit or to return the assets that were transferred because a promised underwriting credit was not broadcast. Therefore, the reciprocal or non-reciprocal nature of these underwriting agreements is uncertain.

Nonetheless, **underwriting credit announcements have long been presumed to be of merely nominal value to the donor, and they are not typically interpreted – <u>in and of themselves</u> – as giving rise to an exchange transaction.**

With respect to federal taxation,[91] for example, Section 513(i) of the Internal Revenue Code exempts from unrelated business taxation of the income of charitable and similar, otherwise tax-

[88] 47 U.S.C. § 317

[89] 47 C.F.R. § 73.1212 (known as “the sponsorship identification rule”)

[90] See *Letter of Chief, Complaints and Investigations Branch, to Station KUNV(FM)* (July 11, 1988).

[91] Most governmental public broadcasting entities are exempt from federal taxation because they are agencies of states or of minor civil divisions of states, whether they are operated alone or consolidated with other organizations that are exempt under Section 501 of the Internal Revenue Code. Nevertheless, the

exempt organizations, "qualified sponsorship payments" – a similar but somewhat broader concept than "underwriting" – which are defined as:

> *any payment made by any person engaged in a trade or business with respect to which there is no arrangement or expectation that such person will receive any substantial return benefit other than the use or acknowledgement of the name or logo (or product lines) of such person's trade or business in connection with the activities of the organization that receives such payment. Such a use or acknowledgement does not include advertising such person's products or services (including messages containing qualitative or comparative language, price information, or other indications of savings or value, an endorsement, or an inducement to purchase, sell, or use such products or services).* [92]

Internal Revenue Service regulations[93] specify what, on the one hand, may be included in "use or acknowledgement of the name or logo" of a sponsor and therefore excluded from the consideration of "substantial return benefit" that would disqualify a payment from the exemption, and what, on the other hand, constitutes advertising and is therefore not excluded.[94]

The IRS regulations, of course, are specifically related to taxation – what sponsorship payments by for-profit businesses are deductible, and what sponsorship income received by not-for-profit entities is subject to unrelated business income taxation (UBIT). The notion that the act of acknowledging sponsors – when not promotional in nature – is no bar to the exemption of "qualified sponsorship payments" from UBIT generally reinforces the long-standing practices among public broadcasting entities and their auditors, both of treating underwriting credit announcements as of merely nominal value, and of recognizing revenue and support from underwriting as contributions.

Note, however, that, in following the guidance of GASBS No. 33, the documentation that may be required to make voluntary non-exchange transactions, or promises to give, both verifiable and measurable may be significantly different from that of revenues from exchange transactions. Auditors may consider many of the current written agreements between public broadcasting entities and their underwriters to be irrelevant or insufficient as verification of a contribution.

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logic of tax law and regulations concerning sponsorship payments may be pertinent in the analysis required to determine the proper accounting treatment of underwriting provided to any public broadcasting entity.

[92] 26 U.S.C. § 513(i)(2)(A)

[93] 26 C.F.R. § 1,513-4

[94] With respect to public broadcasting, the Communications Act defines "advertisement" as:

> . . . any message or other programming material which is broadcast or otherwise transmitted in exchange for any remuneration, and which is intended — (1) to promote any service, facility, or product offered by any person who is engaged in such offering for profit; (2) to express the views of any person with respect to any matter of public importance or interest; or (3) to support or oppose any candidate for political office. (47 U.S.C. 399b(a))

"Presenting Station" Fees for Introducing Programs into Public Broadcasting Distribution: Voluntary Non-Exchange Transaction or Exchange Transaction?

A public broadcasting entity sometimes charges an independent program producer a fee for that is introducing a program into distribution among public broadcasters by acting, for example, as a "presenting station" in the PBS National Program Service.

Regardless whether such a fee is charged directly to, and paid directly by, the independent program producer, or is simply retained by the public broadcasting entity from assets that the public broadcaster may have solicited or received from third-party underwriters on the program producer's behalf,[95] the fee that is received or retained for introducing the program into public broadcasting distribution represents an exchange transaction, and not a voluntary non-exchange transaction.

Pledges (Promises to Give)

Promises of cash or other assets that nongovernmental entities, including individuals, voluntarily make to governmental public broadcasting entities (or to financially interrelated organizations) may be referred to in practice as "pledges," "promises to give," or "promised donations" or by some other term. Promised assets may include permanently nonexpendable additions to endowments and other trusts; term endowments; or other kinds of capital or financial assets, with or without purpose restrictions or time requirements.[96]

A promise to give is a written or oral agreement to contribute cash or other assets to another entity. A promise carries rights and obligations—the recipient of a promise to give has a right to expect that the promised assets will be transferred in the future, and the maker has a social and moral obligation, and generally a legal obligation, to make the promised transfer.

If the promise to give meets the criteria for recognition, it is verifiable and resources are measurable and probable of collections, the pledge should be recognized as a receivable and revenue for the discounted present value of the installments in the period when the donor's pledge is received. Present value refers to the value now of a given sum to be received in the future. Such treatment is similar to that of notes and other receivables of a long-term nature without an explicit interest rate. Subsequent accruals of the interest element should be reported as revenue.

Exhibit 4-1 is a graphical presentation of judgments required when classifying promises to give.

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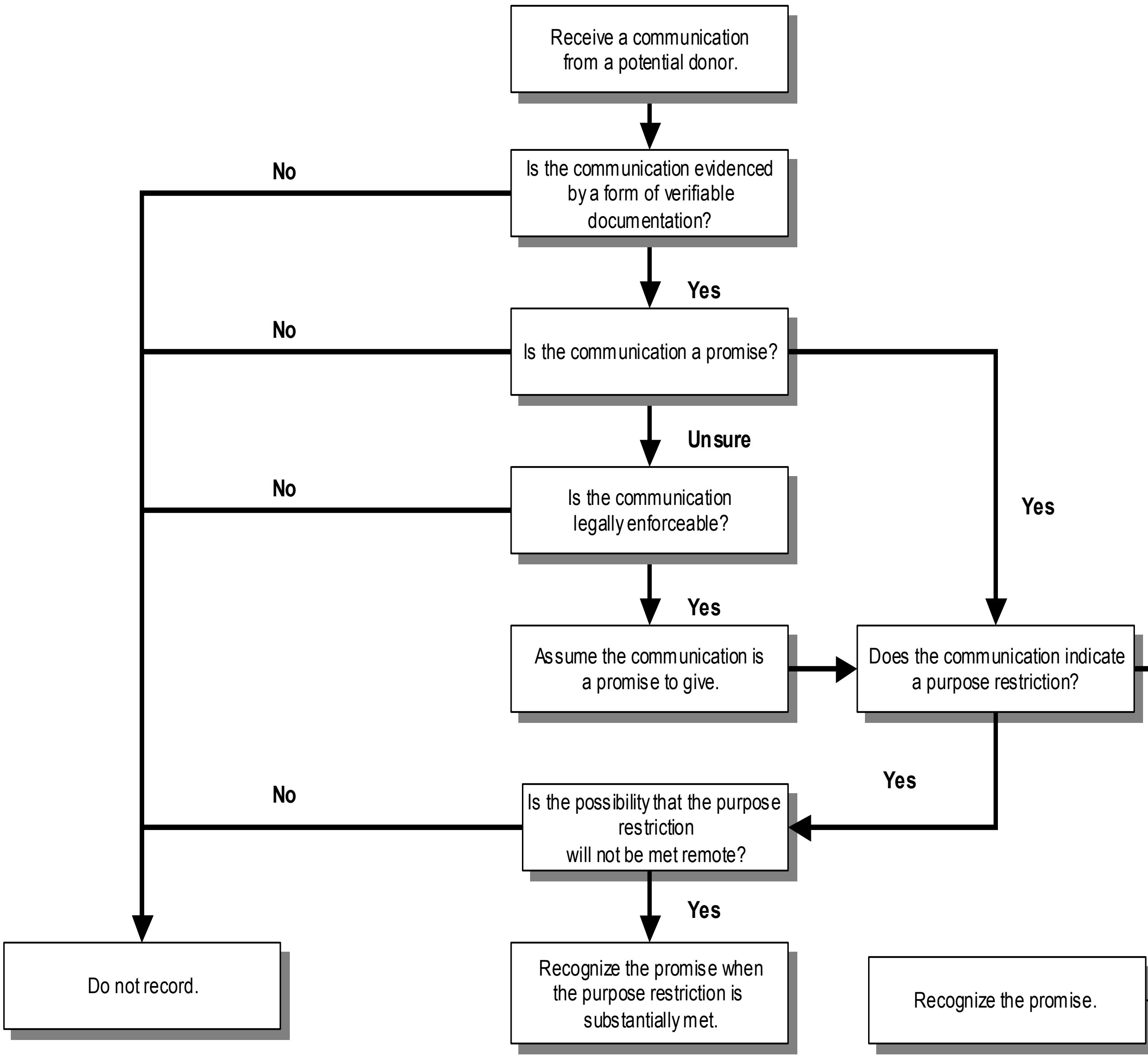
[95] GASB has not issued guidance on contributions received on behalf of others that is comparable to that of SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, although GASBS No. 33, paragraph 20, refers to a "recipient (and secondary recipient, if applicable)" in the discussion of eligibility requirements for government-mandated and voluntary non-exchange transactions.

[96] GASBS No. 33, paragraph 25.

Exhibit 4-1

Identifying Promises to Give



Time Requirements and Purpose Restrictions

GASBS No. 33 distinguishes between two kinds of stipulations on the use of resources: time requirements and purpose restrictions. Different standards apply for each kind of stipulation[97].

- *Time requirements* specify the period when resources are required to be used (sold, disbursed, or consumed) or when use may begin. (For example, a provider may stipulate that the resources it provides are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.) For example, with most CPB grants, including the Community Service Grants (CSGs), federal law imposes certain restrictions as to the period during which grant funds may be expended. Time requirements affect the timing of recognition of non-exchange transactions.

- *Purpose restrictions* specify the purpose or purposes for which resources are required to be used. Purpose restrictions should not affect when a non-exchange transaction is recognized. However, governmental public broadcasting entities that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted (or a reservation of fund balance for governmental funds). (For example, a provider may specify, in the case of an endowment, that the principal is required to be held in income-producing investments. With most CPB grants, including the Community Service Grants (CSGs), federal law imposes certain restrictions as to the purposes for which grant funds may be expended.)

The timing of recognition for voluntary non-exchange transactions is outlined below[98]:

- Assets (recipients) and liabilities (providers)—when all applicable eligibility requirements are met or resources are received, whichever is first. Eligibility requirements are established by the provider and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

- Revenues (recipients) and expenses/expenditures (providers)—when all applicable eligibility requirements are met, with the following exceptions:

  – For transactions, such as permanent or term endowments, in which the provider stipulates that resources should be maintained intact in perpetuity, for a specified number of years, or until a specific event has occurred, resources should be recognized as revenues when received and as expenses/expenditures when paid.

  – For transactions in which the provider requires the recipient to use (sell, disburse, or consume) the resources in or beginning in the following period, resources provided before that period should be recognized as advances (providers) and deferred revenues (recipients). Examples of these include permanently nonexpendable additions to endowments and other trusts and term endowments.

[97] GASBS No. 33, paragraph 12.
[98] GASBS No. 33, paragraph 21-22

Eligibility

Eligibility requirements comprise one or more of the following[99]:

- Required characteristics of recipients – The recipient has the characteristics specified by the providers, e.g. recipients of CPB Community Service Grants are required to be public broadcasting entities.

- Time requirements – Time requirements by the provider have been met.

- Reimbursements – The provider offers the resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program

- Contingencies – The provider's offer of resources is contingent upon a specified action and that action has occurred. For example, the recipient is required to raise a specific amount of resources from third parties.

Resources transmitted before the eligibility requirements are met should be reported as deferred revenues by recipients, except for recipients of certain resources transmitted in advance, as discussed above.

When a provider does not specify time requirements, the entire award should be recognized as a receivable and a revenue (net of estimated uncollectible amounts) by the recipient, in the period when all applicable eligibility requirements are met (applicable period). When the provider is a government, the applicable period for both the provider and the recipients is the provider's fiscal year and begins on the first day of that year. The entire award should be recognized at that time.[100]

Modified Accrual

For stations not reporting as a proprietary fund, GASBS No. 33 specifies that if the modified accrual basis is used for revenue recognition, eligibility requirements discussed above must be met and resources should be available. The term *available*, as defined by GASB Interpretation No. 5*, Property Tax Revenue Recognition in Governmental Funds* means, "collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period."[101]

Regardless of the type of accounting used by the public broadcasting entity, accrual or modified accrual, CPB requires all non-exchange transactions to be accounted for using full accrual. Under the accrual basis, recipients of non-exchange transactions should recognize receivables (or a

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[99] GASBS No. 33, paragraph 20

[100] GASBS No. 33, paragraph 24

[101] Although the context in which GASB defined the term "available" – the collection of property tax revenues – is not applicable to public broadcasting entities, when using the modified accrual basis of accounting this definition can and should be applied to the collection of revenues typically associated with public broadcasting entities, such as contributions and grants.

decrease in liabilities) and revenues (net of estimated uncollectible amounts) when all eligibility requirements are met.

4.5.2 Contributed Materials, Supplies, Facilities and Property

Contributed materials, supplies, facilities, and property, if significant in amount, should be recorded at their fair value,[102] provided the entity has a clearly measurable and objective basis for determining the value. The value of contributed facilities should be recognized as revenue and a receivable by the recipient in the period when all applicable eligibility requirements are met (applicable period) at its fair value when received. If the contributed materials, supplies, facilities, and property are such that values cannot reasonably be determined, they should not be recorded as contributions.

When accounting for contributed property:

- The entity must obtain legal title (domain and control over the use and disposition) of the property.

- If the contributed property is for the continued use of the station, the donor must determine the fair market value at the time of the donation. If a reasonable fair value cannot be determined, the donor should use the book value (cost less accumulated depreciation) of the property for establishing the value of the contribution.

- Contributed property must be adequately documented by the donor, including description, date of donation, value, and method of valuation. New property must be supported with a vendor invoice.

- In the case of transfers of assets with unresolved conditions, such transactions must be reflected as refundable advances (as liabilities with no revenue recognition) until conditions are resolved.

4.5.3 Volunteer Services Not Requiring Specialized Skills

Contributed volunteer services are services performed for the benefit of a public broadcasting entity. They may be donated directly to the entity, or indirectly through a related organization. They are usually provided by an individual's own free will, without financial compensation.

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[102] APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, paragraph 25, states, "Fair value of a nonmonetary asset transferred to or from an enterprise in a nonmonetary transaction should be determined by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence." In underwriting "trades" – i.e., nonmonetary, or in-kind, underwriting contributions, for which the only benefit transferred from the public broadcaster to the donor is that of an on-air acknowledgement, or underwriting credit announcement (see Section 3.3, above) – neither an "underwriting rate card" used by the public broadcaster in soliciting contributions, nor any valuation merely agreed upon by the donor and the recipient without an independent, objective basis, is relevant evidence of fair value of the nonmonetary assets contributed.

The nature and extent of donated personal services of volunteers received by public broadcasting entities ranges from the limited participation of many individuals in fundraising activities to active participation by more limited numbers of people in the entity's service programs. Volunteer services most frequently contributed to the public broadcasting entity include fundraising and on-air services. Contributions such as these should not be recorded in the financial statements, but may be disclosed in the notes.

4.5.4 Services that Create or Enhance Non-financial Assets or That Require Specialized Skills

A governmental public broadcasting entity must recognize contributed services received that (a) create or enhance non-financial assets (such as a professional painter who paints the office of the broadcaster) or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. An organization may not recognize contributed services received that do not meet one or both of these criteria.

Non-financial assets include physical assets (e.g., property, plant and equipment, or inventory), intangible assets (e.g., patent rights), and other assets (e.g., prepaid expenses).

Specialized skills are those of "accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen." These kinds of contributed services *should not* be recorded in the financial statements unless *all* of the following circumstances exist:

- The services are provided for activities that are normal and standard
- The public broadcasting entity would normally pay for the kind of services provided (e.g., program guests and program audiences are not normally paid and should not be included)
- The services provided are the same as those, which the donor normally provides to the general public. (For instance, lawyers provide legal services, not broadcasting services. If a lawyer is the host of a program, he or she is not considered to be providing services requiring specialized skills unless the program host is acting as an on-air legal advisor.)

Contributed services should be recorded based on their fair value at the time the services are rendered.[103] There must be a clearly measurable and objective basis for measuring the fair value

[103] APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, paragraph 18 states: "The Board concludes that in general accounting for nonmonetary transactions should be based on the fair values [footnote 5: See paragraph 25 for determination of fair value] of the assets (or services) involved which is the same basis as that used in monetary transactions." Paragraph 25 states, "Fair value of a nonmonetary asset transferred to or from an enterprise in a nonmonetary transaction should be determined by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence." In underwriting "trades" – i.e., nonmonetary, or in-kind, underwriting contributions, for which the only benefit transferred from the public broadcaster to the donor is that of an on-air acknowledgement, or underwriting credit announcement (see Section 3.3, above) – neither an "underwriting rate card" used by the public broadcaster in soliciting contributions, nor any valuation merely agreed upon by the donor and recipient without an independent, objective basis, is relevant evidence of fair value of the services contributed .

of the service. For example, an attorney ordinarily bills a client at established rates for services provided. When that attorney provides the same services to a public broadcasting entity without charge or at reduced rates, the public broadcasting entity must obtain from the donor documentation of the value of the donation, based on usual fees charged. A major uncertainty about the existence of value may indicate that a service should not be recognized as a contribution received.

Notes to the financial statements should describe the programs and activities for which the contributed services were used, including the nature and extent of contributed services received, the amount recognized as revenue for the period, and if practicable to disclose, the fair value of contributed services received but not recognized as revenues.

4.5.5 Advertising and Promotion

Local and national underwriters of programs produced and/or aired by a public broadcasting entity frequently contribute (directly or in-kind by providing production services) advertising and promotion for their sponsored programs or for the entire program service of a station airing the program.

Commercial broadcasters and other advertising-media businesses (such as newspapers, outdoor advertising companies, and motion picture exhibitors) also frequently contribute in-kind advertising to a public broadcasting entity, in what both donor and public broadcaster may characterize informally as a “barter” or “trade” transaction.

GASBS No. 33 defines the types of non-exchange transactions that must be recorded in order to be consistent with GAAP. Generally, contributed advertising and promotion does meet the criteria for recognition as stated in GASBS No. 33, paragraph 11, and therefore should typically be recorded as contribution revenue.

While reporting of contributed advertising and promotion is allowed, (i) the fair value to the public broadcasting entity of contributed promotion is often difficult to substantiate, and in some cases the fair value of contributed advertising may also be difficult to substantiate, and (ii) there is a concern that contributed advertising and promotion has become of significant commercial value to the underwriter, particularly when the underwriter’s identity is featured prominently in the program promotion or when the program promotion is only a part of promotion for the underwriter’s own business activities. This fact calls into question whether even substantiated value to the station represents a contribution, an exchange, or some combination of both. Stations should not recognize as a contribution the portion of total value received that represents an exchange transaction with the underwriter.

Generally, contributed advertising and promotion should typically be recorded as contribution revenue.

Regardless of what documentation the public broadcasting entity’s auditor may require to substantiate values recorded in the financial statements, CPB requires its grantees to maintain the following documentation to substantiate contributed promotion recognized in the financial statements:

- Third-party substantiation of fair value to the public broadcasting entity

- Detail support or confirmation of the promotional costs underwriters have incurred including descriptions by major cost category (air time, print advertisements, internal staff allocations, etc.)
- Documentation of the value of contributed promotion to the underwriter (i.e., the extent that the promotion is an exchange transaction)

4.5.6 Indirect Administrative Support

Indirect administrative support generally will qualify for recognition as donated materials, supplies, or facilities. It is usually allocated support applicable to institutional stations. Indirect administrative support represents services provided to a public broadcasting entity by the controlling organization (e.g.., stations licensed to public colleges or universities or governmental agencies). Examples include allocated space or general administrative services provided at no cost.

The value for allocated space from the licensee is limited to an annual use value defined as the station's proportionate share of the depreciated value of space occupied.

In computing the portion of the licensee's indirect cost to be allocated to the public broadcasting entity, an institutional licensee must use a reasonable allocation method within the following general guidelines:

- Indirect costs should be allocated into functional categories such as general administrative and physical plant operations. These pools must be traceable to the licensee's accounting records and/or financial statements.

- There must be an equitable basis for allocating the indirect costs to the public broadcasting entity and other benefiting activities. If cost is used as a surrogate for fair value recognition, evidence that it reasonably approximates fair value must be maintained.

- All costs used for the computation of indirect support must be current year costs if they are available. If not, an estimate of current year support should be made using the most recent year information available.

Public broadcasting entities with significant indirect administrative support may refer to the cost principles for federal grantees provided in Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* or A-21, *Cost Principles for Educational Institutions* for additional guidance. The station may use its own allocation method within the bounds defined above, or it may use the basic method explained in CPB's *Financial Reporting Guidelines.* Regardless of the method used, public broadcasting entities should refer to the *Financial Reporting Guidelines* in completing these calculations, as doing so will simplify the submission of other required filings to CPB.[104]

[104] Corporation for Public Broadcasting, *Financial Reporting Guidelines FY 2004-2005*, https://sgms.cpb.org/help/SGMS_HELP_PROJ/WebHelp/SGMS.htm?Expand=Book1_1

4.6 Fundraising Costs

Many public broadcasting entities solicit financial support from the public through a variety of membership and underwriting fundraising activities, including on-air pledging, direct mail solicitation, telephone solicitation, and special events. This section provides some specific guidance in accounting for those costs.

4.6.1 Accounting for Fundraising Costs

Fundraising costs, including the cost of special fundraising events, are incurred to persuade potential donors to make contributions to an organization and should be expensed as incurred. Fundraising costs incurred in one period, such as those made to obtain bequests, compile a mailing list of prospective contributors, or solicit contributions in a direct-response activity, may result in contributions that will be received in future periods. These costs also should be expensed as incurred.

4.6.2 Allocation of Fundraising Costs

Some activities within a not-for-profit organization are part fundraising as well as serving other functions. These are considered *joint activities*.

AICPA Statement of Position 98-2 (SOP 98-2) *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund Raising,* addresses how public broadcasting entities should account for joint activities. Under SOP 98-2, *joint activities* are defined as follows:

> *An activity that is part of the fundraising function and has elements of one or more other functions, such as program, management and general, membership development, or any other functional category used by the entity.*

All joint costs of informational materials or activities that include a fundraising appeal should be reported as fundraising expenses if it cannot be demonstrated that a program or management and general function has been conducted in conjunction with the appeal for funds. However, if a program or management and general function has been conducted in conjunction with a fundraising appeal and certain criteria are met, joint costs should be allocated between fundraising and the appropriate program or management and general function.

SOP 98-2 sets forth three criteria on which the accounting for joint activities should be based. These criteria – purpose, audience, and content – require careful consideration and evaluation.

Paragraph 16 of SOP 98-2 requires that:

> *The cost allocation methodology used should be rationale and systematic, it should result in an allocation of joint costs that is reasonable, and it should be applied consistently given similar facts and circumstances.*

Total fundraising expense should be disclosed either on the face of the statements or in the notes. Additionally, public broadcasting entities incurring joint costs of informational materials and activities that include fundraising appeals should disclose in their financial statements that such costs have been allocated, the total amount allocated during the period, and the portion allocated to each functional expense category.

4.7 Pensions

In November 1994 GASB issued GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers.* This Statement establishes standards for the measurement, recognition, and display of pension expenditures/expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Employers that participate in single-employer and agent multiple-employer defined benefit pension plans (sole and agent employers) are required to measure and disclose an amount for annual pension cost on the accrual basis of accounting, regardless of the amount recognized as pension expenditures/expense on the modified accrual or accrual basis.[105] Annual pension cost should be equal to the employer's annual required contributions (ARC) to the plan, unless the employer has a net pension obligation (NPO) for past under- or over contributions.

Pension expenditures of governmental funds and all other entities that apply governmental fund accounting should be recognized in the funds statements on the modified accrual basis. A balance in the NPO should be recognized in the entity wide statements. Pension expense of proprietary funds and on the entity wide statements should be recognized on the accrual basis; with NPO balances recognized as liabilities or assets. [106]

In addition to descriptive information about the plan and its funding policy, the required disclosures include three years of information about annual pension cost and, if applicable, the components of annual pension cost, the increase or decrease for the year in the NPO, and the year-end balance of the NPO. Information about the plan's funding progress for the past three actuarial valuations, calculated in accordance with the parameters, should be reported as required supplementary information. Information for one or more of those valuations may be disclosed in the notes to the financial statements. However, unless the note disclosures include all three valuations, the information also should be reported as required supplementary information.

Employers that participate in cost-sharing multiple-employer defined benefit pension plans are required to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions.[107] Recognition should be on the modified accrual or accrual basis, depending on the fund type at the fund level, and on the accrual basis at the entity wide level. In addition to descriptive information about the plan and its funding policy, the required disclosures include three years of information about the employer's required contributions and the percentage contributed.

Employers that participate in defined contribution plans are required to recognize pension expenditures/expense equal to the employer's required contributions to the plan and a liability for unpaid contributions.[108] Recognition should be on the modified accrual or accrual basis, depending on the fund type at the fund level, and on the accrual basis at the entity wide level. The

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[105] GASBS No. 27, paragraph 8
[106] GASBS No. 27, paragraph 16 and 17
[107] GASBS No. 27, paragraph 19
[108] GASBS No. 27, paragraph 25

required disclosures include descriptive information about the plan and the required and actual contributions of the employer and plan members.

4.8 Program Production

This section provides guidance on accounting for program production revenue by public broadcasting entities.

4.8.1 Independently Funded Program Production

When the funding for a program or series is in part or in its entirety underwritten by sources independent of the broadcaster, the relationship for accounting purposes is essentially that of a performance-type contract, and therefore should be accounted for under the percentage-of-completion or completed-contract methods of accounting. In such instances, the broadcaster has entered into an agreement or agreements with one or more funding parties to produce a program or series of programs for future airing and/or distribution to others. Sources of funding may include direct grants, contributions, or other funds restricted to the direct support of specified programming. For financial reporting purposes, independent sources of funding do not include designations of member donations or other unrestricted station resources allocated to fund specific programming. These other funds are often used to supplement specific program grants, but do not constitute a performance-type contract subject to the accounting specified in SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. When accounting for productions supported by unrestricted or non-program-specific funds, the guidance under the next subsection should be followed.

Determining a Basic Accounting Policy for Contracts

In accounting for performance contracts, the basic accounting policy decision is the choice between the two generally accepted methods: percentage-of-completion method and the completed-contract method. The determination of which of the two methods is preferable should be based on a careful evaluation of circumstances; because the two methods are *not* acceptable alternatives for the same circumstances. As a result of evaluating individual contracts, a contractor should be able to establish a basic policy to follow in accounting for most contracts. In the notes to the financial statements on accounting policies, public broadcasting entities should disclose the method or methods of determining revenue and programming expenses related to production contracts.

Percentage-of-Completion Method

Appropriate use of the percentage-of-completion method depends on the station's ability to make reasonably dependable estimates of the extent of progress toward completion, total contract revenues (funding), and contract costs (final programming expense). The percentage-of-completion method is preferable as an accounting policy in circumstances in which reasonably dependable estimates can be made and in which all the following conditions exist:

- Agreements executed by the parties include provisions that clearly specify enforceable rights regarding services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement.
- The funding sources can be expected to satisfy their obligations under the contract.

- The broadcasters can be expected to perform their contractual obligations.

An entity without the ability to update and revise estimates continually with a degree of confidence would not meet the essential requirement of making reliable estimates. If costs are incurred in advance of an executed agreement in anticipation of a programming contract, such costs should be accounted for as *preproduction costs.* For a contract that was expected to fully fund a given production for which loss is anticipated, generally accepted accounting principles require recognition of the entire anticipated loss as soon as the loss becomes evident.

An entity using the percentage-of-completion method as its basic accounting policy should use the completed-contract method for a single contract or a group of contracts for which reasonably dependable estimates cannot be made or for which other inherent uncertainties make estimates questionable. Such a departure from the basic policy, if material, should be disclosed.

Completed-Contract Method

Under the completed-contract method, revenue is recognized only when a production is completed or substantially completed. During the production period, funding received and related costs are accumulated on the balance sheet as deferred revenues and inventory of programming.

All revenue and expense related to the production should be recognized in the period in which all the following conditions are met:

- The programming is available for airing
- The programming has been accepted by all funding or other third parties that possess contractual rights to review the material prior to airing
- No conflicting license agreements prevent the programming from being aired immediately

Circumstances of Use

In general, the use of the completed-contract method is recommended for circumstances where levels of profit or loss on productions are not readily determinable. However, for circumstances in which there is an assurance that no loss will be incurred on a production, the percentage-of-completion method based on a zero profit margin, rather than the completed-contract method, is recommended. The significant difference between the percentage-of-completion methods applied on the basis of a zero profit margin and the completed-contract method relates to effects on the operating statement. Under the zero profit margin approach to applying the percentage-of-completion method, equal amounts of revenue and cost, measured on the basis of performance during the period, are presented in the statement of activities; whereas under the completed-contract method, performance for a period is not reflected in the statement of activities, and no amount is presented in the statement of activities until the production is completed. The zero profit margin approach to applying the percentage-of-completion method gives users of general-purpose financial statements an indication of the volume of the broadcaster's program production activity and of the use of its economic resources.

The completed-contract method may be used as a broadcaster's basic accounting policy, even if the criteria *are met* for using the percentage-of-completion method, if financial position and results of operation would not vary materially from those resulting from use of the percentage-of-completion method (for example, when an entity has primarily short-term production agreements). Although generally accepted accounting principles do not formally distinguish on the basis of length between long-term and short-term contracts, the basis for recording revenue on contracts of short duration poses relatively few problems. In accounting for such productions, revenue ordinarily is recognized when performance (programming) is substantially complete and accepted. Under those circumstances, revenues and costs in the aggregate for all contracts would be expected to result in a matching of revenues with the period overhead or fixed costs similar to that achieved by use of the percentage-of-completion method. The completed-contract method is also *preferable* in circumstances in which accounting estimates cannot meet the criteria for reasonable dependability discussed above. An entity using the percentage-of-completion method as its basic accounting policy should depart from the policy and use the completed-contract method for productions that individually do not meet the criteria required for the percentage-of-completion method.

Combining Contracts

A series of productions may be so closely related that they are, in effect, parts of a single project, and accounting for the programs individually may not be feasible or appropriate. Under those circumstances, consideration should be given to combining such productions for revenue recognition purposes.

A series of programs to be produced may be combined for accounting purposes if the contracts:

- Are negotiated as a package with the same funding source or sources
- Constitute in essence an agreement to perform a single project
- Require closely interrelated production activities with substantial common costs that cannot be separately identified with, or reasonably allocated to, specific programs
- Are performed concurrently or in a continuous sequence under the same project management

Contracts that meet all of these criteria may be combined for revenue recognition and for determining the need for a provision for losses. The criteria should be applied consistently to contracts with similar characteristics in similar circumstances.

Segmenting Contracts

Programming agreements often separately specify funding for various phases of a production effort. Although the level of detail budgeting and reporting of costs required by funding sources will vary, amounts are, at a minimum, generally designated by the sponsor to separately fund the production and promotion phases. Such budgetary designations should not give rise to separate accounting or "segmenting" of the contract for revenue and profit recognition purposes. A programming agreement may be "segmented" (divided for revenue recognition purposes) only if:

(1) The producing broadcaster submitted proposals on separate phases of the production effort, and
(2) The sponsor/funding sources had the right to accept the proposals individually or in total.

Many funding sources will permit a "profit" that is realized on the production phase to be added to the original promotion budget for the same production. Regardless of whether a production qualifies to be segmented for accounting purposes, the producing broadcaster should consider whether a sponsor will request return of funds for any phase that is completed "under budget." If such liabilities are probable and estimable, they should be accrued in the period in which they become evident.

Measuring Progress on Production Contracts

Under the percentage-of-completion method, meaningful measurement of the extent of progress toward completion is essential since this factor is used in determining the amounts of estimated contract revenue and expense recognized in any given period.

In practice, most broadcasters measure the status of program production based on the extent of total expenses incurred to date relative to budgeted or total estimated expenses. In most instances, this measure will be the most appropriate measure of progress toward completion for purposes of recognizing revenue and expense for a reporting period under the percentage-of-completion method. However, in connection with measuring progress towards completion, stations must consider the production's estimated cost to complete to ensure identification of any losses subject to accrual.

If a broadcaster believes that some measure other than cumulative expenses better represents the progress of the production effort (such as cumulative direct labor hours or direct labor expense) then such measures may be used. The method of measuring progress toward completion must be applied consistently from period to period. If significant capital expenditures are incurred early in the production phase *that have no use except for the related production,* such amounts should be considered programming costs. However, they should be excluded from the cumulative costs and total estimated costs in determining the percentage-of-completion used to record earned revenue, if such inclusion would otherwise significantly distort the true progress of the production. Capital expenditures with significant use beyond the production for which they are initially acquired should be treated as fixed assets and depreciated rather than included in programming costs.

Estimated Cost to Complete

As already noted, the estimated cost to complete is a significant variable in the process of determining revenue earned and is thus a significant factor in accounting for programming contracts. Current estimates may be determined in a variety of ways, and may or may not vary from the original estimate. The following practices should be followed:

- Systematic and consistent procedures that are correlated with the cost accounting system should be used to provide a basis for periodically comparing actual and estimated costs.
- In estimating total production costs, the quantities *and* prices of all significant elements of cost should be identified.

Elements of Production Costs

Production costs encompass all costs required to either purchase or produce a public television or radio program, including as appropriate the production medium, stories and scenarios; salaries of cast, directors, producers, extra talent, engineers, technicians, stagehands, and miscellaneous staff; cost of set construction and operations, props, wardrobe, and all accessories; cost of sound synchronization, lighting, depreciation, and amortization of studio equipment and leasehold improvements; and rental of facilities. It is appropriate to use allocation methods in determining amounts to be accounted for as production costs if the methods result in a systematic and rational assignment of costs to all programs produced during the period. Production costs do not include management and general expenses or other costs of supporting activities as defined in these *Principles*. Advances and guaranteed amounts paid to independent producers should be accounted for as program costs and the related liability recorded for guarantees.

The cost of program inventories may include expenditures for program rights to books, stage plays, original screenplays, musical scores, etc. If stories and scenarios are adapted to the production techniques for a program, the cost of the adaptation should be added to the inventory cost of the particular program. Unless such program materials are acquired for a specific planned production, related costs should be expensed when incurred. Similarly, research and development costs not incurred in connection with a specific planned future production should be charged to expense when incurred.

Preproduction Costs

In practice, broadcaster may incur costs in anticipation of future programming in a variety of circumstances. Preproduction costs are often incurred in connection with the performance of a major production. In some circumstances, follow-on or future programming from the same funding source is anticipated. Such costs may include labor, overhead, rework, or other costs.

The following guidance should be followed in accounting for preproduction costs:

- Costs that are incurred for a specific anticipated production and that will result in no future benefit unless the contract is obtained should not be included in contract costs or inventory before the receipt of the contract. However, such costs may be otherwise deferred, subject to evaluation of their probable benefit, if the costs can be directly associated with a specific anticipated contract and if their recoverability from that contract is probable.

- Costs incurred for assets such as the purchase of production equipment, materials or supplies that are expected to be used in connection with specific anticipated contracts may be deferred outside the contract cost or inventory classification if their recovery from future production funding or from other dispositions of assets is probable.

- Learning or start-up costs incurred in connection with current programming and in anticipation of follow-on or future programming should be charged entirely to existing contracts. A direct relationship between such costs and the anticipated future programming is difficult to establish, and the receipt of future program funding generally cannot reasonably be anticipated.

- Costs appropriately deferred in anticipation of a contract should be included in contract costs on the receipt of the anticipated contract.

- Costs related to anticipated contract that are charged to expenses as incurred because their recovery is not considered probable should not be reinstated by a credit to income on the subsequent receipt of the contract.

Ability to Produce Reliable Cost Estimates

Broadcasters with significant ongoing production operations generally have the ability to produce reasonably dependable estimates, and for such stations the percentage-of-completion method of accounting is preferable in most circumstances. The method should be applied to individual programs or series, as appropriate, based on the specifics of the funding agreement (see subsection "Combining Contracts" above).

Instances arise where some level of "profit" is anticipated on funded productions. However, a broadcaster may only be able to reliably estimate total funding and costs in ranges of amounts. If, based on the information arising in estimating such ranges, the broadcaster can determine the amounts in the ranges that are most likely, those amounts should be used in accounting for the contract under the percentage-of-completion method.

In many circumstances, estimating the ultimate costs precisely may be impractical, except to ensure that no loss will be incurred. In those circumstances, a broadcaster should use a zero estimate of profit; with equal amounts of revenue and cost recognized in the financial statements until results can be estimated more precisely. A change from a zero estimate of profit to a more precise estimate should be accounted for as a change in an accounting estimate. If some level of profit is anticipated but under the terms of the agreement must be returned to the grantor, a liability should be accrued for any excess of revenue over costs in applying the percentage-of-completion method.

The ability to produce reasonably dependable estimates depends on the procedures and personnel that provide financial or production information on the status of programming contracts. It encompasses systems and personnel not only within the accounting department but of all areas of the grantee that participate in production control, cost control, administrative control, or accountability for programming. Previous reliability of a broadcaster's estimating process is usually an indication of continuing reliability, particularly if the present circumstances are similar to those that prevailed in the past.

Estimating is an integral part of any contractor's operating activities, and it is always necessary to revise estimates on contracts continually as the work progresses. The fact that circumstances may necessitate frequent revision of the estimates does not indicate that the estimates are unreliable for accounting purposes in selecting a basic policy for contracts.

Change in Accounting Methods

An accounting change to either the completed contract method or to the percentage-of-completion method should be made retroactively, if material, by restating the financial statements of prior periods using available historical information. If restatement is impractical, the cumulative effect on the fund balance at the beginning of the period in which the method is first applied should be included in determining excess of revenues over expenses for that period.

Provisions for Anticipated Losses on Contracts

If a production is initially *fully* underwritten by third parties but current estimates of production costs indicate a loss, a provision for the entire loss on the contract should be made. Provisions for losses should be made in the period in which they become evident under the percentage-of-completion method or the completed-contract method. The loss need not be recognized if it can be demonstrated that it is *probable* that additional third-party underwriting *specific to the production* will be obtained. The costs used in arriving at the estimated loss on a contract should include all costs of the type otherwise allocable to production.

If a production is funded *in part by* independent sources but also substantially by the producing broadcaster's unrestricted funds (for this purpose, unrestricted funds would include monies restricted to support programming in general, but not dedicated to a specific production) then only the independently funded portion should be accounted for under performance-type contract accounting. If costs are subsequently estimated to exceed original estimates in these circumstances, no provision for losses is generally appropriate. Although a greater proportion of the production costs must, as a result, be internally funded, these cost "overruns" do not result in a liability subject to accrual. The revised cost estimates should, however, be used to measure the progress towards completion if the percentage-of-completion method is used for the independent funding. For such jointly funded productions, the independent funding should be considered earned (recognized as revenue) to the extent of progress towards completion of the production as a whole.

The provision for loss arises because estimated cost for production contracts exceeds estimated revenue. Consequently, the provision for loss should be accounted for in the statement of activities as an additional contract cost rather than as a reduction of contract revenue, which is a function of the total available funding, not cost.

Provisions for losses on contracts should be shown separately as liabilities on the statement of financial position, if significant, except when related costs are accumulated on the statement of financial position, in which case the provision may be deducted from the accumulated costs. In a classified statement of financial position, a provision shown as a liability should be shown as a current liability.

Capitalization of Interest

If a producing broadcaster incurs significant interest costs (whether or not incurred to fund programming activities), interest should be capitalized, if material, as an element of production costs in conformity with SFAS No. 34, *Capitalization of Interest*. Because interest expense is otherwise recognized as a period expense, its inclusion as a contract cost under *either* revenue recognition method is generally immaterial, unless productions span several years and the producing broadcaster incurs *significant* interest costs.

4.8.2 Productions Not Independently Funded

When a public broadcasting entity undertakes programming production without either full or partial underwriting of the production costs, the entity generally assumes greater risk as to the ultimate recovery of such costs. Many public broadcasting entities "self-fund" such productions because outside funding is either unavailable or may be available under terms the broadcaster deems unduly restrictive. Such programming is funded from restricted funds available to pay for programming generally or unrestricted funds allocated by management or the governing board to support programming efforts.

Production activities funded internally by the broadcaster generally do not involve a contractual commitment to provide a product or service to or on behalf of a "customer" or independent funding party. Therefore, contract accounting for production costs is not appropriate in such circumstances; however the producing entities should have some other means of tracking the costs of these production activities.

Existing GAAP for commercial motion picture producers under FASB provides accounting guidance that can be adopted for production costs and related revenues in these circumstances.[109]

In general, production costs – are capitalized as inventory as long as their recoverability is reasonably assured. Revenues, if any, should not be recognized until licensing agreements are in place, and *each* of the following criteria are met:

(1) The license period has commenced.
(2) The license fee of each program is known.
(3) The cost of each program is known or reasonably determinable.
(4) Collectibility of the full license fee is reasonably assured.
(5) The program has been accepted by the licensee in accordance with the conditions of the license agreement.
(6) The program is available for its first airing. Unless a conflicting license prevents usage by the licensee, restrictions under the same license agreement or another license agreement with the same licensee on the timing of subsequent airings do not affect this condition.

The amount of revenue (license fee) for each program ordinarily is specified in the contract, and the present value of that amount should be recognized as revenue when each of the conditions above is met.

Production costs capitalized relating to specific programming should be amortized so that current amortization expense bears the same ratio to total capitalized program costs as current gross revenues bear to anticipated total gross revenues. If the program is to be aired locally but not licensed, costs should be amortized over the expected number of broadcasts.

Revenue from Licensing Agreements

Ordinarily, when the conditions specified above for recognizing licensing fees are met, both the licensee and licensor (producer) are contractually obligated under a non-cancelable license agreement and are able to perform in compliance with all the significant terms of the license agreement. If significant factors raise doubt about the obligation or ability of either party to perform under the agreement, revenue recognition is delayed until such factors no longer exist. Insignificant factors, such as the actual delivery of program material, are not a sufficient basis for delaying revenue recognition.

[109] SFAS No. 63, *Financial Reporting by Broadcasters.*

Due to the uncertainties of the estimating process, anticipated total gross revenue may vary from actual total gross revenues. Estimates of anticipated total gross revenues are reviewed periodically and revised when necessary to reflect more current information. When anticipated total gross revenues are revised, a new denominator is determined to include only the anticipated total gross revenues from the beginning of the current year; the numerator (actual gross revenues for the current period) is not affected. The revised fraction is applied to the unrecovered film costs (production and other capitalized film costs) as of the beginning of the current year.

Participations

It is anticipated that compensation will be payable under a participation agreement, including residuals, the total expected participation shall be charged to expense in the same manner as amortization of production costs, that is, in the same ratio as current gross revenues bear to anticipated total gross revenues.

Program Valuation

Unamortized production costs should be compared with their net realizable value each reporting period on a program-by-program basis. If estimated future gross revenues are not sufficient to recover the unamortized costs, other direct distribution expenses, and participations, the unamortized costs shall be written down to net unrealizable value. Program costs that are written down to net realizable value during a fiscal year may be written back up during that same fiscal year in an amount not to exceed the current year write-down, if the producer increases the estimate of future gross revenues. Program costs that are reduced to net realizable value at the end of a fiscal year are not to be written back up in subsequent fiscal years.

4.9 Financial Reporting for Public Broadcasting Entities following GASB

4.9.1 Overview of Reporting Requirements

Public broadcasting entities must submit to CPB financial statements that have been prepared in conformity with GAAP. The financial statements submitted to CPB should be those of the grant recipient and not solely those of the controlling institution that is the licensee. Stand-alone financial statements should be submitted to CPB, even if the public broadcasting entity reports to a parent organization.

Financial statements of the current period should show totals of all classes of net assets and be presented with comparative totals from the financial statements for the prior reporting period. However, where it is intended to present financial statements of the prior period as well as the current period in conformity with generally accepted accounting principles, care must be taken that there is sufficient disclosure of restrictions in the summarized comparative totals and in the supporting notes.

Although comparative financial statements are encouraged but not required under GASB GAAP, CPB has long required them from public broadcasting entities unless prior approval is obtained for their omission.

Public broadcasting entities that elect to provide CPB their financial statements biennially must provide CPB with an annual breakout of their finances, either in side-by-side presentation or in separate financial statements for each fiscal year, with each of those statements also showing comparative data for the prior fiscal year.

The complete GASBS No. 34 financial statements include the following:

- Management's Discussion and Analysis (MD&A)
- Public-Broadcasting-Entity-Wide Financial Statements
- Fund Financial Statements
  - Major Funds
  - Governmental Funds
  - Enterprise Funds
  - Internal Service Funds
  - Fiduciary Funds

Public broadcasting entities engaged only in business-type activities should use enterprise fund accounting. **CPB encourages all public broadcasting entities to use enterprise fund accounting**, but the decision whether to do so must be made by each grantee.

Where the public broadcasting entity consists solely of one or more proprietary enterprise funds, the statement of net assets and the statement of revenues, expenses, and changes in net assets in the required public-broadcasting-entity-wide financial statements will be identical to those in the enterprise fund(s) financial statements, and need not be presented redundantly. Therefore, where the public broadcasting entity consists solely of one or more proprietary enterprise funds, the complete financial statements and required supplementary information (RSI) consist of:[110]

- Management's Discussion and Analysis (MD&A)
- Public-broadcasting-entity-wide / enterprise fund financial statements, consisting of:
  - Statement of net assets or balance sheet
  - Statement of revenues, expenses, and changes in fund net assets
  - Statement of cash flows
- Notes to financial statements
- RSI other than MD&A, if applicable

The guidance and examples (MD&A, financial statements, and notes to the financial statements), in this section are for public broadcasting entities that consist solely of one or more proprietary enterprise funds.

For the few grantees that require governmental fund accounting (whether entirely for governmental-type funds, or in combination with one or more proprietary funds), discussion and examples of both the public-broadcasting-entity-wide and the governmental fund statements are included in *Section 4.10*.

4.9.2 Purpose and Required Components of Financial Statements

The primary purpose of financial statements, including accompanying notes, is to provide information about the following:

- The amount and nature of an organization's assets, liabilities, and net assets
- The cost of providing services and resources obtained to finance services
- A detailed look at major individual portions, or funds, of a governmental organization
- How an organization obtains and spends cash, its borrowing and repayment of borrowing, and other factors that may affect its liquidity

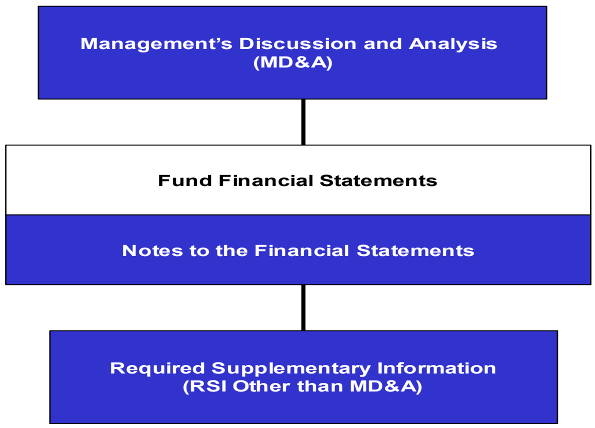
The minimum requirements for MD&A, basic financial statements, and required supplementary information other than MD&A are:

- *Management's discussion and analysis*. MD&A, a component of RSI, should introduce the basic financial statements and provide an analytical overview of the public broadcasting entity's financial activities;
- *Proprietary fund financial statements* should be prepared using the economic resources measurement focus and the accrual basis of accounting;
- *Notes to the financial statements* consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

[110] GASBS No. 34, paragraph 138.

Exhibit 4-2 illustrates the minimum requirements for fund financial statements:

Exhibit 4-2



4.9.3 Management's Discussion and Analysis

Management's discussion and analysis (MD&A) should introduce the basic financial statements and provide an analytical overview of the public broadcasting entity's financial activities. Although it is Required Supplementary Information (RSI), public broadcasting entities are required to present MD&A before the basic financial statements.

MD&A should include:[111]

(a) A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analysis that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in public-broadcasting-entity-wide statements or provide additional information.

(b) Condensed financial information derived from public-broadcasting-entity-wide financial statements comparing the current year to the prior year. At a minimum, public broadcasting entities should present the information needed to support their analysis of financial position and results of operations required in c, below, including these elements:

- Total assets, distinguishing between capital and other assets
- Total liabilities, distinguishing between long-term liabilities and other liabilities
- Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
- Program revenues, by major source

[111] GASBS No. 34, paragraph 11.

- General revenues, by major source
- Total revenues
- Program expenses, at a minimum by function
- Total expenses
- Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
- Contributions
- Special and extraordinary items
- Transfers
- Change in net assets
- Ending net assets

(c) An analysis of the public broadcasting entity's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the public-broadcasting-entity-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases that significantly affected operating results for the year should be discussed.

(d) An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

(e) An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.

(f) A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

(g) A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

Public broadcasting entities providing CPB with the required stand alone financial statements must complete an MD&A with all applicable information related to the public broadcasting entity.

Example

The following is an example of MD&A for a public broadcasting entity following GASB, with business-type activity only:

Exhibit 4-3. Example Management's Discussion and Analysis (MD&A) for a Governmental Public Broadcaster Following GASB, With Business-Type Activities Only

ANYSTATE PUBLIC TELECOMMUNICATIONS COMMISSION
(AN INSTRUMENTALITY OF THE STATE OF ANYSTATE)

Management's Discussion and Analysis

For the Years Ended June 30, 200X and 200X-1 (Unaudited)

Introduction and Reporting Entity

The following discussion and analysis is an overview of the financial position and activities of the Anystate Public Telecommunications Commission and its component units (the Commission) for the years ended June 30, 200X and 200X-1. Management of the Commission has prepared the following discussion, and it should be read with the financial statements and related footnotes which follow this section.

The Commission is an instrumentality of the State of Anystate and is governed by a Board of Commissioners, some of whom are appointed by the Governor and ratified by the Legislature plus the president of the University of Anystate and the State Commissioner of Education or their respective designees.

The Commission's primary functions are to promote and establish noncommercial educational telecommunications facilities within the State and to provide transmission facilities for noncommercial educational telecommunications programs throughout the State.

The Commission is the licensee of four public television stations. All four stations broadcast the same programming, which originates in Capitalcity. The television signal reaches an estimated 1.3 million households, and out of that number approximately 250,000 households watch each week. Contributing membership consists of approximately 22,300 households.

The FCC mandated that all noncommercial educational television broadcasters convert to digital transmission in 2003. With support from the state government, the Famousname Foundation, and the U.S. Department of Commerce, Anystate Public Television began digital transmissions on its four stations at various times during 2003, the last going on air in early August of 2003.

The Commission also has the responsibility to establish and operate a statewide public radio network and is the licensee of three public radio stations. All three stations broadcast the same programming, which originates in Capital city. The radio signal reaches an estimated 1.1 million persons aged 12 or more, and out of that number approximately 40,000 persons listen each week. Contributing membership consists of approximately 5,300 households.

For most of its history, Anystate Public Radio broadcast locally produced classical and jazz music programming. Some National Public Radio (NPR) news and cultural programs were added during the 1980s. These syndicated programs quickly proved to be more popular with listeners than the locally produced classical music shows.

During the 1990s, listenership declined as the budget deficit grew to six figures. The Corporation for Public Broadcasting threatened to discontinue its annual grant to the public radio stations because Anystate Public Radio no longer met minimum acceptable levels for either audience or fundraising. The Commission decided to replace the radio stations' management and considered alternatives to the existing program service. In May 1997, Ms. Newname Executive was appointed Executive Director.

After executives consulted with program distributors, programming experts, and audience researchers, Anystate Public Radio's format was changed on July 1, 1998. When the music service was discontinued, the management expanded the local news and public affairs service, increasing the news staff from one to seven positions, many funded by grants from corporations and foundations with headquarters in Anystate. Although some listeners reacted negatively to the format change, the audience has grown dramatically since the change, and individual contributions from members have soared, now contributing more than $1.7 million annually. Two years after these changes, the Corporation for Public Broadcasting certified that Anystate Public Radio met both its audience and fundraising standards

Overview of the Financial Statements

The Commission's financial statements present the Commission (the primary governmental public broadcasting entity) and its component units. Public Radio Anystate Foundation, Inc. (PRAF) and the Anystate Public Telecommunications Commission Facilities Corporation (the Corporation) are reported as part of the Commission as blended component units. PRAF is a citizen support organization which solicits funds to be used to support program production and broadcasting of public radio in Anystate. The Corporation is an Anystate not-for-profit corporation organized by the Commission for the purpose of issuing lease revenue bonds to acquire and then lease property to the Commission as part of the Digital Television (DTV) Project and renovate and remodel the telecommunications facility as part of the Founders Telecommunications Center Project.

The financial statements of the Commission consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows (direct method). These statements are prepared in conformity with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The adoption of Statement 34 had no significant effect on the financial statements except for the reformatting of the basic financial statements and classification of net assets in conformity with Statement 34. Statement 34 requires the classification of net assets into three categories - invested in capital assets, net of related debt; restricted; and unrestricted. The financial statements for FY 200X-1 were reclassified to conform with the adoption of Statement 34.

The Statement of Net Assets includes Assets, Liabilities and Net Assets of the Commission as of June 30, 200X and 200X-1. This statement is classified into Current and Non-Current Assets and Liabilities, with Net Assets classified in the categories as noted above. The Statement of Revenues, Expenses and Changes in Net Assets depicts the operating revenues and expenses resulting in Net Operating Income (Loss), which is then combined with Non-Operating Revenues (Expenses) to provide the total Change in Net Assets. The Statement of Cash Flows shows the sources and uses of cash from operations, cash flows from non-capital financing activities, cash flows from capital and related financing activities and cash flows from investing activities. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are followed by the supplemental combining financial statements for the Television Fund and Radio Fund, which are presented for the purpose of additional analysis.

Financial Highlights

The financial position of the Commission at June 30, 200X has improved and remains very strong. Net Assets totaled $20,146,975 for the year ended June 30, 200X (FY 200X) and $16,384,675 for the year ended June 30, 200X-1 (FY 200X-1). The Commission's Net Assets increased by $3,762,300 in FY 200X compared to an increase in Net Assets for FY 200X-1 of $5,821,438. The Commission's Operating Revenues and Operating Expenses remained relatively unchanged. Operating Revenues totaled $14,132,220 in FY 200X compared to $14,202,782 in FY 200X-1, while Operating Expenses totaled $15,376,566 in FY 200X compared to $15,594,884 in FY 200X-1. The Net Operating Loss for FY 200X was $1,244,346, which included non-cash depreciation expense of $1,885,530, while the Net Operating Loss for FY 200X-1 was $1,392,102, which included non-cash depreciation expense of $1,608,892. The Net Non-Operating Revenues (Expenses) were $5,006,646 in FY 200X compared to $7,213,540 in FY 200X-1. Included in Non-Operating Revenues in FY 200X-1 was $1,882,500 related to the one-time collection of insurance proceeds for a failed satellite transponder (see financial statement Note X).

During FY 200X, the Corporation issued $9,850,000 Lease Rental Revenue Bonds at a premium of $141,691 on behalf of the Commission. These bonds were issued primarily for the purpose of paying the cost of renovating and remodeling the Founders Telecommunications Center. In addition, at June 30, 200X the Commission still had $19,205,000 of Lease Rental Revenue Bonds outstanding which were issued in FY 200X-2. These bonds were issued primarily for the purpose of paying the cost of acquiring equipment and facilities to allow the Commission to broadcast in compliance with the new digital television standard (DTV) as required by the Federal Communications Commission. The Commission's property and equipment, net of accumulated depreciation, totaled $15,891,103 and $11,040,215 at June 30, 200X and 200X-1, respectively. Property and equipment additions totaled $6,741,426 and $4,441,696 in FY 200X and 200X-1, respectively.

Financial Analysis of the Statements

The Commission's condensed financial statements are presented below for FY 200X and 200X-1.

Condensed Statements of Net Assets

	200X	200X-1
Assets:		
Current Assets	$ 7,909,781	$ 6,690,341
Restricted and designated assets	29,562,803	22,270,775
Property and equipment, net	15,891,103	11,040,215
Other assets	1,355,136	842,337
Total assets	54,718,823	40,843,668
Liabilities:		
Current Liabilities:	6,842,323	3,457,988
Noncurrent Liabilities:	27,729,525	21,001,005
Total liabilities	34,571,848	24,458,993
Net Assets:		
Invested in capital assets, net of related debt	12,015,498	9,905,362
Restricted for:		
Capital projects	2,737,518	2,093,506
Debt service	3,382,527	2,321,213
Endowment	5,704	4,704
Unrestricted	2,005,728	2,059,890
Total net assets	$ 20,146,975	$ 16,384,675

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	200X	200X-1
State appropriations - operations	$ 11,106,580	$ 11,053,470
Other operating revenues	3,025,640	3,149,312
Operating expenses	(15,376,566)	(15,594,884)
Operating loss	(1,244,346)	(1,392,102)
State appropriations - debt service	2,816,596	2,878,098
State appropriations - capital improvements	886,488	852,099
Other grants	1,270,950	688,222
Other non-operating revenues	1,195,668	4,043,132
Non-operating expenses	(1,163,056)	(1,248,011)
Net non-operating revenues	5,006,646	7,213,540
Increase in net assets	3,762,300	5,821,438
Net assets, beginning of year	16,384,675	10,563,237
Net assets, end of year	$ 20,146,975	$ 16,384,675

Condensed Statements of Cash Flows

	200X	200X-1
Net cash flows from operating activities	$ 1,445,517	$ 463,508
Net cash flows from non-capital financing activities	207,177	2,157,834
Net cash flows from capital and related financing activities	4,623,339	(2,853,287)
Net cash flows from investing activities	5,128,943	(13,463,002)
Net increase (decrease) in cash	11,404,976	(13,694,947)
Cash and cash equivalents, beginning of year	10,650,902	24,345,849
Cash and cash equivalents, end of year	$ 22,055,878	$ 10,650,902

Current Assets consist primarily of cash and cash equivalents, investments, accounts receivable and grants receivable. Restricted and Designated Assets consist of cash and cash equivalents and investments to pay future bond obligations. Non-Current Assets consist primarily of property and equipment and prepaid assets such as prepaid transponder rent. Property and equipment are presented net of accumulated depreciation of $25,411,989 and $24,765,707 at June 30, 200X and 200X-1, respectively. Current Liabilities consist of accounts payable and accrued expenses, interest payable, bonds payable and deferred and unearned revenues. Non-Current Liabilities consist primarily of bonds payable.

Operating Revenues consist primarily of State Appropriations, membership contributions, community service grants and contributed support. Operating expenses consist primarily of broadcasting, programming and production, management and general, depreciation and grants expense. Non-Operating Revenues consist primarily of State Appropriations for capital improvements and debt service, other grants and investment income. Insurance proceeds of $1,882,500 were included in Non-Operating Revenues in FY 200X-1. Non-Operating Expenses consist primarily of interest expense.

The net cash flows from operating activities, state appropriations, sale of investments and proceeds from bond issuance were used primarily for the purchase of property and equipment and for debt service payments.

Other Significant Matters

Budget revisions by the State of Anystate have reduced planned increases in State appropriations. However, management believes that the Commission will continue to realize major sources of revenues sufficient to cover operations and debt service.

Request for Information

This financial report is designed to provide donors, members, investment managers, foundations, and taxpayers with a general overview of the Anystate Public Telecommunications Commission's finances and to account for the funding it receives. It is also intended to help the reader better understand the changes in the financial statement format. Additional details can be requested by mail at the following address:

Anystate Public Telecommunications Commission
100 Main Street
Anycity, Anystate 55555

4.9.4 Proprietary Fund Statements

The financial statements required for proprietary funds are: Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows.

Reporting General Capital Assets

Generally, the amounts reported as net assets and changes in net assets in the proprietary fund financial statements for total enterprise funds will be the same as net assets and changes in net assets of business-type activities in the public-broadcasting-entity-wide statement of activities. However, if there are differences (for example, if reclassification of internal service fund transactions, as discussed in GASBS No. 34, paragraph 62, affects enterprise funds), they should be explained on the face of the fund statement (or in an accompanying schedule) as discussed in GASBS No. 34, paragraph 77.

Statement of Net Assets

Assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and long-term assets and liabilities as discussed in Chapter 3 of ARB 43, Restatement and Revision of Accounting Research Bulletins. Governments may use either a net assets format—assets less liabilities equal net assets—or a balance sheet format—assets equal liabilities plus net assets—to report their proprietary funds. Net assets should be displayed in three broad components—invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted, as illustrated on the following page.

Exhibit 4-4. Example Statements of (Proprietary Fund) Net Assets (balance-sheet format) for a Governmental Public Broadcaster Following GASB, with Business-Type Activities Only

ANYSTATE PUBLIC TELECOMMUNICATIONS COMMISSION
(An Instrumentality of the State of Anystate)
Statements of Net Assets
As of June 30, 200X and 200X-1

Assets	**June 30, 200X**	**June 30, 200X-1**
Current Assets:		
Cash and cash equivalents	$ 3,268,464	$ 3,260,384
Investments	435,850	402,230
Accounts receivable, net of allowance of $3,937 and $3,062 in 2002 and 2001, respectively	1,408,497	1,107,572
Grants receivable	2,563,875	1,611,146
Interest receivable	134,946	257,964
Prepaid expenses	25,562	1,747
Other current assets	7,950	8,859
Deferred expenses	4,682	2,963
Bond issue costs	59,955	37,476
	7,909,781	6,690,341
Restricted assets held by trustee:		
Cash and cash equivalents	18,787,414	7,390,515
Investments	10,775,389	14,880,260
	29,562,803	22,270,775
Noncurrent Assets:		
Property and equipment, net	15,891,103	11,040,215
Other assets	1,146,030	671,811
Bond issue costs, net of accumulated amortization of $94,856 and $56,164 in 2002 and 2001, respectively, less current portion	209,106	170,526
	17,246,239	11,882,552
Total assets	$ 54,718,823	$ 40,843,668
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,796,882	$ 1,187,272
Interest payable	546,793	542,163
Bonds payable	1,745,000	1,665,000
Deferred and unearned revenues	1,753,648	63,553
	6,842,323	3,457,988
Noncurrent Liabilities:		
Deferred and unearned revenues, less current portion	-	1,455,004
Bonds payable, less current portion	27,729,525	19,546,001
	27,729,525	21,001,005
Total liabilities	34,571,848	24,458,993
Commitments and Contingencies		
Net Assets:		
Invested in capital assets, net of related debt	12,015,498	9,905,362
Restricted for:		
Capital projects	2,737,518	2,093,506
Debt service	3,382,527	2,321,213
Endowment	5,704	4,704
Unrestricted	2,005,728	2,059,890
Total net assets	20,146,975	16,384,675
Total liabilities and net assets	$ 54,718,823	$ 40,843,668

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenses, and Changes in Fund Net Assets

The operating statement for proprietary funds is the statement of revenues, expenses, and changes in fund net assets. Revenues should be reported by major source and should identify revenues used as security for revenue bonds. This statement also should distinguish between operating and nonoperating revenues and expenses and should present a separate subtotal for *operating revenues, operating expenses,* and *operating income*. Nonoperating revenues and expenses should be reported after operating income. Revenues from capital contributions and additions to the principal of permanent and term endowments, special and extraordinary items, and transfers should be reported separately, after nonoperating revenues and expenses.[112]

If transactions that might normally be classified as nonoperating revenues or expenditures actually constitute the public broadcasting entity's principal ongoing operations, a footnote to GASBS No. 34, paragraph 102, specifically provides for flexibility in their classification. Many public broadcasting entities, for example, may decide that revenues from grants, underwriting, and other contributions, and expenditures associated with broadcasting and program production, constitute their principal ongoing operations, and classify them accordingly as operating revenues and expenditures.[113]

Paragraph 102 states that governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose that policy in the summary of significant accounting policies in the notes to the financial statements, and use it consistently from period to period.

[112] GASBS No. 34, paragraph 100.
[113] GASBS No. 34, paragraph 102, note 42.

Exhibit 4-5. Example Statements of (Proprietary Fund) Revenues, Expenses, and Changes in Net Assets for a Governmental Public Broadcaster Following GASB, with Business-Type Activities Only

ANYSTATE PUBLIC TELECOMMUNICATIONS COMMISSION
(An Instrumentality of the State of Anystate)
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 200X and 200X-1

	200X	200X-1
Operating Revenues:		
State appropriations - operations	$ 11,106,580	$ 11,053,470
Membership contributions	576,167	549,035
Instructional technology	235,020	318,651
Community service grants	1,186,544	1,227,248
Program production grants	48,003	29,359
Program underwriting	118,528	130,027
Contributed support	861,378	894,992
Total operating revenues	**14,132,220**	**14,202,782**
Operating Expenses:		
Broadcasting	6,750,424	7,013,184
Programming and production	3,227,461	3,217,356
Program information	192,652	187,618
Management and general	2,026,276	2,253,957
Depreciation	1,885,530	1,608,892
Fundraising and membership development	321,270	300,239
Grants expense	972,953	1,013,638
Total operating expenses	**15,376,566**	**15,594,884**
Operating income (loss)	(1,244,346)	(1,392,102)
Non-Operating Revenues (Expenses):		
Transponder space rental income	12,015	40,235
State appropriations - capital improvements	886,488	852,099
Capital campaign	-	129,590
Other grants	1,270,950	688,222
Investment income	984,741	1,816,355
State appropriations - debt service	2,816,596	2,878,098
Interest expense	(1,124,364)	(1,207,476)
Amortization of bond issue cost	(38,692)	(40,535)
Other	198,912	174,452
Insurance proceeds	-	1,882,500
Total non-operating revenues	**5,006,646**	**7,213,540**
Increase in net assets	3,762,300	5,821,438
Net assets, beginning of year	16,384,675	10,563,237
Net assets, end of year	**$ 20,146,975**	**$ 16,384,675**

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

In September 1989, GASB issued GASBS No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting* (note that Nonexpendable Trust Funds are eliminated by GASBS No. 34) that establishes standards for cash flow reporting. It requires a statement of cash flows as part of a full set of financial statements for all proprietary funds and governmental entities that use proprietary fund accounting.

The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. When used with related disclosures and information in the other financial statements, the information a statement of cash flows provides should help financial report users assess (a) an entity's ability to generate future net cash flows, (b) its ability to meet its obligations as they come due, (c) its needs for external financing, (d) the reasons for differences between operating income (or net income if operating income is not separately identified on the operating statement) and associated cash receipts and payments, and (e) the effects on the entity's financial position of both its cash and its noncash investing, capital, and financing transactions during the period.[114]

This Statement requires that a statement of cash flows classify cash receipts and payments according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

- **Operating activities** generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income.[115]

  As noted in the discussion of the Statement of Revenues, Expenses and Changes in Fund Net Assets above, GASBS No. 34 provides for flexibility in the classification of transactions that might normally be classified as nonoperating revenues or expenditures. Classification in the Statement of Cash Flows of cash flows from such transactions should agree with their classification in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The summary of significant accounting policies in the notes to the financial statements should disclose adoption of such a policy.

- **Noncapital financing activities** include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also, included are certain other interfund and intergovernmental receipts and payments.[116]

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[114] GASBS No. 9, paragraph 7.
[115] GASBS No. 9, paragraphs 15-16.
[116] GASBS No. 9, paragraph 20.

- **Capital and related financing activities** include (a) acquiring and disposing of capital assets in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit.[117]

- **Investing activities** include making and collecting loans (except program loans and acquiring and disposing of debt or equity instruments.[118] Interest and dividends received are included in this category.

Examples of operating, investing, and non-capital and capital financing activities of a public broadcasting entity are presented on the following page.

[117] GASBS No. 9, paragraph 23.
[118] GASBS No. 9, paragraph 26.

Exhibit 4-6. Examples of Operating, Non-capital Financing, Capital-Related Financing, and Investing Activities of a Public Broadcasting Entity

Activity	Inflow	Outflow
Operating	• Cash receipts from grants for specific activities that are considered to be operating for the grantor • Cash receipts from members, grants and other support (donors) • Cash received from donations and pledges • Cash received for instructional television • Production and program underwriting • Cash received from State Appropriations • Cash received from Community Service Grants • Cash received Insurance Proceeds • Cash received from University Appropriations • All other cash receipts that do not stem from transactions defined as investing or financing activities	• Cash paid to suppliers and vendors • Payments to employees • Cash paid for auction merchandise
Non-Capital Financing	• Cash received from sale of loans made by the entity • Proceeds from a line of credit • Proceeds from issuing long-term debt such as bonds and notes • Cash receipts from grants or subsidies except (1) those specifically restricted for capital purposes and (2) those for specific activities that are considered to be operating activities of the grantor	• Principal payments on long-term debt such as notes, advances, and bonds • Refunds to donors of gifts that were restricted to creating permanent or term endowments
Capital-Related Financing	• Proceeds from sales of property, plant and equipment • Receipts from capital grants • Receipts from contributions that are restricted for purposes of acquiring, constructing, and improving land, buildings, or equipment	• Payments to acquire property, plant, and equipment • Refunds to donors of gifts that were restricted to acquiring, constructing or improving land, buildings, or equipment
Investing	• Cash received from interest, dividend and other investment income on notes • Cash received from sale of debt or equity securities of other entities (investments) • Cash received from collection of principal on loans made to another entity • Interest, dividend, and other investment income that by donor stipulation must be used to increase a permanent or term endowment	• Purchase debt or equity securities of other entities (investments) • Cash paid to make loans to another entity • Cash paid to purchase loans from another entity • Interest paid on indebtedness

A statement of cash flows for the period should report net cash provided or used in each of the four categories, as well as the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents.

Information about Non-cash Investing, Capital, and Financing Activities

Information about all investing, capital, and financing activities of a governmental enterprise during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period should be reported. This information should be presented in a separate schedule, which may be in either a narrative or a tabular format, and it should clearly describe the cash and non-cash aspects of transactions involving similar items. The schedule may be presented, if space permits, on the same page as the statement of cash flows. Examples of non-cash transactions are acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining an asset by entering into a capital lease; and exchanging non-cash assets or liabilities for other non-cash assets or liabilities. Some transactions are part cash and part non-cash; only the cash portion should be reported in the statement of cash flows.

Statement Format for Statement of Cash Flows

Governmental public broadcasting entities should present a statement of cash flows for proprietary funds based on the provisions of GASBS No. 9, as amended by GASBS No.34. **The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) should be used, as illustrated on the following page.**

Exhibit 4-7. Example Statements of (Proprietary Fund) Cash Flows for a Governmental Public Broadcaster Following GASB, with Business-Type Activities Only

ANYSTATE PUBLIC TELECOMMUNICATIONS COMMISSION
(An Instrumentality of the State of Anystate)
Statements of Cash Flows
For the Years Ended June 30, 200X and 200X-1

	200X	200X-1
CASH FLOWS FROM OPERATING ACTIVITIES:		
State appropriations	$10,825,363	$11,361,201
Membership contributions	577,292	552,347
Instructional technology	235,020	318,651
Community service grants	1,168,876	1,227,248
Program production grants	28,283	31,934
Program underwriting	122,721	133,256
Contributed support	861,378	894,992
Payments to vendors	(8,375,536)	(10,268,571)
Payments to employees	(3,997,880)	(3,787,550)
Net cash flows from operating activities	1,445,517	463,508
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transponder space rental income	20,308	89,355
Other	186,869	185,979
Insurance proceeds	-	1,882,500
Net cash flows from non-capital financing activities	207,177	2,157,834
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
State appropriations - debt service	2,816,596	2,878,098
Property and equipment acquisitions	(6,741,426)	(4,441,696)
Proceeds from bond issuance, net of issue cost of $99,751	9,891,940	-
State appropriations - capital improvements	886,488	852,099
Principal payments on bonds payable	(1,665,000)	(1,645,000)
Interest paid on bonds payable	(1,124,364)	(1,202,188)
Grants income	559,105	589,560
Capital campaign	-	115,840
Net cash flows from capital and related financing activities	4,623,339	(2,853,287)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(5,365,124)	(19,832,162)
Sale of investments	9,386,000	5,016,194
Interest and other revenues received	1,108,067	1,352,966
Net cash flows from investing activities	5,128,943	(13,463,002)
Net increase (decrease) in cash	11,404,976	(13,694,947)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,650,902	24,345,849
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$22,055,878**	**$10,650,902**

(Continued)

RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	($1,244,346)	($1,392,102)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation expense	1,885,530	1,608,892
Gain (loss) on disposal of assets	(5,694)	280,132
Changes in operating assets and liabilities:		
Accounts receivable, net	(302,611)	308,650
Grants receivable	(3,512)	-
Interest receivable	157	-
Prepaid expense	(498,035)	(474,045)
Other current assets	909	(2,841)
Deterred expenses	(1,719)	(2,963)
Accounts payable and accrued expense	1,617,119	129,587
Unearned revenue	(2,281)	8,198
Total adjustments	2,689,863	1,855,610
Net cash flows from operating activities	$1,445,517	$463,508

The accompanying notes are an integral part of the financial statements.

4.9.5 Reporting Expenses by Functional Classification

GASBS No. 34 states that all governmental entities should report direct expenses by function. *Direct expenses* are those that are specifically associated with a service, program, or department and, thus, can clearly be associated with a particular functional category. This Statement permits indirect expenses (much of what is typically reported as "administration" or "general government") to be reported as a separate function. If, on the other hand, a governmental public broadcasting entity chooses to allocate indirect expenses to specific functions, direct and indirect expenses should be presented in separate columns, to provide a common frame of reference for public broadcasting entities that report "full cost" and those that report only direct expenses. CPB strongly encourages reporting expenses by functional classification.

The functional classifications should conform as closely as possible to the specific program and supporting activities captions that have become standard for public broadcasting and are outlined in this section.

The Statement of Revenues, Expenses and Changes in Fund Net Assets should present costs separately for each significant program and supporting activity. Program services are those directly related to the public broadcasting station's mission. Supporting services do not relate directly to the purposes for which the broadcaster exists, and are generally categorized into fundraising, membership development, and management and general expenses.

Functional reporting classifications for program services vary according to the nature of the service rendered. For most public broadcasting entities, several separate services are identifiable, and, in such cases, expenses for program services should be reported separately. The purposes of the various functions should be clearly described, and each functional classification should include all direct and directly allocable costs not properly classified as supporting services (for example, certain types of production overhead).

In order to identify a service as a program cost, the following criteria should be applied:

- The service contributes directly to the achievement of the broadcaster's objectives, goals, or missions.
- The service requires a significant amount of the entity's resources.

The following program costs are considered typical for most public broadcasting entities and, at a minimum, should be reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets if applicable.

Program Services

Programming and Production

This function consists of the production and/or acquisition of programming and conducting program operations. This category includes such functions as program development, program planning, equipment operation, and editing.

Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in activities, should be included in this classification:

- Broadcast rights for programs or series or rights to use or adapt published materials
- Program planning and research (script writing, printing, and consulting)
- Directors, producers, cast, stagehands, engineers, technicians, and other personnel involved
- Rental of facilities, wardrobes, or production equipment
- Space, supplies, and other station resources used
- Repair and maintenance of programming and production equipment
- Set construction and operation, sound synchronization, lighting, props, or wardrobe
- Depreciation and amortization of station equipment and leasehold improvements used
- National Public Radio (NPR) membership dues and Public Radio International affiliate fees
- The portion of the Public Broadcasting Service (PBS) Programming Assessment and PBS/SIP related to this function

Broadcasting

This function consists principally of program transmission and interconnection. Also included are scheduling and engineering. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in these activities, should be included in this classification:

- Scheduling programs for airing
- Repair and maintenance of broadcasting equipment
- Depreciation of antenna, transmission, and other broadcasting equipment
- Distribution and interconnection fees
- The portion of the PBS Programming Assessment related to this function

Program Information and Promotion

This function consists of informing the viewing or listening public of specific available program services. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in those activities, should be included in this classification:

- Producing or acquiring "spots" designed for the promotion of specific programs
- Materials and related supplies used for promoting programs and services
- Advertising in newspapers or other media
- Preparing, reproducing, and distributing program guides
- Travel and related expenses of promotion
- The portion of PBS Programming Assessment related to this function

Supporting Services

Fundraising and Membership Development

Fundraising consists of inducing others to contribute money, securities, time materials, or facilities. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in those activities, should be included in this classification:

- Costs incurred in the solicitation of underwriting funds and grants
- Costs of membership development
- Acquiring and distributing fundraising material
- Designing, printing, and distributing leaflets or posters for fundraising
- Meetings for the purpose of improving fundraising techniques
- Services of fundraising consultants and talent
- Developing and maintaining contributor records
- Committee meetings dealing with fundraising policies and issues, including the preparation of minutes and reports of such meetings
- Program and production costs of broadcast appeals for funds
- Mailing costs related to fundraising

Care should be taken to ensure the public broadcasting entity considers the guidance contained in SOP No. 98-2 (discussed earlier in *Section 4.6* of the *Principles*: Fundraising Costs) when allocating the cost of joint activities (fundraising costs).

Underwriting and Grant Solicitation

Underwriting development consists of soliciting program underwriting funds and general support grants from foundations, corporation, or governments. This line should be used if costs are significant and shown separately in the financial statements adjacent to the caption for fundraising and membership development.

Management and General

This function consists of supervising and controlling overall, day-to-day operations, including accounting and office service departments. It also includes resources and activities whose costs are not directly identified with another function, but which are indispensable to the conduct of those activities and to an organization's existence. This includes expenses for the overall direction of the entity's general board activities, business management, general recordkeeping, budgeting and related purposes. Below is a list of some activities whose costs, including salaries and benefits for personnel engaged in those activities, should be included in the classification:

- Personnel administration, including recruiting
- Accounting, auditing, and budgeting
- Legal services of a general (non-program) nature
- All occupancy costs not specifically identifiable to other functions
- General office functions, such as switchboard, receptionist, mail services, and maintenance of general office files
- Purchase and distribution of office supplies and equipment
- Maintenance of operations manuals, directors committee lists, and expenses related to board and administrative committee meetings
- Depreciation of buildings, furnishings, and equipment used in management and general functions
- The Association of Public Television Stations and regional organization dues, the non-programming portion of payments to PBS, and National Public Radio representation

Depreciation and Amortization

Depreciation and amortization consist of the allocation of the cost, or other carrying value, of physical and intangible assets over their estimated useful lives. Provision for depreciation or amortization is intended to spread the cost of such assets over the period that their use benefits the program or supporting activities. It should not be viewed as a means of funding replacement. Because depreciation does not represent a function itself, it should appear as a caption only if the station presents a schedule of functional expenses. Depreciation or amortization must be allocated to the various functional categories (both program and supporting) in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Allocation should be made using a systematic and appropriate basis developed for this purpose.

Example

The following is an example of the preferred matrix presentation, showing expenses by both functional and natural classifications.

Exhibit 4-8. Example Schedule of Functional Expenses by Natural Classifications

	PROGRAM SERVICES				SUPPORT SERVICES				
	Programming and Production	Broadcasting	Program Information and Promotion	Total Program Services	Management and General	Fundraising and Membership Development	Total Support Services	Total 200X	Total 200X –1
Salaries, wages, benefit	$7,400	$3,900	$1,725	$13,025	$1,130	$960	$2,090	$15,115	$10,077
Occupancy	1160	600	450	2210	218	100	318	2528	1685
Production costs	75	–	–	75	–	–	–	75	50
Programming costs	2950	–	–	2950	–	–	–	2950	1967
Repairs and maintenance	387	592	–	979	182	10	192	1171	781
Conferences, meetings	36	17	22	75	18	26	44	119	79
Advertising	42	–	750	792	–	2250	2250	3042	2028
Printing	12	2	14	28	87	125	212	240	160
Professional services	1490	600	160	2250	207	390	597	2847	1898
Office supplies	86	10	49	145	240	320	560	705	470
Postage	140	–	3	143	382	448	830	973	649
Depreciation	1000	500	360	1860	250	140	390	2250	1875
Totals	$14,778	$6,221	$3,533	$24,532	$2,714	$4,769	$7,483	$32,015	$21,719

4.9.6 Notes to Financial Statements

The notes are an integral part of the financial statements and necessary for the financial statements to be complete. The purpose of the notes to financial statements is threefold: (1) to provide information required by GAAP that is not contained on the face of the financial statements themselves; (2) to provide information which is necessary for the financial statements not to be misleading; and (3) to provide other information which a public broadcasting entity believes will be of use to readers of its financial statements. This section provides sample notes to financial statements for a governmental public broadcasting entity reporting as an enterprise fund.

Authoritative accounting literature specifies the content and extent of disclosure required in the notes to the financial statements. The following notes are examples taken from the financial statements of public broadcasting entities for use as sample formats and language. As such, the items and amounts do not agree to the example financial statements presented elsewhere in *Section 4*. The Summary of Significant Accounting Policies, which is traditionally footnote #1, is presented separately as *Section 4.9.8*.

4.9.7 Summary of Significant Accounting Policies

APB Opinion 22 requires that all significant accounting policies followed by an enterprise be disclosed in its financial statements. The Summary of Significant Accounting Policies (SOSAP) generally either appears as the first note or follows a background information note that provides a description of the public broadcasting entity, including all stations and their related organizations, locations, and other information such as mission, etc. This will assist the users of the financial statements in obtaining a sense of the size and purpose of the reporting entity.

In general, the disclosure in the SOSAP should encompass judgments as to the appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods. In particular, it should encompass accounting principles and methods that involve any of the following:

- A selection from existing acceptable accounting alternatives
- Principles and methods peculiar to public broadcasting in which the reporting entity operates, even if such principles and methods are predominantly followed in public broadcasting
- Unusual or innovative applications of GAAP (and, as applicable, of principles and methods peculiar to public broadcasting in which the reporting entity operates).

The SOSAP is an important note since it describes the basis of accounting and the accounting principles used in the preparation and presentation of the financial statements. This note assists users in comparing a public broadcasting entity's financial statements with others since differences in accounting policies can be identified, such as how a public broadcasting entity accounts for production revenues.

The items that should be disclosed in this note are:

- The reporting entity – information regarding the primary governmental public broadcasting entity and any component units.
- Description of measurement focus, basis of accounting and financial statement presentation.
- Information on liquidity of deposits and investments and types of investments authorized by law.
- Accounting policy regarding – inventories and prepaid items, restricted assets, capital assets, compensated absences and long-term obligations.
- The recognition of revenues for contributions, including unconditional promises to give
- The valuation of contributions, especially the discounting of long-term unconditional promises to give and the provision of an allowance for uncollectible contributions receivable
- The classification of contributions in relation to donor stipulations or lack thereof
- The accounting policy concerning classification of contributions with donor-imposed restrictions that may be met in the same reporting period in which the contribution is received
- The accounting policy concerning release of restrictions on gifts of long-lived assets or of cash or other assets used to acquire them—either over the useful life of the long-lived asset or at the time of acquisition of such long-lived assets.

Following are examples of select disclosures only and do not necessarily represent all required note disclosures for a specific public broadcasting entity.

Exhibit 4-9. Example Notes to Financial Statements for a Governmental Public Broadcaster Following GASB, with Business-Type Activities Only

ANYSTATE PUBLIC TELECOMMUNICATIONS COMMISSION
(AN INSTRUMENTALITY OF THE STATE OF ANYSTATE)

Notes to Financial Statements

Years Ended June 30, 200X and 200X-1

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The financial statements of The Anystate Public Telecommunications Commission (The Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Commission applies all applicable GASB pronouncements as well as FASB, APB and ARB pronouncements) in accounting and reporting for the Commission's operations.

On July1, 200X-1 the Commission adopted the provisions of GASB Statement No. 34 (Statement 34). *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Statement 34 established standards for external financial reporting for all state and local governmental entities and component units, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows prepared on the direct method. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

The adoption of Statement 34 had no significant effect on the basic financial statements except for the reformatting of the basic financial statements and classification of net assets in conformity with Statement 34. The financial statements for the year ended June 30, 200X-1 were reclassified to conform with the adoption of Statement 34.

Reporting Entity – The Anystate Public Telecommunications Commission (the Commission is an instrumentality of the State of Anystate (the State). The Commission is governed by a Board of Commissioners some of whom are appointed by the Governor and ratified by the Legislature plus the president of the University of Anystate and the State Commissioner of Education or their respective designees. The Commission's primary functions are to promote and establish noncommercial educational telecommunications facilities within the State and to provide transmission facilities for noncommercial educational telecommunications programs throughout the State. The Commission is the licensee of four public television stations. The Commission has the responsibility to establish and operate a statewide public radio network and is the licensee of three public radio stations.

The Commission's financial statements present the Commission (the primary governmental public broadcasting entity) and its component units. The component units are included in the Commission's reporting entity because of the financial accountability criteria in GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Public Radio Anystate Foundation, Inc. and Anystate Public Telecommunications Commission Facilities Corporation are reported as part of the Commission as blended component units.

Public Radio Anystate Foundation, Inc. – Public Radio Anystate Foundation, Inc. (PRAF) is a citizen support organization which solicits funds to be used to support program production and broadcasting of public radio in Anystate. The distribution of PRAF funds is determined by the Board of Directors of PRAF of which the General Manager of the Commission is a member. Separate financial statements for PRAF can be obtained by contacting the Commission, 100 Main Street, Anycity, Anystate 55555 or (300) 555-3655.

Anystate Public Telecommunications Commission Facilities Corporation (formerly the Anystate Educational Telecommunications Leasing Corporation) – APTC Facilities Corporation (the Corporation) is an Anystate not-for-profit corporation, organized on December 15, 200X-3, by the Commission for the purpose of issuing lease rental revenue bonds to acquire and then lease property to the Commission as part of the Digitization (DTV) project (See Note 12) and renovate and remodel the telecommunications facility as part of the Founders Telecommunications Center Project. The Corporation is authorized only to act "by and on behalf of" the Commission, and the directors and officers of the Corporation represent current and past members of the Commission and its staff. Upon payment of the bonds, the DTV facilities and equipment and the building improvements acquired from the proceeds of the bonds will become property of the Commission.

Eliminations of Internal Activity – In the process of aggregating data for the statement of net assets, some amounts transferred from the television fund to the radio fund have been eliminated, as shown in the combining statement of net assets, which is presented following these notes to the financial statements.

Cash and Cash Equivalents – All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Investments – At June 30, 200X and 200X-1, investments consist of U.S. Treasury notes, certificates of deposit and mutual funds. The U.S. Treasury notes and certificates of deposit all have original maturities greater than three months and are carried at fair value. The mutual funds are stated at fair value based on quoted market prices.

Property and Equipment – The Commission records property and equipment at cost or, in the case of donated property, at its estimated fair value at date of receipt, net of accumulated depreciation. The Commission uses the straight-line method to calculate depreciation over the following estimated useful lives:

Buildings	30 years
Towers & Transmitters	20 years
Building Improvements	15 years
Broadcast & Production Equipment	3-10 years
Office Furniture & Equipment	3-5 years
Software	3 years

During fiscal 200X-1, the Commission changed its capitalization policy from $300 to $1,500. As a result of this change, $248,956 in net book value of property and equipment were written off by the Commission.

Licensed Program Rights – Program series and other syndicated products are recorded at the lower of unamortized cost, based on the gross amount of the related liability, or estimated net realizable value. Generally these programs and products are amortized on a straight-line basis over the period of the license agreement.

Costs Incurred for Programs Not Yet Broadcast – Costs incurred for programs not yet broadcast are recorded as a deferred asset. Such costs relate to programs produced by the Commission that will be broadcast subsequent to June 30. Programs to be completed and broadcast within one year are classified as current assets whereas programs to be completed and broadcast in more than one year are classified as long-term. At June 30, 200X, there were no long-term costs incurred for programs not yet broadcast. As the programs are broadcast, the costs incurred will be included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.

Gifts of Long-Lived Assets – The Commission reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Commission reports expirations of donor restrictions when the donated or acqquired long-lived assets are placed in service.

Net Assets – In the statement of net assets, net assets includes the following:

Invested in capital assets, net of related debt – This is the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets. At June 30, 200X, there is no related debt.

Restricted assets – The component of net assets that reports the constraints placed on the use of net assets by either external parties and/or enabling legislation

Unrestricted assets – The difference between the assets and liabilities that is not reported in *Invested in capital assets, net of related debt and restricted assets.*

It is the Commission's policy to expend restricted resources first and to use unrestricted resources when the restricted resources have been depleted.

Donor-Restricted Endowment Funds – The Commission has interpreted Anystate Revised Statutes Title 40, Section 111 as requiring the preservation of the purchasing power (real value) of the permanent endowment funds unless explicit donor stipulations specify how net appreciation must be used. To meet that objective, the Commission's endowment management policies require that net appreciation be retained permanently in an amount necessary to adjust the historic dollar value of original endowment gifts by the change in the Consumer Price Index. After maintaining the real value of the permanent endowment funds, any remainder of total return is available for use and transfer to unrestricted net assets.

Split-Interest Agreements and Perpetual Trusts – The Commission's and PRAF's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the public broadcasting entity serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts and other changes in estimates of future benefits.

The Commission and PRAF are also the beneficiaries of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in estimates of future receipts.

Pledges and Contributions – The Commission and PRAF engage in periodic fundraising campaigns manifested by offering some special programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Commission and to PRAF for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers and listeners. Contributions including unconditional promises to give and membership receipts are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors. An allowance for uncollectable contributions receivable is provided based upon the Commission's judgment including such factors as prior collection history and type of contribution. All member pledges receivable are promises to give within one year of June 30, 200X. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of the Commission. This usage is consistent with appeals for contributions and pledges.

In-kind Contributions – Contributed materials, supplies, facilities, and property are recorded at their estimated fair value at the date of donation. The Commission reports gifts of equipment, professional services, materials and other nonmonetary contributions as unrestricted revenue in the accompanying statements of revenues, expenses, and changes in net assets.

If the fair value of contributed materials, supplies, facilities, and property cannot be reasonably determined they are not recorded. Donated personal services of nonprofessional volunteers, as well as national and local programming services, are not recorded as revenue and expense as there is no objective basis available to measure the value of such services.

Contributed advertising and promotion are recorded at the fair value of the contribution portion of the total value received.

Revenue Recognition – State appropriations are recorded as revenue in the statement of revenues, expenses and changes in net assets when an expenditure is recorded.

Membership contributions are recognized as operating revenues in the period they are received.

Program production grants are reported as deferred revenues for programs not yet broadcast until the specific program is broadcast. At such time, amounts are included as revenues and the expenditures are recorded.

Revenue related to program underwriting for subsequent fiscal years is reflected as deferred revenues in the accompanying statement of net assets. Revenue is recognized when the related program is aired.

Contributed support represents expenses paid on behalf of a public telecommunications entity by others outside the reporting entity, and includes contributed professional services, donated materials or facilities, and indirect administrative support.

The Commission recognizes transponder space rental income in the period that the excess transponder capacity is contractually available to the third-party lessee.

Grants to finance non-capital projects are recorded as deferred revenue until an expenditure is incurred for which the grant was intended. The amounts are then included in revenues, and the expenditures are recorded.

Corporation for Public Broadcasting Community Service Grants – The Corporation for Public Broadcasting is a private, nonprofit grantmaking organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

The CSGs are reported on the accompanying financial statements as increases in temporarily restricted net assets until satisfaction of the time and purpose restrictions, after which they are reported as a release from temporarily restricted net assets and an increase in unrestricted net assets.

Indirect Administrative Support – Indirect support from other state agencies consists of allocated institutional support and physical plant costs incurred by the State for which the Commission receives benefits. The fair value of this support is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets as indirect administrative support and also as expense in the management and general functional expense category. For the years ended June 30, 200X and 200X-1, indirect support was calculated using the State's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The approved rate was modified to exclude certain cost components – principally departmental and sponsored projects administration – that do not benefit the Commission. The State also provides office, studio and tower facilities, the benefit for which is included as a building use allowance in the approved rate.

Production Revenue – The Commission uses the percentage-of-completion method of accounting for production revenue, whereby the cumulative production revenue earned equals the ratio of costs incurred to the estimated total costs at completion applied to the total committed revenues from outside sponsors. Production costs include charges by subcontractors plus all direct labor and other direct costs. Indirect and general and administrative expenses are charged to expense as incurred.

Cost estimates on programs are reviewed periodically as the work progresses and adjustments, if needed, are reflected in the period in which the estimates are revised.

Program and Production Underwriting – Revenue for program underwriting is recorded on a pro-rata basis for the period covered, and for production underwriting on an estimated percentage-of-completion basis.

Operating Activities – The Commission's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from the provision of public broadcasting and instructional technology services, and from the production of program material for distribution in those services. Revenues associated with, or restricted by donors to use for, capital improvements, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues.

Production Costs – Production costs incurred in connection with the Commission's arrangements with the Jazz Concert Network are capitalized. The Commission amortizes these costs over the life of the initial licensing period.

Advertising Costs – Advertising costs are expensed in the period in which they are incurred.

Commissions – The Commission and PRAF have agreements with independent consultants to solicit and acquire funds for program underwriting and other activities related to public broadcasting. The agreements provide for payment of commissions to the consultants based on varying percentages of funds received.

Operating Leases – The APTC Facilities Corporation leases tower space for certain repeater stations from third parties under lease agreements. The leases are accounted for as operating leases and are for various terms ranging from 5 to 10 years, with additional renewal options.

The Corporation leases space on certain towers that it owns to various third parties using five-year leases with renewal options. Tower rental income is included as "other income" in the statements of activities.

Functional Allocation of Expenses – The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

Use of Estimates – The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 200X-1 financial statements to conform to the 200X financial statement presentation.

2. RECEIVABLES AND PAYABLES

Receivables consisted of the following at June 30:

	200X	200X-1
Accounts/Interagency/Pledges	$ 249,400	$ 136,399
Accrued Interest	55,561	-
Federal Grants	213,484	-
Due from PRAF	242,381	-
	$ 760,826	$ 136,399

Payables consisted of the following at June 30:

	200X	200X-1
Accounts	$ 329,939	$ 63,860
Accrued Payroll/Vacation	82,742	-
	$ 412,681	$ 63,860

3. DEPOSITS AND INVESTMENTS

Deposits – For purposes of classifying categories of credit risk, the bank balances of the Commission's deposits at June 30, 200X are either entirely insured or collateralized with securities.

Investments – The Commission's investments are categorized to give an indication of the level of risk assumed by the Commission at year-end. Category 1 includes investments that are insured or registered, with securities held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Commission's name. At June 30, 200X, all investments other than mutual funds are Category 1 investments.

Included in investments is $5,704 and $4,704, respectively, subject to permanent restrictions set by the donor.

A reconciliation of deposits and investments for the Commission to the statement of net assets at June 30, 200X and 200X-1 is as follows:

	200X	200X-1
Investments:		
Mutual Funds	$ 66,296	$ 38,822
Deposits and Cash:		
Pooled-basis State and Federal cash funds maintained by State Treasurer	1,160,208	1,029,933
Certificates of deposit	369,554	363,408
Short-term investments	177,414	176,174
Checking account	44,739	50,937
	1,751,915	1,620,452
Restricted Cash:		
Money market account held by trustee for purchase of DTV equipment and facility renovations	18,787,414	7,390,515
Pooled-basis State and federal cash funds maintained by State Treasurer	1,797,209	1,882,500
Short-term investments	88,894	120,840
	20,673,517	9,393,855
Restricted Investments:		
U.S. Treasury notes held by trustee for purchase of DTV equipment and facility renovations	10,775,389	14,880,260
	31,448,906	24,274,115
	$ 33,267,117	$ 25,933,389
Assets as reflected on statement of net assets:		
Cash and cash equivalents	$ 3,268,464	$ 3,260,384
Investments	435,850	402,230
Restricted assets held by trustee	29,562,803	22,270,775
	$ 33,267,117	$ 25,933,389

4. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at June 30, 200X and 200X-1 is as follows:

	July 1, 200X-1 Beginning Balance	Additions	Reductions	June 30, 200X Ending Balance
Land	$ 73,790	$ 56,767	$ -	$ 130,557
Buildings and building improvements	4,729,606	1,582,341	-	6,311,947
Towers and transmission equipment	11,474,657	1,611,953	400,151	12,686,459
Broadcast and production equipment	18,607,025	3,386,373	821,367	21,172,031
Office furniture and equipment	825,388	103,992	22,738	906,642
Software	95,456	-	-	95,456
Total	35,805,922	6,741,426	1,244,256	41,303,092
Less accumulated depreciation:				
Buildings and building improvements	4,484,104	102,312	-	4,586,416
Towers and transmission equipment	7,009,634	471,674	396,902	7,084,406
Broadcast and production equipment	12,608,311	1,115,281	819,608	12,903,984
Office furniture and equipment	601,337	164,445	22,738	743,044
Software	62,321	31,818	-	94,139
Total	24,765,707	1,885,530	1,239,248	25,411,989
Property and equipment, net	$ 11,040,215	$ 4,855,896	$ 5,008	$ 15,891,103

	July 1, 200X-2 Beginning Balance	Additions	Reductions	June 30, 200X-1 Ending Balance
Land	$ 73,790	$ -	$ -	$ 73,790
Buildings and building improvements	4,534,837	194,769	-	4,729,606
Towers and transmission equipment	11,376,888	641,797	544,028	11,474,657
Broadcast and production equipment	16,232,705	3,515,570	1,141,250	18,607,025
Office furniture and equipment	958,253	89,560	222,425	825,388
Software	95,456	-	-	95,456
Total	33,271,929	4,441,696	1,907,703	35,805,922
Less accumulated depreciation:				
Buildings and building improvements	4,337,797	146,307	-	4,484,104
Towers and transmission equipment	7,136,765	398,603	525,734	7,009,634
Broadcast and production equipment	12,673,404	840,201	905,294	12,608,311
Office furniture and equipment	605,918	191,962	196,543	601,337
Software	30,502	31,819	-	62,321
Total	24,784,386	1,608,892	1,627,571	24,765,707
Property and equipment, net	$ 8,487,543	$ 2,832,804	$ 280,132	$ 11,040,215

5. INSURANCE SETTLEMENT

On January 4, 200X-1, the Commission signed a Settlement Agreement and Release with Lloyd's of London to settle a claim related to the failure of the Commission owned satellite transponder. The settlement amount of $1,882,500 was for one-half of the face value of the original insurance policy. The settlement proceeds were received and deposited in the Commission's cash fund on January 17, 200X-1. During the legislative session ended in May of 200X-1 the General Assembly of the State of Anystate determined that these insurance proceeds would be used to partially fund the Founders Telecommunications Center facility renovation project that began in the fiscal year ended June 30, 200X. At June 30, 200X, $85,292 of the proceeds have been spent on the project.

6. PENSION PLAN ADMINISTERED BY THE PUBLIC EMPLOYEES RETIREMENT BOARD

The Commission participates in the State Employee's Retirement Plan which covers substantially all full-time employees of the Commission. The plan is a single-employer defined contribution plan. Participation in the plan is required on reaching the age of 30 and completion of two years of continuous service. Each member contributes 4.33% of their compensation until $864 has been paid and 4.8% of pay for the rest of the calendar year. The Commission matches a member's contribution at a rate of 156% of the employees contribution. Contribution and benefit provisions are established by State law and may only be amended by the Anystate General Assembly. In addition State law requires there to be an equitable allocation of expenses among the retirement systems administered by the Public Employees Retirement Board.

The plan provides that the total contributions made for each employee, together with applicable earnings, are to be used to provide an annuity upon retirement. Costs under this plan are funded as they accrue. The Commission's portion of the total cost of this plan was $181,084 and $180,717 for the years ending June 30, 200X and 200X-1, respectively. The Public Employees Retirement Board prepares a separate report for the State's Employees' Retirement Plan that include financial statements and required supplementary information for the plan which may be obtained by writing to Public Employees Retirement Systems, P.O. Box 55555, Anycity, Anystate 55555-5555, or by calling (300) 555-5655.

7. NONFEDERAL FINANCIAL SUPPORT (NFFS)

The Corporation for Public Broadcasting (CPB) allocates a portion of its funds annually to public broadcasting entities, primarily based on NFFS. NFFS is defined as the total value of cash and the fair market value of property and services received as either a contribution or a payment and meeting all of the respective criteria for each.

A "contribution" is cash, property or services given to a public broadcasting entity for general operational purposes. Support received as a contribution by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source may be an entity except the federal government or any other public broadcasting entity; (2) the contribution may take the form of a gift, grant, bequest, donation or appropriation; (3) the purpose must be for the construction or operation of a noncommercial, educational public broadcast station or for the production, acquisition, distribution or dissemination of educational television or radio program and related activities; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station. However, to eliminate distortions in the TV CSG grant program precipitated by extraordinary infusions of new capital investments in DTV, all capital contributions received for purposes of acquiring new equipment or upgrading existing or building new facilities regardless of source or form of the contribution are not included in calculating the 200X NFFS. This change excludes all revenues received for any capital purchases.

A "payment" is cash, property or services received by a public broadcasting entity from specific sources in exchange for specific services or materials. Support received as a payment by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source must be a state, any agency or political subdivision of a state, an educational institution or organization or a nonprofit entity; (2) the form of the payment must be appropriations or contract payments in exchange for specific services or materials; (3) the purpose must be for any related activity of the public broadcast station; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

The assets, liabilities and net assets of the Commission are accounted for using the following funds for CPB purposes:

Television Fund - This fund includes the resources that are available for support of the Commission's television transmission operations.

Radio Fund - This fund includes the resources that are available for support of the Anystate Public Radio Network and includes the operations of PRAF.

Reported NFFS for the Commission were $11,010,287 and $11,453,938 for the television fund and $1,432,877 and $1,374,788 for the radio fund for 200X and 200X-1, respectively.

8. COMMUNITY SERVICE GRANTS (CSGs)

The Commission and PRAF each receive a Community Service Grant (CSG) from the Corporation for Public Broadcasting annually, the Commission for television and PRAF for radio. The Community Service Grants received and expended during the most recent fiscal years were as follows:

TELEVISION:

Year of Grant	Grants Received	Expended: 200X-3 & Prior	Expended: 200X-2	Expended: 200X-1	Uncommitted Balance at June 30, 200X
200X-3	$1,284,880	974582	310298	—	—
200X-2	$1,281,438	99114	872568	309756	—
200X-1	$1,224,643	—	97218	998385	129040
200X-XX	$1,543,224	—	—	34094	1509130

RADIO:

Year of Grant	Grants Received	Expended: 200X-3 & Prior	Expended: 200X-2	Expended: 200X-1	Uncommitted Balance at June 30, 200X
200X-3	$642,440	487291	155149	—	—
200X-2	$640,719	49557	436284	154878	—
200X-1	$612,321	—	48609	499192	64520
200X-XX	$788,158	—	—	34094	754064

9. STATE APPROPRIATIONS

This classification includes financial resources provided to the Commission through budgetary authorizations of the State Assembly. State appropriations utilized were as follows:

	200X	200X-1
Authorized State Appropriations	$7,850,011	$7,630,902
Unexpended Appropriation	(510098)	(607827)
Accrual Adjustments	(111470)	25841
Operating Fund	7228443	7048916
Property Fund	389520	1284768
Total	$7,617,963	$8,333,684

10. INDIRECT ADMINISTRATIVE SUPPORT

Indirect support from other state agencies consists of allocated institutional support and physical plant costs incurred by the State for which the Commission receives benefits. The fair value of this support is recognized in the Statements of Activities as indirect administrative support and also as expense in the management and general functional expense category. For the years ended June 30, 200X and 200X-1, indirect support was calculated using the State's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The approved rate of 29% was modified to exclude certain cost components that do not benefit the Commission. The approved rate was modified to exclude departmental and sponsored projects administration, resulting in an applied rate of 18%. The State also provides office, studio and tower facilities, the benefit for which is included as a building use allowance in the approved rate. The value of this support included in the Statements of Activities was $375,000 and $350,000 for the years ended June 30, 200X and 200X-1, respectively.

11. BOND ISSUE COSTS

The Commission capitalized $264,166 in bond issue costs in connection with the issuance of the Lease Rental Revenue Bonds Series 2000 by the APTC Facilities Corporation on February 15, 200X-2. The Commission capitalized an additional $99,751 in bond issue costs in connection with the issuance of the Lease Rental Revenue Bonds Series 200X by the APTC Facilities Corporation on April 1, 200X. The bond issue costs are being amortized using the bonds outstanding method over the life of the bonds.

12. CONTRIBUTED IN-KIND SUPPORT

Contributed support represents expenses paid on behalf of the Commission by others outside the reporting entity, and includes contributed professional services, donated materials or facilities, and indirect administrative support. The amount of contributed services is reflected as revenues in the accompanying combined statements of revenues, expenses and changes in net assets. As expenses of an equivalent amount are also recognized, there is no impact on net assets.

A summary of the contributed support received in 200X and 200X-1 is as follows:

The University of Anystate at Capitalcity (UAC) Television Department contributes support to the Network by partially funding the operations of the KXXX station, studio and production facility. UAC's allocated costs for this support totaled $713,103 and $709,081 in 200X and 200X-1, respectively.

Contributed support from the State consists of certain administrative and other expenses incurred by various state agencies on behalf of the Commission. These costs for 200X and 200X-1, respectively, were $23,184 and $8,802.

14. LEASE RENTAL REVENUE BONDS

Long-term debt is as follows as of June 30, 200X and 200X-1:

	Beginning Balance	Additions	Payments	Amortization of Premium	Ending Balance	Current Portion
Bonds payable, June 30, 200X	$21,211,001	9,991,691	1,665,000	63,167	29,474,525	1,745,000
Bonds payable, June 30, 200X-1	$22,922,454	-	1,645,000	66,453	21,211,001	1,665,000

On February 15, 200X-2, APTC Facilities Corporation issued $22,515,000 Lease Rental Revenue Bonds at a premium of $433,076 on behalf of the Commission. The bonds were issued for the purposes of paying the cost of acquiring equipment and facilities to allow the Commission to broadcast in compliance with the new digital television standard (DTV) as required by the Federal Communications Commission (the Project), and for paying certain costs in connection with the issuance and delivery of the bonds. The bonds interest rates range from 4.35% to 6%.

On May 22, 200X, APTC Facilities Corporation issued $9,850,000 Lease Rental Revenue Bonds at a premium of $141,691 on behalf of the Commission. The bonds were issued for the purpose of paying the cost of renovating and remodeling the Founders Telecommunications Center, funding reserves and for paying certain costs in connection with the issuance and delivery of the bonds. The bonds interest rates range from 2.70% to 4.50%. The bond premiums are being amortized over the life of the bonds using the bonds outstanding method.

The Bonds are special limited obligations of the Corporation and are secured solely by and payable solely from revenues and other monies derived by the Corporation from its ownership of the Project, including, in particular, lease payments funded by specific appropriations by the State of Anystate General Assembly as described under Assembly Bill 111. The Lease-Purchase Agreement and the lease payments thereunder are subject to recurring biennial appropriations by the Anystate General Assembly.

Annual maturities of principal and interest subject to redemption are as follows:

	DTV Project Series 200X-2		Founders Telecommunications Center Project Series 200X	
	Principal	Interest	Principal	Interest
Year Ending June 30:				
200X+1	$1,745,000	$1,102,980	$ -	$326,907
200X+2	1,830,000	1,015,730	1,355,000	380,863
00X+3	1,925,000	922,400	1,390,000	344,278
00X+4	2,025,000	822,300	1,435,000	301,187
200X+5	2,145,000	700,800	1,495,000	243,786
200X+6 – 200X+8	9,535,000	1,298,700	4,175,000	301,888
Total	$19,205,000	$5,862,910	$9,850,000	$1,898,909

Associated with these issuances, the Corporation acquired property and equipment totaling $3,677,272 and $2,473,926 for fiscal year ended June 30, 200X and 200X-1, respectively.

15. TRANSPONDER SPACE RENTAL INCOME

The Commission previously entered into agreements with two outside parties to sublease excess capacity on its Transponder. These sublease agreements were terminated by the Commission as of January 31, 200X-2, upon reaching the end of the satellite's useful life. Since the sublease agreements were terminated, the Commission has entered into an ad hoc agreement based on usage with one of the previous outside parties. The revenues associated with these agreements are reflected in a separate line item on the accompanying statement of revenues, expenses and changes in net assets.

16. SATELLITE TRANSPONDER LEASE

AB 111 authorized the Commission to enter into a long-term contract for replacement of satellite capacity, with the contract period not to exceed ten years. The Commission executed a multi-year lease of two 36 MHz C-band satellite transponders, and transition of services to the new satellite was completed by February 1, 200X-2. The lease agreement stipulates that payments are due in monthly installments of $118,555 per transponder for a period of 10 years. The expense is being recognized over the life of the lease which is 12 years. The amount paid in excess of the amount recognized is recorded as a prepaid asset on the statement of net assets. While the State Constitution does not allow the General Assembly to approve appropriations extending beyond the current biennium, the General Assembly has demonstrated a history of fulfilling funding requirements authorized in a prior biennium.

The following is a schedule of future minimum obligations under this operating lease as of June 30, 200X:

Year Ended June 30	Amount
200X+1	$ 2,845,320
200X+2	2,845,320
200X+3	2,845,320
200X+4	2,845,320
200X+5	2,845,320
200X+6 - 200X+8	7,350,410
	$ 21,577,010

17. **COMMITMENTS AND CONTINGENCIES**

Litigation – The Commission is subject to litigation in the normal course of business. Management does not believe that the Commission is party to any pending litigation which would have a material adverse effect on its financial statements or future operations

Digital Television Conversion – The Federal Communications Commission (FCC) has mandated that all public broadcasting stations begin transmitting DTV (Digital Television) signals by May 1, 2003. This change in broadcasting standards means that, eventually, all transmissions, pass-through and production equipment must be replaced with digital-capable equipment. Management expects to comply with the FCC mandate for the broadcast transmission requirement at an estimated cost of $17 million. Conversion of the production plant to DTV, which is not required by the FCC, is expected to cost an additional $16.8 million to be incurred over ten years.

The 200X-3 Anystate General Assembly provided authorization for long-term financing not to exceed ten years to pay for equipment necessary to meet the FCC's May 1, 200X+1 DTV transmission deadline. Funding for the financing for the current biennium was provided in AB 111 and tax-exempt bonds were issued in February 200X-2. While the State Constitution does not allow the General Assembly to approve appropriations extending beyond the current biennium, the General Assembly has demonstrated a history of fulfilling funding requirements for financing arrangements authorized in a prior biennium. The long term financing authorized by the General Assembly is expected to fund approximately 61% of the total cost of the DTV conversion. Funding for the balance of costs is expected to come from a combination of Federal, state and private sources over the next ten years.

4.9.8 Supplemental Information Combining Television and Radio

Joint licensees (those holding licenses for both public television stations and public radio stations) may choose to present discretely the financial position, changes in financial position, and cash flows of their television station(s) and their radio station(s). **This is not *required* supplemental information for public broadcasting entities, but may aid users in understanding the entity's financial position and activities.**

Some public broadcasting entities may do so with separate columns in the basic financial statements, but others may choose to do so in supplemental information.

Exhibit 4-10 is an example of a combining statement of net assets, and Exhibit 4-11 is an example of a combining statement of revenues, expenses, and changes in net assets.

Exhibit 4-10. Example Combining Statements of Net Assets for a Governmental Public Broadcaster Following GASB, With Business-Type Activities Only

ANYSTATE PUBLIC TELECOMMUNICATIONS COMMISSION
(An Instrumentality of the State of Anystate)
Combining Statements of Net Assets
June 30, 200X and 200X-1

	Television		Radio		Eliminations	Total	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X**	**200X-1**
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$ 2,935,384	$ 2,888,340	$ 333,080	$ 372,044	$ -	$ 3,268,464	$ 3,260,384
Investments	-	-	435,850	402,230	-	435,850	402,230
Accounts receivable, net of allowances of $3,937 and $3,062, for 200X and 200X-1 respectively	1,342,282	1,034,081	73,725	73,491	(7,510)	1,408,497	1,107,572
Grants receivable	2,540,847	1,591,630	23,028	19,516	-	2,563,875	1,611,146
Interest receivable	133,962	256,823	984	1,141	-	134,946	257,964
Prepaid expenses	-	-	25,562	1,747	-	25,562	1,747
Other current assets	-	-	7,950	8,859	-	7,950	8,859
Deferred expenses	-	-	4,682	2,963	-	4,682	2,963
Bond issue costs	59,955	37,476	-	-	-	59,955	37,476
	7,012,430	5,808,350	904,861	881,991	(7,510)	7,909,781	6,690,341
Restricted assets held by trustee:							
Cash and cash equivalents	18,787,414	7,390,515	-	-	-	18,787,414	7,390,515
Investments	10,775,389	14,880,260	-	-	-	10,775,389	14,880,260
	29,562,803	22,270,775	-	-	-	29,562,803	22,270,775
NONCURRENT ASSETS:							
Property and equipment, net	14,987,188	10,185,941	903,915	854,274	-	15,891,103	11,040,215
Other assets	1,146,030	671,811	-	-	-	1,146,030	671,811
Bond issue costs, net of accumulated amortization			-				
of $94,856 and $56,164 for 200X and 200X-1 respectively, less current portion	209,106	170,526	-	-	-	209,106	170,526
	16,342,324	11,028,278	903,915	854,274	-	17,246,239	11,882,552
Total assets	$ 52,917,557	$ 39,107,403	$ 1,808,776	$ 1,736,265	$ (7,510)	$ 54,718,823	$ 40,843,668
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Accounts payable and accrued expenses	2,720,418	1,046,703	83,974	140,569	(7,510)	2,796,882	1,187,272
Interest payable	546,793	542,163	-	-	-	546,793	542,163
Deferred and unearned revenues	1,692,376	-	61,272	63,553	-	1,753,648	63,553
Bonds payable	1,745,000	1,665,000	-	-	-	1,745,000	1,665,000
	6,704,587	3,253,866	145,246	204,122	(7,510)	6,842,323	3,457,988
NONCURRENT LIABILITIES:							
Deferred and unearned revenues, less current portion	-	1,455,004	-	-	-	-	1,455,004
Bonds payable, less current portion	27,729,525	19,546,001	-	-	-	27,729,525	19,546,001
	27,729,525	21,001,005	-	-	-	27,729,525	21,001,005
Total liabilities	34,434,112	24,254,871	145,246	204,122	(7,510)	34,571,848	24,458,993
NET ASSETS:							
Invested in capital assets, net of related debt	11,111,583	9,051,088	903,915	854,274	-	12,015,498	9,905,362
Restricted for:							
Capital projects	2,647,624	1,963,916	89,894	129,590	-	2,737,518	2,093,506
Debt service	3,382,527	2,321,213	-	-	-	3,382,527	2,321,213
Endowment	-	-	5,704	4,704	-	5,704	4,704
Unrestricted	1,341,711	1,516,315	664,017	543,575	-	2,005,728	2,059,890
Total net assets	18,483,445	14,852,532	1,663,530	1,532,143	-	20,146,975	16,384,675
Total liabilities and net assets	$ 52,917,557	$ 39,107,403	$ 1,808,776	$ 1,736,265	$ (7,510)	$ 54,718,823	$ 40,843,668

Exhibit 4-11. Example Combining Statements of Revenues, Expenses, and Changes in Net Assets for a Governmental Public Broadcaster Following GASB, With Business-Type Activities Only

ANYSTATE PUBLIC TELECOMMUNICATIONS COMMISSION
(An Instrumentality of the State of Anystate)
Combining Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 200X AND 200X-1

	Television		Radio		Total	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
OPERATING REVENUES:						
State appropriations - operations	$ 10,584,874	$ 10,588,621	$ 521,706	$ 464,849	$ 11,106,580	$ 11,053,470
Membership contributions	-	-	576,167	549,035	576,167	549,035
Instructional technology	235,020	318,651	-	-	235,020	318,651
Community service grants	972,953	1,013,638	213,591	213,610	1,186,544	1,227,248
Program production grants	-	-	48,003	29,359	48,003	29,359
Program underwriting	-	-	118,528	130,027	118,528	130,027
Contributed support	861,378	894,992	-	-	861,378	894,992
Total operating revenues	12,654,225	12,815,902	1,477,995	1,386,880	14,132,220	14,202,782
OPERATING EXPENSES:						
Broadcasting	6,621,826	6,891,374	128,598	121,810	6,750,424	7,013,184
Programming and production	2,541,850	2,563,184	685,611	654,172	3,227,461	3,217,356
Program information	138,108	140,354	54,544	47,264	192,652	187,618
Management and general	1,809,962	2,093,284	216,314	160,673	2,026,276	2,253,957
Depreciation	1,735,702	1,475,421	149,828	133,471	1,885,530	1,608,892
Fundraising and membership development	-	-	321,270	300,239	321,270	300,239
Grants expense	972,953	1,013,638	-	-	972,953	1,013,638
Total operating expenses	13,820,401	14,177,255	1,556,165	1,417,629	15,376,566	15,594,884
Operating Loss	(1,166,176)	(1,361,353)	(78,170)	(30,749)	(1,244,346)	(1,392,102)
NON-OPERATING REVENUES (EXPENSES):						
Transponder space rental income	12,015	40,235	-	-	12,015	40,235
State appropriations - capital improvements	803,988	852,099	82,500	-	886,488	852,099
Capital campaign	-	-	-	129,590	-	129,590
Other grants	1,262,627	653,875	8,323	34,347	1,270,950	688,222
Investment income	956,127	1,785,176	28,614	31,179	984,741	1,816,355
State appropriations - debt service	2,816,596	2,878,098	-	-	2,816,596	2,878,098
Interest expense	(1,124,364)	(1,207,476)	-	-	(1,124,364)	(1,207,476)
Amortization of bond issue cost	(38,692)	(40,535)	-	-	(38,692)	(40,535)
Other	108,792	127,905	90,120	46,547	198,912	174,452
Insurance proceeds	-	1,882,500	-	-	-	1,882,500
Total non-operating revenue	4,797,089	6,971,877	209,557	241,663	5,006,646	7,213,540
Increase in net assets	3,630,913	5,610,524	131,387	210,914	3,762,300	5,821,438
NET ASSETS:						
NET ASSETS, beginning of year	14,852,532	9,242,008	1,532,143	1,321,229	16,384,675	10,563,237
NET ASSETS, end of year	$ 18,483,445	$ 14,852,532	$ 1,663,530	$ 1,532,143	$ 20,146,975	$ 16,384,675

4.10 Additional Financial Reporting Considerations – Non-Business Type Activities

Public broadcasting entities must submit to CPB financial statements that have been prepared in conformity with GAAP. The financial statements submitted to CPB should be those of the grant recipient and not solely those of the controlling institution that is the licensee. Stand-alone financial statements should be submitted to CPB, even if the public broadcasting entity reports to a parent organization.

Public broadcasting entities that elect to provide CPB their financial statements biennially must provide CPB with an annual breakout of their finances, either in side-by-side presentation or in separate financial statements for each fiscal year, with each of those statements also showing comparative data for the prior fiscal year.

Public broadcasting entities engaged only in business-type activities should use enterprise fund accounting. **CPB encourages all public broadcasting entities to use enterprise fund accounting**, but the decision whether to do so must be made by each grantee, in consultation with its independent auditors.

GASBS Nos. 34 and 35 establish significant changes in financial reporting for stations that are not following CPB recommendations to report as an enterprise fund. This section provides guidance for entities preparing financial statements as a governmental fund or another fund type other than a "special purpose government engaged only in business activities." GASBS Nos. 34 and 35 generally require two sets of financial statements, the entity-wide and the fund level.

For grantees that use governmental fund accounting (whether entirely for governmental-type funds, or in combination with one or more proprietary funds), the public broadcasting entity must provide:

- Public-broadcasting-entity-wide financial statements, on a full accrual basis,
- Governmental fund financial statements, on a modified accrual basis, and
- A supplementary schedule reconciling the public-broadcasting-entity-wide and the governmental fund statements

This supplementary schedule should be included in the scope of the audit of the public broadcasting entity.

If a grantee uses governmental fund accounting for one or more funds, in combination with proprietary fund accounting for one or more other, proprietary funds, then separate fund statements must be provided for governmental funds and for proprietary funds.

This section includes discussion and examples of both the public-broadcasting-entity-wide and the governmental fund statements for grantees that use governmental fund accounting (whether entirely for governmental-type funds, or in combination with one or more proprietary funds).

(The guidance and examples of MD&A, financial statements, and notes to the financial statements in *Section 4.9.1* are for public broadcasting entities that consist solely of one or more proprietary enterprise funds.)

4.10.1 Public-Broadcasting-Entity-Wide Financial Statements

GASBS Nos. 34 and 35 have added the presentations of government-wide financial statements to a governmental entity or public college and university reporting requirements. This section discusses some of the more significant requirements of the public-broadcasting-entity-wide statements. **However, for governmental public broadcasting entities presenting stand-alone financial statements *of business-type activities only*, in conformity with CPB requirements, these statements will not be required, as discussed in Section 4.9**.

Statement of Net Assets

The information provided in a statement of net assets, used with related disclosures and information in other financial statements, helps donors, members, creditors, and others to assess (a) the organization's ability to continue to provide services and (b) the organization's liquidity, financial flexibility, ability to meet obligations, and needs for external financing.

The statement of net assets should report all financial and capital resources. Governmental public broadcasting entities should present the statement in a format that displays assets less liabilities equal net assets, although the traditional balance sheet format (assets equal liabilities plus net assets) may be used. Regardless of the format used, however, the statement of net assets should report the difference between assets and liabilities, as net assets not fund balances or equity. [119]

GASBS No. 34 requires that certain minimum information be shown either on the face of the statement of financial position or in the accompanying notes. Required information includes:

- Total amount of assets, liabilities, and net assets
- Include all financial and capital resources classifications into three categories:
  - Investment in Capital Assets, Net of Related Debt
  - Restricted Net Assets
  - Unrestricted Net Assets
- Information about liquidity is encouraged

In addition, CPB requires that comparative financial statements be presented.

Asset Categorization

The difference between a public broadcasting entity's assets and its liabilities is its net assets. Net assets should be displayed in three components—invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted.[120]

Invested in Capital Assets, Net of Related Debt

This component of net assets consists of capital assets (see paragraph 19 of GASBS No. 34), including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to

[119] GASBS No. 34, paragraph 30.
[120] GASBS No. 34, paragraph 32.

the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds—for example, restricted for capital projects.[121]

Restricted Net Assets

Net assets should be reported as restricted when constraints placed on net asset use are either:[122]

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation

When permanent endowments or permanent fund principal amounts are included, "restricted net assets" should be displayed in two additional components—expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.

Unrestricted Net Assets

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."[123]

Long-term Debt

Liabilities whose average maturities are greater than one year should be reported in two components—the amount due within one year and the amount due in more than one year.

Governmental public broadcasting entities should present assets and liabilities in order of their relative liquidity. An asset's liquidity should be determined by how readily it is expected to be converted to cash and whether restrictions limit the public broadcasting entity's ability to use the resources. A liability's liquidity is based on its maturity, or when cash is expected to be used to liquidate it. The liquidity of an asset or liability may be determined by assessing the average liquidity of the class of assets or liabilities to which it belongs, even though individual balances may be significantly more or less liquid than others in the same class and some items may have both current and long-term elements. Liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year. Use of a classified format, which distinguishes between all current and long-term assets and liabilities, is also acceptable.

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[121] GASBS No. 34, paragraph 33.
[122] GASBS No. 34, paragraph 34.
[123] GASBS No. 34, paragraph 36.

Statement Format for Statement of Net Assets

Separate columns should be used to distinguish between the governmental and business-type activities of the public broadcasting entity and between the public broadcasting entity as a whole and its discretely presented component units. A total column for the public broadcasting entity as a whole should be presented. A total column for the reporting entity and comparative data from the prior year may be presented but are not required. A governmental public broadcasting entity with mixed governmental and business-type activities should use a format for the statement of net assets similar to that in the following page.

Exhibit 4-12. Example Public-Broadcasting-Entity-Wide Statements of Net Assets for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Statements of Net Assets
As of June 30, 200X and 200X-1

	Governmental Activities		Business-Type Activities		Total	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
ASSETS						
Cash and investments	$ 4,504,788	$ 2,938,549	$ 41,667	$ 43,811	$ 4,546,455	$ 2,982,360
Receivables	188,042	155,193	-		188,042	155,193
Restricted investments	-	-	205,274	200,000	205,274	200,000
Inventory	30,341	35,897	-		30,341	35,897
Prepaids	22,918	1,046	2,193	7,590	25,111	8,636
Capital assets						-
Land	1,320	1,320	-	-	1,320	1,320
Depreciable buildings, property						-
and equipment, net	3,649,359	8,338,674	-	-	3,649,359	8,338,674
Total assets	8,396,768	11,470,679	249,134	251,401	8,645,902	11,722,080
LIABILITIES						
Accounts payable	560,275	222,278	517	1,550	560,792	223,828
Accrued salaries and benefits	114,525	105,383	-	-	114,525	105,383
Deferred revenue	106,220	92,479	-	-	106,220	92,479
Total liabilities	781,020	420,140	517	1,550	781,537	421,690
NET ASSETS						
Invested in capital assets, net of related debt	3,650,679	8,339,994	-	-	3,650,679	8,339,994
Restricted for:						
Grants	3,803,987	2,682,465	-	12,904	3,803,987	2,695,369
Permanent endowment - non-expendable	-	-	199,877	200,000	199,877	200,000
Unrestricted	161,082	28,080	48,740	36,947	209,822	65,027
Total net assets	$ 7,615,748	$ 11,050,539	$ 248,617	$ 249,851	$ 7,864,365	$ 11,300,390

The accompanying notes are an integral part of the financial statements.

Statement of Activities

The operations of the reporting public broadcasting entity should be presented in a format that reports the net (expense) revenue of its individual functions. An objective of using the net (expense) revenue format is to report the relative financial burden of each of the reporting government's functions on its constituents. This format identifies the extent to which each function of the public broadcasting entity draws from the general revenues of the government, or is self-financing through fees, contributions, and intergovernmental aid. This notion of burden on the primary government's constituents is important in determining what is program revenue and what is general revenue. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers should be reported separately after the total net expenses of the government's functions, ultimately arriving at the "change in net assets" for the period.[124]

The statement of activities should present governmental activities at least at the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balances – at a minimum by *function*. Governmental public broadcasting entities should present *business-type* activities at least by *identifiable activity*.

Governmental public broadcasting entities with mixed governmental and business-type activities should provide data in the statement of activities at a more detailed level if the additional detail provides more useful information without significantly reducing readers' ability to understand the statement. No specific level of detail is appropriate for all governmental public broadcasting entities; some have many programs and others have only a few. Therefore, reporting in greater detail than the minimum requirements may be practical for some governmental public broadcasting entities but not for others.

Expenses

Governmental public broadcasting entities with mixed governmental and business-type activities should report all expenses by function except for those that meet the definitions of special or extraordinary items. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, as amended and interpreted, defines the terms "unusual in nature and infrequency of occurrence". Extraordinary items should be reported separately at the bottom of the statement of activities.[125]

Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence (but not both) are special items. Special items should also be reported separately in the statement of activities, before extraordinary items, if any. In addition, governmental public broadcasting entities should disclose in the notes to financial statements any

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[124] GASBS No. 34, paragraph 38.
[125] GASBS No. 34, paragraph 55.

significant transactions or other events that are either unusual or infrequent but not both and not within the control of management.[126]

Classification and Reporting of Expenses

Expenses are outflows or other uses of assets or incurrence of liabilities from delivering or producing goods, rendering services, or carrying out other activities which constitute the public broadcasting entity's major operations. All expenses are reported as decreases in unrestricted net assets.

As a minimum, governmental public broadcasting entities should report direct expenses for each function. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function.[127] Direct expenses should be reported by functions, see further discussion under *Section 4.9.6* of this manual.

Some functions, such as support services, or administration, include expenses that are, in essence, indirect expenses of other functions. Governmental public broadcasting entities are not required to allocate those indirect expenses to other functions. However, some governmental public broadcasting entities may prefer to allocate some indirect expenses or use a full-cost allocation approach among functions. If indirect expenses are allocated, direct and indirect expenses should be presented in separate columns to enhance comparability of direct expenses between governments that allocate indirect expenses and those that do not. A column totaling direct and indirect expenses may be presented but is not required.[128]

Some governments charge funds or programs (through internal service funds or the general fund) for "centralized" expenses, which may include an administrative overhead component. Governmental public broadcasting entities are not required to identify and eliminate these administrative overhead charges, but the summary of significant accounting policies should disclose that they are included in direct expenses.[129]

Depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a facility that houses the police department, the building inspection office, and the water utility office) should be ratably included in the direct expenses of the appropriate functions. Depreciation expense for capital assets such as the public broadcasting entity's main offices that essentially serve all functions is not required to be included in the direct expenses of the various functions. This depreciation expense may be included as a separate line in the statement of activities or as part of the "general government" (or its counterpart) function. If a governmental public broadcasting entity uses a separate line in the statement of activities to report unallocated depreciation expense, it should clearly indicate on the face of the statement that this line item excludes direct depreciation expenses of the various programs.[130]

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[126] GASBS No. 34, paragraph 56.
[127] GASBS No. 34, paragraph 41.
[128] GASBS No. 34, paragraph 42.
[129] GASBS No. 34, paragraph 43.
[130] GASBS No. 34, paragraph 44.

Depreciation expense for general infrastructure assets should not be allocated to the various functions. It should be reported as a direct expense of the function (for example, public works or transportation) that the reporting governmental public broadcasting entity normally associates with capital outlays for, and maintenance of, infrastructure assets or as a separate line in the statement of activities.[131]

Statement Format for Statement of Activities

For most governmental public broadcasting entities with mixed governmental and business-type activities, the format illustrated on the following page provides the most appropriate method for displaying the information required to be reported in the statement of activities. However, some public broadcasting entities can modify the statement's format to be more responsive to their particular financial reporting needs or circumstances.

[131] GASBS No. 34, paragraph 45.

Exhibit 4-13. Example Public-Broadcasting-Entity-Wide Statements of Activities for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Statement of Activities
For the Years Ended June 30, 200X and 200X-1

		Program revenues 200X			Net Revenue (Expense) and Changes in Net Assets					
					Governmental Activities		Business-Type Activities		Total	
Functions/Programs	Expenses 200X	Charges for Services	Operating Grants and	Capital Grants and	200X	200X-1	200X	200X-1	200X	200X-1
GOVERNMENTAL ACTIVITIES										
Programming and production	$ 3,799,501	$ 396,122	$ 1,878,068	$ -	$ (1,525,311)	$ (2,206,346)	$ -	$ 19,980	$ (1,525,311)	$ (2,186,366)
Broadcasting	1,483,718	12,850	898,354	1,324,778	752,264	1,931,933	-	-	752,264	1,931,933
Program information	105,148	-	50,318	-	(54,830)	(95,233)	-	-	(54,830)	(95,233)
Inkind programming and production	140,075	1,360	257,404	-	118,689	633,841	-	-	118,689	633,841
Inkind broadcasting	117,047	2,450	196,378	-	81,781	(81,979)	-	-	81,781	(81,979)
Inkind program information	402,964	402,964	8,030	-	8,030	(194,046)	-	-	8,030	(194,046)
Membership solicitation	458,894	-	-	-	(458,894)	(424,021)	-	-	(458,894)	(424,021)
Underwriting solicitation	143,369	571,717	68,583	-	496,931	482,432	-	-	496,931	482,432
General and administrative	531,650	-	249,945	-	(281,705)	(216,972)	-	400	(281,705)	(216,572)
Inkind membership solicitation	35,175	18,387	37,044	-	20,256	(52,867)	-	-	20,256	(52,867)
Inkind underwriting solicitation	78,142	76,687	10,545	-	9,090	(101,562)	-	-	9,090	(101,562)
Inkind general and administrative	40,679	23,641	49,824	-	32,786	227,595	-	-	32,786	227,595
Total governmental activities	7,336,362	1,506,178	3,704,493	1,324,778	(800,913)	(97,225)	-	20,380	(800,913)	(76,845)
BUSINESS-TYPE ACTIVITIES										
Special events and volunteer services	42,869	-	-	-	-	7,796	(42,869)	(25,361)	(42,869)	(17,565)
TOTAL GOVERNMENT	$ 7,379,231	$ 1,506,178	$ 3,704,493	$ 1,324,778	$ (800,913)	$ (89,429)	$ (42,869)	$ (4,981)	$ (843,782)	$ (94,410)
GENERAL REVENUES										
Grants and revenues not restricted to specific programs										
Membership donations					1,074,430	1,065,403	57,638	-	1,132,068	1,065,403
Community service grant from the Corporation for Public Broadcasting					906,064	859,368	-	-	906,064	859,368
Anystate Public Broadcasting					43,004	-	-	-	43,004	-
Instructional Television Fixed Service (ITFS)					750,000	2,568,682	-	-	750,000	2,568,682
Contributions					54,869	269,983	-	-	54,869	269,983
Investment earnings					112,865	123,521	6,465	12,433	119,330	135,954
TRANSFERS					22,468	14,490	(22,468)	(14,490)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					2,963,700	4,901,447	41,635	(2,057)	3,005,335	4,899,390
Change in net assets					2,162,787	1,027,328	(1,234)	(1,672)	2,161,553	1,025,656
NET ASSETS, beginning of year					5,452,961	4,425,633	249,851	251,523	5,702,812	4,677,156
NET ASSETS, end of year					$ 7,615,748	$ 5,452,961	$ 248,617	$ 249,851	$ 7,864,365	$ 5,702,812

The accompanying notes are an integral part of the financial statements.

4.10.2 Governmental Fund Financial Statements

Fund financial statements should be used to report additional and detailed information about the primary government. The financial statements required for governmental funds are: a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Financial statements for governmental funds should be presented using the *current financial resources measurement focus* and the *modified accrual basis of accounting*, as the terms are discussed in National Council on Government Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, as amended.

These statements are presented for information purposes only. Stations presenting under a "special purposes government" as defined in *Section 4.2.1 Proprietary Funds* would not be required to report these financial statements.

Account Groups Eliminated

The General Long-Term Debt and General Fixed Asset account groups have been eliminated from financial reporting. Information previously presented in the account groups is now presented only in the public-broadcasting-entity-wide Statement of Net Assets.

Reporting General-Long-Term Liabilities

General long-term liabilities should not be reported as liabilities in governmental funds but should be reported in the governmental activities column in the public-broadcasting-entity-wide statement of net assets.

Depreciation of Governmental Assets

Depreciation expense should be reported in the statement of activities for the entity-wide statements and the Statement of revenue, expenses, and changes in fund net assets. Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. [132]

The Balance Sheet

The balance sheet should report information about the current financial resources (assets, liabilities, and fund balances) of each major governmental fund and for nonmajor governmental funds in the aggregate. A total column should be presented. Assets, liabilities, and fund balances of governmental funds should be displayed in a balance sheet format (assets equal liabilities plus fund balances).[133]

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[132] GASBS No. 34, paragraph 22.
[133] GASBS No. 34, paragraph 83.

Exhibit 4-14. Example Governmental Fund Balance Sheet for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Governmental Fund Balance Sheets
As of June 30, 200X and 200X-1

	Operating Fund	
	June 30, 200X	**June 30, 200X-1**
Assets		
Cash and investments	$ 4,504,788	$ 2,938,549
Receivables	188,042	155,193
Inventory	30,341	35,897
Prepaids	22,918	1,046
Total assets	$ 4,746,089	$ 3,130,685
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 560,275	$ 222,278
Accrued salary and benefits	114,525	105,383
Deferred revenue	106,220	92,479
Total liabilities	781,020	420,140
Fund Balance:		
Reserved for:		
Inventories	30,341	35,897
Grants	3,803,987	2,602,407
Prepaids	22,918	1,046
Unreserved	107,823	71,195
Total fund balance	3,965,069	2,710,545
Total liabilities and fund balance	$ 4,746,089	$ 3,130,685

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances

The statement of revenues, expenditures, and changes in fund balances should report information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the non-major governmental funds in the aggregate. A total column should be presented. The statement should present the following information, in the format and sequence indicated, as illustrated below:

- Revenues (detailed)
- Expenditures (detailed)
  - Excess (deficiency) of revenues over expenditures
- Other financing sources and uses, including transfers (detailed)
- Special and extraordinary items (detailed)
  - Net change in fund balances
- Fund balances
  - Beginning of period
- Fund balances
  - End of period

Exhibit 4-15. Example Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balances for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Governmental Fund Statements of Revenues, Expenses, and Changes in Fund Balances
For the Years Ended June 30, 200X and 200X-1

	Operating Fund	
	200X	**200X-1**
SUPPORT AND REVENUES		
Support:		
Instructional television appropriation from Anycity Board of Education	$ 2,641,752	$ 2,568,682
Membership donations	1,011,022	1,065,403
Community service grant from Corporation for Public Broadcasting	918,385	859,368
State capital projects	938,377	400,000
Digital television grant	429,405	-
Direct support from Anycity Board of Education	270,632	282,758
ITV contributions	257,313	269,983
Public Broadcasting Service	127,735	45,385
Total non-in-kind support	6,594,621	5,491,579
In-kind facilities and administrative services from Anycity Board of Education	253,593	254,350
In-kind transmitter site	35,000	35,000
Total in-kind support	288,593	289,350
Total support	6,883,214	5,780,929
Revenues:		
Underwriting and foundation grants	637,159	604,583
Contract productions	293,622	430,982
ITFS transactions	764,869	250,000
Royalties	82,883	116,233
Interest income	107,697	123,521
Dubbing	4,181	5,606
Uplink	12,850	6,275
Special events	63,409	7,796
Other	101,309	83,025
Total non-in-kind revenues	2,067,979	1,628,021
In-kind underwriting	525,489	350,078
Total in-kind revenues	525,489	350,078
Total revenues	2,593,468	1,978,099
Total support and revenues	9,476,682	7,759,028

(Continued)

EXPENDITURES		
Program services		
Programming and production	3,639,335	3,358,144
Broadcasting	1,250,756	1,602,117
Program information	105,148	95,233
Total non-in-kind program services	4,995,239	5,055,494
In-kind programming and production	140,075	147,219
In-kind broadcasting	117,047	116,979
In-kind program information	402,964	194,046
Total in-kind program services	660,086	458,244
Total program services	5,655,325	5,513,738
Support services		
Membership solicitation	448,293	424,021
Underwriting solicitation	142,450	122,151
General and administrative	520,890	499,730
Total non-in-kind support services	1,111,633	1,045,902
In-kind membership solicitation	35,175	52,867
In-kind underwriting solicitation	78,142	101,562
In-kind general and administrative	40,679	26,755
Total in-kind support services	153,996	181,184
Total support services	1,265,629	1,227,086
Capital outlay	1,323,672	79,258
Total expenditures	8,244,626	6,820,082
EXCESS (DEFICIENCY) OF SUPPORT AND REVENUES OVER EXPENDITURES	1,232,056	938,946
OTHER FINANCING SOURCES		
Transfer from Friends of Channel 8	22,468	14,490
NET CHANGE IN FUND BALANCE FROM OPERATIONS AND CAPITAL	1,254,524	953,436
FUND BALANCE, beginning of year	2,710,545	1,757,109
FUND BALANCE, end of year	$ 3,965,069	$ 2,710,545

The accompanying notes are an integral part of the financial statements.

Reconciliation of Fund Level and Entity-Wide Statements

Governments should present a summary reconciliation to the public-broadcasting-entity-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule. In many cases, brief explanations presented on the face of the statements will be sufficient to allow users to assess the relationship between the statements. However, if aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item, governments should provide a more detailed explanation in the notes to financial statements.

Exhibit 4-16. Example Reconciliation of Governmental Fund Balance Sheets to Public-broadcasting-entity-wide Statements of Net Assets for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Reconciliation of Governmental Fund Balance Sheets
To Government-wide Statements of Net Assets
For the Years Ended June 30, 200X and 200X-1

	200X		200X-1	
Fund balance - total governmental funds		$ 3,965,069		$ 2,710,545
Amounts reported for governmental activities in the				
Capital assets used in governmental activities are				
Governmental capital assets	6,783,179		8,339,994	
Less accumulated depreciation as of June 30	(3,132,500)		-	
		3,650,679		8,339,994
Net assets of governmental activities		$ 7,615,748		$ 11,050,539

The accompanying notes are an integral part of the financial statements.

Exhibit 4-17. Example Reconciliation of Governmental Fund Statements of Revenues, Expenditures and Changes in Fund Balance to Public-broadcasting-entity-wide Statements of Activities for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Reconciliation of Governmental Fund Statements of Revenues, Expenditures, and
Changes in Fund Balance to Government-wide Statements of Activities
For the Years Ended June 30, 200X and 200X-1

	200X		200X-1	
Net change in fund balance - total governmental funds		$ 1,254,524		$ 1,025,656
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.				
Expenditures for capital assets	1,323,672		79,258	
Less current-year depreciation	(383,002)		-	
		940,670		79,258
Gains and losses are not presented in the statements of revenues, expenditures and changes in fund balance because they do not provide or use current financial resources but they are presented in the statement of activities.		(32,407)		(77,586)
Change in net assets of governmental activities		$ 2,162,787		$ 1,027,328

The accompanying notes are an integral part of the financial statements.

Exhibit 4-18. Example Proprietary Fund Statements of Net Assets (balance-sheet format) for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Proprietary Fund Statements of Net Assets
As of June 30, 200X and 200X-1

	Friends of Channel 8	
	June 30, 200X	**June 30, 200X-1**
Assets		
Current Assets:		
Cash and investments	$ 41,667	$ 43,811
Restricted investments	205,274	200,000
Prepaids	2,193	7,590
Total assets	$ 249,134	$ 251,401
Liabilities		
Current Liabilities:		
Accounts payable	$ 517	$ 1,550
Total liabilities	517	1,550
Net Assets		
Unrestricted and unreserved	48,740	36,947
Reserved for permanent endowment	199,877	212,904
Total net assets	248,617	249,851
Total liabilities and net assets	$ 249,134	$ 251,401

The accompanying notes are an integral part of the financial statements.

Exhibit 4-19. Example Statements of Proprietary Fund Revenues, Expenses, and Changes in Fund Net Assets for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Proprietary Fund Statements of Revenues, Expenses, and Changes in Fund Net Assets
For the Years Ended June 30, 200X and 200X-1

	Friends of Channel 8	
	200X	**200X-1**
Operating Revenues:		
Underwriting and foundation grants	$ 21,320	$ 19,980
Special events	29,173	34,731
Other	7,145	400
Total operating revenues	57,638	55,111
Operating Expenses:		
Special events and volunteer services	42,869	60,092
Total operating expenses	42,869	60,092
Operating income (loss)	14,769	(4,981)
Non-Operating Revenues (Expenses):		
Interest income	6,465	12,433
Total non-operating revenues (expenses)	6,465	12,433
Transfers Out:	(22,468)	(14,490)
Change in net assets	(1,234)	(7,038)
Total net assets, beginning of year	249,851	256,889
Total net assets, end of year	$ 248,617	$ 249,851

The accompanying notes are an integral part of the financial statements.

Exhibit 4-20. Example Statements of (Proprietary Fund) Cash Flows (Direct Method) for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Proprietary Fund Statements of Cash Flows
For the Years Ended June 30, 200X and 200X-1

	Friends of Channel 8	
	200X	**200X-1**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors	$ 28,465	$ 30,820
Cash received from other sources	29,174	18,472
Cash payments to suppliers for goods and services	(16,394)	(30,862)
Cash paid to employees for services	(27,386)	(29,451)
Net cash flows provided (used) by operating activities	13,859	(11,021)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out	(22,468)	(14,490)
Net cash flows provided (used) by non-capital financing activities	(22,468)	(14,490)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	6,465	12,433
Net cash flows provided (used) by investing activities	6,465	12,433
Net change in cash and cash equivalents	(2,144)	(13,078)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	43,811	56,889
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	**$ 41,667**	**$ 43,811**
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 14,769	$ (4,981)
Changes in current assets and current liabilities:		
(Increase) decrease in prepaids	5,397	(7,590)
Increase (decrease) in restricted investments	(5,274)	4,152
Increase (decrease) in accounts payable	(1,033)	(2,602)
Net cash flows provided (used) by operating activities	$ 13,859	$ (11,021)

The accompanying notes are an integral part of the financial statements.

Required Supplementary Information Other Than MD&A

Budgetary comparison schedules should be presented as RSI for the general fund and for each major special revenue fund that has a legally adopted annual budget.[134] Optionally, the same presentation may be done as a statement in the basic financial statements.

The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis. A separate column to report the variance between the final budget and actual amounts is encouraged but not required. Governments may also report the variance between original and final budget amounts.

- The original budget is the first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances.

- The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Governments may present the budgetary comparison schedule using the same format, terminology, and classifications as the budget document, or using the format, terminology, and classifications in a statement of revenues, expenditures, and changes in fund balances. Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information. Notes to RSI should disclose any excess of expenditures over appropriations in individual funds. Only if the public broadcasting entity has a legally adopted budget would this comparison schedule be required. Illustrative examples of the budgetary comparison schedule are provided in GASBS No. 34 paragraphs 447-452.

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[134] GASBS No. 34, paragraph 130

Exhibit 4-21. Example Operating Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budgeted and Actual Amounts – for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Operating Fund Statement of Revenues, Expenses, and Changes in Fund Balances –
Budgeted and Actual Amounts
For the Year Ended June 30, 200X

	Budgeted amounts				
	Original budget	**Final budget**	**Actual**	**Variance – Original from Final Budget – Positive (Negative)**	**Variance – Final Budget from Actual Amounts – Positive (Negative)**
Revenues:					
Local sources	$ 3,445,853	$ 3,445,853	$ 8,662,601	$ -	$ 5,216,748
Total revenues	3,445,853	3,445,853	8,662,601	-	5,216,748
Expenditures:					
Programming and production					
Salaries	1,682,979	1,684,268	1,606,913	(1,289)	77,355
Benefits	432,334	432,606	401,797	(272)	30,809
Purchased services	265,625	265,625	301,782	-	(36,157)
Supplies	872,733	872,733	1,171,847	-	(299,114)
Other	302,781	302,781	156,997	-	145,784
Total programming and production	3,556,452	3,558,013	3,639,336	(1,561)	(81,323)
Broadcasting					
Salaries	514,745	514,745	566,234	-	(51,489)
Benefits	136,665	136,665	141,860	-	(5,195)
Purchased services	92,526	92,526	421,912	-	(329,386)
Supplies	51,603	51,603	56,133	-	(4,530)
Other	68,741	68,741	64,617	-	4,124
Total broadcasting	864,280	864,280	1,250,756	-	(386,476)
Program information					
Purchased services	489,670	489,670	100,468	-	389,202
Supplies	3,465	3,465	3,005	-	460
Other	4,590	4,590	1,675	-	2,915
Total program information	497,725	497,725	105,148	-	392,577
Membership solicitation					
Salaries	142,496	142,496	145,176	-	(2,680)
Benefits	46,418	46,418	42,829	-	3,589
Purchased services	49,768	49,768	153,816	-	(104,048)
Supplies	8,000	8,000	7,561	-	439
Other	175,910	175,910	98,911	-	76,999
Total membership solicitation	422,592	422,592	448,293	-	(25,701)
Underwriting solicitation					
Salaries	106,957	106,957	81,834	-	25,123
Benefits	29,319	29,319	21,428	-	7,891
Purchased services	7,800	7,800	34,867	-	(27,067)
Supplies	1,150	1,150	1,531	-	(381)
Other	1,000	1,000	2,790	-	(1,790)
Total underwriting solicitation	146,226	146,226	142,450	-	3,776

(Continued)

General and administrative					
Salaries	359,593	359,915	341,028	(322)	18,887
Benefits	96,007	96,076	92,266	(69)	3,810
Purchased services	27,100	27,100	48,918	-	(21,818)
Supplies	6,634	(63,034)	3,844	69,668	(66,878)
Other	25,154	25,154	34,834	-	(9,680)
Total general and administrative	514,488	445,211	520,890	69,277	(75,679)
Capital outlay					
Property	141,550	141,550	1,323,672	-	(1,182,122)
Total capital outlay	141,550	141,550	1,323,672	-	(1,182,122)
Total expenditures	6,143,313	6,075,597	7,430,545	67,716	(1,354,948)
Excess (deficiency) of revenues over expenditures	(2,697,460)	(2,629,744)	1,232,056	(67,716)	(3,861,800)
Other financing sources:					
Transfer from Friends of Channel 8	-	-	22,468	-	(22,468)
Net change in fund balances	(2,697,460)	(2,629,744)	1,254,524	(67,716)	(3,884,268)
Fund balance, beginning of year	1,760,816	2,710,415	2,710,545	(949,599)	(130)
Fund balance, end of year	$ (936,644)	$ 80,671	$ 3,965,069	$ (1,017,315)	$ (3,884,398)

The accompanying notes are an integral part of the financial statements.

4.10.3 Fiduciary Fund Financial Statements

Trust Fund Accounting and Reporting

Required financial statements for fiduciary funds are the statement of fiduciary net assets and the statement of changes in fiduciary net assets. Fiduciary fund financial statements should include information about all fiduciary funds of the primary government, as well as component units that are fiduciary in nature. The statements should provide a separate column for each fund type—pension (and other employee benefit) trust funds, investment trust funds, private-purpose trusts, agency funds.[135] Specific examples are not included in this manual.

[135] GASBS No. 34, paragraph 106.

4.11 Example Financial Statements for a Governmental Public Broadcaster Following GASB, with Mixed Governmental and Business-Type Activities

KXXX COMMUNICATIONS GROUP
(A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate)

Management's Discussion and Analysis

For the Years Ended June 30, 200X and 200X-1 (Unaudited)

Introduction and Reporting Entity

Management's Discussion and Analysis (MD&A) is an overview of the financial position and activities of the KXXX Communications Group (KXXX). Statements for the KXXX Communications Group include the financial activity of all units of the KXXX Communications Group, for the years ended June 30, 200X and 200X-1, including:

- KXXX-TV Channel 8
- KXXX-DT Channel 9
- thirty-one Instructional Television Fixed Service transmitters, serving the Anycity, Othercity, and Someothercity areas
- the Anystate Distance Learning Satellite System
- the KXXX Educational Media Center
- non-broadcast audio-visual production and duplication services provided to the Board of Education of Anycity
- the Friends of Channel 8, Inc. (an Anystate non-profit corporation), and
- the non-programming operational costs for Anycity Metropolitan Educational Cable Channel 57

Management of KXXX has prepared the following discussion. Readers should also review the Independent Auditor's Report along with the financial statements and related footnotes which follow this section to enhance their understanding of the KXXX Communications Group's performance.

The signal of KXXX-TV reaches an estimated 1.3 million households, and out of that number approximately 250,000 households watch each week. Contributing membership consists of approximately 22,300 households.

The FCC mandated that all noncommercial educational television broadcasters convert to digital transmission in 2003. With an appropriation by the state government from funds received to settle legal actions against tobacco companies, the proceeds of a channel swap with a commercial microwave television distributor, and a combination of other Federal, state and private sources of funds, KXXX-DT began digital transmission in November of 200X.

Overview of the Financial Statements

The KXXX Communications Group's financial report consists of a series of financial statements and notes to the statements. In its Statements Nos. 34, 37 and 38, the Governmental Accounting Standards Board (GASB) sets the presentation standards of audited financial statements and note disclosures for state and local governments, and their subsidiaries.

Public-Broadcasting-Entity-Wide Statements

The public-broadcasting-entity-wide financial statements and the fund financial statements are the basic financial statements under the reporting standards of GASB. Financial information reported in the public-broadcasting-entity-wide financial statements uses the full-accrual method of accounting. Revenues are recognized when they are earned, and expenditures are recognized when they are incurred.

The public-broadcasting-entity-wide financial statements present the financial activity of KXXX (the primary government entity) and all of its units. The Friends of Channel 8, Inc. is reported as a component unit of KXXX. Friends is a citizen support organization which solicits funds to be used to support program production and broadcasting of public television and the provision of educational telecommunications services in the Anycity area.

The financial statements of KXXX consist of:

- a public-broadcasting-entity-wide Statement of Net Assets and Statement of Activities;
- for the governmental fund (all activities and operations other than those of Friends), a Balance Sheet, a Statement of Revenues, Expenditures and Changes in Fund Balance, a reconciliation of the fund Balance Sheet to the public-broadcasting-entity-wide Statement of Net Assets, and a reconciliation of the fund Statement of Revenues, Expenditures and Changes in Fund Balance to the public-broadcasting-entity-wide Statement of Activities; and
- for the proprietary fund (Friends), a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows (prepared using the direct method).

These statements are prepared in conformity with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The adoption of Statement 34 had no significant effect on the financial statements except for the reformatting of the basic financial statements and classification of net assets in conformity with Statement 34. Statement 34 requires the classification of net assets into three categories - invested in capital assets, net of related debt; restricted; and unrestricted. The financial statements for FY 200X-1 were reclassified to conform with the adoption of Statement 34.

The public-broadcasting-entity-wide Statement of Net Assets includes Assets, Liabilities and Net Assets of the Commission as of June 30, 200X and 200X-1. The statement lists capital asserts of land, buildings, property and equipment of $3,650,679, net of accumulated depreciation. Net assets decreased during FY 200X from $11,050,539 to $7,615,748. The decrease was caused by a change in accounting rules and a change in accounting policy. During FY 200X there were two major accounting changes – the change in capitalization and depreciation.

This year, KXXX changed its capitalization threshold from $500 to $5,000. Thus, equipment purchased in prior years that did not meet the $5,000 threshold was removed from the balance sheet through an expense adjustment. Capital assets reported June 30, 200X-1 were reduced by $2,705,769, or 25 percent.

The other major accounting change is recognition of depreciation. GASB requires depreciation of buildings and equipment over their expected lives in the public-broadcasting-entity-wide statements. Accumulated depreciation of $2,821,314 from prior years was taken as an adjustment to net assets. The adjustment reduced capital assets reported in FY 200X-1 by another 26 percent.

The Statement of Activities list expenses by function. Program revenues are listed by source and are allocated to functional expenses. Grants and contributions not restricted to a specific program or function are included in General Revenues.

Financial activities of Friends are listed under business-type activities in the Statement of Activities.

Operating Fund Statements

Financial data presented in the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances use the modified-accrual method of accounting. As it relates to KXXX, this method does not differ materially from full-accrual accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. However, capital assets of land, buildings, property and equipment are not presented in the Balance Sheet, and depreciation is not presented in the Statement of Revenues, Expenditures and Changes in Fund Balances.

The operating fund financial statements focus on how money flows in and out of funds and the balances left at year-end that are available for future spending. The Statement of Revenues, Expenditures and Changes in Fund Balances lists capital outlay of $1,323,672 for equipment purchases made during FY 200X. The net change in fund balance of $1,254,524 combines $27.090 of operating surplus with $1,227,434 of restricted or designated donations and grants for digital conversion.

Proprietary Fund Statements

The Proprietary Fund Statement of Net Assets and the Proprietary Fund Statement of Revenues, Expenditures and Changes in Net Assets present the financial activities of Friends of Channel 8, Inc., using the full-accrual method of accounting.

Condensed Financial Information

The following table illustrates the changes in net assets for the fiscal years ending June 30, 200X and 200X-1:

Condensed Statements of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	200X	200X-1	200X	200X-1	200X	200X-1
Current assets	$ 4,746,089	$ 3,130,685	$ 249,134	$ 251,401	$ 4,995,223	$ 3,382,086
Capital assets (net)	3,650,679	8,339,994	-	-	3,650,679	8,339,994
Total assets	8,396,768	11,470,679	249,134	251,401	8,645,902	11,722,080
Current liabilities	781,020	420,140	517	1,550	781,537	421,690
Long-term liabilities	-	-	-	-	-	-
Total liabilities	781,020	420,140	517	1,550	781,537	421,690
Invested in capital assets, net of related debt	3,650,679	8,339,994	-	-	3,650,679	8,339,994
Restricted - grants	3,803,987	2,682,465	-	12,904	3,803,987	2,695,369
Restricted - permanent endowment	-	-	199,877	200,000	199,877	200,000
Unrestricted	161,082	28,080	48,740	36,947	209,822	65,027
Total net assets	$ 7,615,748	$ 11,050,539	$ 248,617	$ 249,851	$ 7,864,365	$ 11,300,390

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Charges for services	$ 1,506,178	$ -	$ -	$ 35,131	$ 1,506,178	$ 35,131
Operating grants and contributions	3,704,493	3,680,066	-	19,980	3,704,493	3,700,046
Capital grants and contributions	1,324,778	435,000	-	-	1,324,778	435,000
Total program revenues	6,535,449	4,115,066	-	55,111	6,535,449	4,170,177
Membership donations	1,074,430	1,065,403	57,638	-	1,132,068	1,065,403
CPB Community Service Grants	906,064	859,368	-	-	906,064	859,368
Anystate Public Broadcasting	43,004	-	-	-	43,004	-
ITFS transactions	750,000	250,000	-	-	750,000	250,000
Foundation contributions	54,869	45,940	-		54,869	45,940
Investment earnings	112,865	123,541	6,465	12,433	119,330	135,974
Total general revenues	2,941,232	2,344,252	64,103	12,433	3,005,335	2,356,685
Programming and production	3,799,501	3,358,144	-	-	3,799,501	3,358,144
Broadcasting	1,483,718	1,602,117	-	-	1,483,718	1,602,117
Program information	105,148	95,233	-	-	105,148	95,233
Inkind programming and production	140,075	147,219	-	-	140,075	147,219
Inkind broadcasting	117,047	116,979	-	-	117,047	116,979
Inkind program information	402,964	194,046	-	-	402,964	194,046
Membership solicitation	458,894	424,021	-	-	458,894	424,021
Underwriting solicitation	143,369	122,151	-	-	143,369	122,151
General and administrative	531,650	499,730	-	-	531,650	499,730
Inkind membership solicitation	35,175	52,867	-	-	35,175	52,867
Inkind underwriting solicitation	78,142	101,562	-	-	78,142	101,562
Inkind general and administrative	40,679	26,755	-	-	40,679	26,755
Special events and volunteer services	-	-	42,869	60,092	42,869	60,092
Total expenses	$ 7,336,362	$ 6,740,824	$ 42,869	$ 60,092	$ 7,379,231	$ 6,800,916
Changes in net assets before transfers	2,140,319	(281,506)	21,234	7,452	2,161,553	(274,054)
Transfers	22,468	14,490	(22,468)	(14,490)	-	-
Change in net assets	2,162,787	1,027,328	(1,234)	(1,672)	2,161,553	1,025,656
Net assets, beginning of year	5,452,961	4,425,633	249,851	251,523	5,702,812	4,677,156
Net assets, end of year	$ 7,615,748	$ 5,452,961	$ 248,617	$ 249,851	$ 7,864,365	$ 5,702,812

Financial Highlights

KXXX received a National Telecommunications and Information Administration (NTIA) grant for digital television (DTV) conversion from the U.S. Department of Commerce. The grant was a matching grant, requiring local contributions to cover the additional cost of the project. Digital conversion is mandatory, as a condition of continuing to hold a broadcast license from the Federal Communications Commission. KXXX is funding the project with accumulated donations and grants. Through June 30, 200X, KXXX had received $3,086,121 in restricted grants or designated gifts that were placed in a special reserve for digital television capital purchases.

In FY 200X, DTV capital reserve funds increased by a greater amount than expenditures. The status of funds reserved or designated for DTV is summarized below:

Revenues for DTV FY 200X-2, 200X-1	$ 1,506,716
Revenues for DTV FY 200X	1,579,405
Total DTV funds received	3,086,121
Expenditures for DTV in FY 200X	1,337,411
DTV Reserve as of June 30, 200X	$ 1,748,710

KXXX is phasing in digital conversion by dividing its equipment investments into phases focused on (1) transmission, (2) multi-channel broadcasting and master control automation, (3) studio and field production, and (4) rural translators. Acquisition of Phase One transmission equipment was completed in FY 200X. Capital acquisition for multi-channel broadcasting and master control automation is currently funded, and purchasing is under way in FY 200X+1.

Capital Assets

For the first time in FY 200X, capital assets are presented net of depreciation in the financial statements. A reconciliation of FY 200X-1 and FY 200X is provided below:

Total capital assets FY 200X-1	$ 8,339,994
Less adjustment for items less than $5,000	2,705,769
Less adjustment for prior years depreciation	2,821,314
Total adjusted capital assets FY 200X-1	2,812,911
Capital assets purchased FY 200X	1,323,672
Less: depreciation expense FY 200X	383,002
Less: disposed obsolete capital assets FY 200X	104,222
Net capital assets FY 200X	$ 3,649,359

Budget Variations

GASB requires management to discuss material differences between opening budget, final budget, and actual results. There were several areas of variation.

Salaries and benefits were affected by the addition of a master control operator hired in January 200X to assist with cable operations and to reduce overtime expenses required to maintain 24-hour broadcasting service. The educational cable consortium provided partial funding for the new position.

Purchased services totals were affected by three actions. KXXX delayed payments to a contractor who constructed rural school satellite downlinks under a State of Anystate grant managed by KXXX. The contractor payments were budgeted in the prior year. Purchased services budgets are also affected by in-kind contributions of advertising. Since trade agreements always have offsetting income and expense and vary widely from year to year, management does not budget for these non-cash transactions.

Finally, after the start of the fiscal year, the Board of Education was forced to make cuts in the support budgets of many operating units. KXXX received a reduction of $69,668. Staff and expenditure allocation adjustments were made to absorb this reduction.

Request for Information

This financial report is designed to provide donors, members, investment managers, foundations, and taxpayers with a general overview of the KXXX Public Telecommunications Group's finances and to account for the funding it receives. It is also intended to help the reader better understand the changes in the financial statement format. Additional details can be requested by mail at the following address:

KXXX Public Telecommunications Group
100 Main Street
Anycity, Anystate 55555
or by e-mail at info@kxxx.org

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Statements of Net Assets
As of June 30, 200X and 200X-1

	Governmental Activities		Business-Type Activities		Total	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
ASSETS						
Cash and investments	$ 4,504,788	$ 2,938,549	$ 41,667	$ 43,811	$ 4,546,455	$ 2,982,360
Receivables	188,042	155,193	-		188,042	155,193
Restricted investments	-	-	205,274	200,000	205,274	200,000
Inventory	30,341	35,897	-		30,341	35,897
Prepaids	22,918	1,046	2,193	7,590	25,111	8,636
Capital assets						-
Land	1,320	1,320	-	-	1,320	1,320
Depreciable buildings, property and equipment, net	3,649,359	8,338,674	-	-	3,649,359	8,338,674
Total assets	8,396,768	11,470,679	249,134	251,401	8,645,902	11,722,080
LIABILITIES						
Accounts payable	560,275	222,278	517	1,550	560,792	223,828
Accrued salaries and benefits	114,525	105,383	-	-	114,525	105,383
Deferred revenue	106,220	92,479	-	-	106,220	92,479
Total liabilities	781,020	420,140	517	1,550	781,537	421,690
NET ASSETS						
Invested in capital assets, net of related debt	3,650,679	8,339,994	-	-	3,650,679	8,339,994
Restricted for:						
Grants	3,803,987	2,682,465	-	12,904	3,803,987	2,695,369
Permanent endowment - non-expendable	-	-	199,877	200,000	199,877	200,000
Unrestricted	161,082	28,080	48,740	36,947	209,822	65,027
Total net assets	$ 7,615,748	$ 11,050,539	$ 248,617	$ 249,851	$ 7,864,365	$ 11,300,390

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Statements of Activities
For the Years Ended June 30, 200X and 200X-1

		Program revenues 200X			Net Revenue (Expense) and Changes in Net Assets					
		Charges for	Operating	Capital	Governmental Activities		Business-Type Activities		Total	
Functions/Programs	**Expenses 200X**	**Services**	**Grants and**	**Grants and**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
GOVERNMENTAL ACTIVITIES										
Programming and production	$ 3,799,501	$ 396,122	$ 1,878,068	$ -	$ (1,525,311)	$ (2,206,346)	$ -	$ 19,980	$ (1,525,311)	$ (2,186,366)
Broadcasting	1,483,718	12,850	898,354	1,324,778	752,264	1,931,933	-	-	752,264	1,931,933
Program information	105,148	-	50,318	-	(54,830)	(95,233)	-	-	(54,830)	(95,233)
Inkind programming and production	140,075	1,360	257,404	-	118,689	633,841	-	-	118,689	633,841
Inkind broadcasting	117,047	2,450	196,378	-	81,781	(81,979)	-	-	81,781	(81,979)
Inkind program information	402,964	402,964	8,030	-	8,030	(194,046)	-	-	8,030	(194,046)
Membership solicitation	458,894	-	-	-	(458,894)	(424,021)	-	-	(458,894)	(424,021)
Underwriting solicitation	143,369	571,717	68,583	-	496,931	482,432	-	-	496,931	482,432
General and administrative	531,650	-	249,945	-	(281,705)	(216,972)	-	400	(281,705)	(216,572)
Inkind membership solicitation	35,175	18,387	37,044	-	20,256	(52,867)	-	-	20,256	(52,867)
Inkind underwriting solicitation	78,142	76,687	10,545	-	9,090	(101,562)	-	-	9,090	(101,562)
Inkind general and administrative	40,679	23,641	49,824	-	32,786	227,595	-	-	32,786	227,595
Total governmental activities	7,336,362	1,506,178	3,704,493	1,324,778	(800,913)	(97,225)	-	20,380	(800,913)	(76,845)
BUSINESS-TYPE ACTIVITIES										
Special events and volunteer services	42,869	-	-	-	-	7,796	(42,869)	(25,361)	(42,869)	(17,565)
TOTAL GOVERNMENT	$ 7,379,231	$ 1,506,178	$ 3,704,493	$ 1,324,778	$ (800,913)	$ (89,429)	$ (42,869)	$ (4,981)	$ (843,782)	$ (94,410)
GENERAL REVENUES										
Grants and revenues not restricted to specific programs										
Membership donations					1,074,430	1,065,403	57,638	-	1,132,068	1,065,403
Community service grant from the Corporation for Public Broadcasting					906,064	859,368	-	-	906,064	859,368
Anystate Public Broadcasting					43,004	-	-	-	43,004	-
Instructional Television Fixed Service (ITFS)					750,000	2,568,682	-	-	750,000	2,568,682
Contributions					54,869	269,983	-	-	54,869	269,983
Investment earnings					112,865	123,521	6,465	12,433	119,330	135,954
TRANSFERS					22,468	14,490	(22,468)	(14,490)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					2,963,700	4,901,447	41,635	(2,057)	3,005,335	4,899,390
Change in net assets					2,162,787	1,027,328	(1,234)	(1,672)	2,161,553	1,025,656
NET ASSETS, beginning of year					5,452,961	4,425,633	249,851	251,523	5,702,812	4,677,156
NET ASSETS, end of year					$ 7,615,748	$ 5,452,961	$ 248,617	$ 249,851	$ 7,864,365	$ 5,702,812

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Governmental Fund Balance Sheets
As of June 30, 200X and 200X-1

	Operating Fund	
	June 30, 200X	**June 30, 200X-1**
Assets		
Cash and investments	$ 4,504,788	$ 2,938,549
Receivables	188,042	155,193
Inventory	30,341	35,897
Prepaids	22,918	1,046
Total assets	$ 4,746,089	$ 3,130,685
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 560,275	$ 222,278
Accrued salary and benefits	114,525	105,383
Deferred revenue	106,220	92,479
Total liabilities	781,020	420,140
Fund Balance:		
Reserved for:		
Inventories	30,341	35,897
Grants	3,803,987	2,602,407
Prepaids	22,918	1,046
Unreserved	107,823	71,195
Total fund balance	3,965,069	2,710,545
Total liabilities and fund balance	$ 4,746,089	$ 3,130,685

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Governmental Fund Statements of Revenues, Expenses, and Changes in Fund Balances
For the Years Ended June 30, 200X and 200X-1

	Operating Fund	
	200X	**200X-1**
SUPPORT AND REVENUES		
Support:		
Instructional television appropriation from Anycity Board of Education	$ 2,641,752	$ 2,568,682
Membership donations	1,011,022	1,065,403
Community service grant from Corporation for Public Broadcasting	918,385	859,368
State capital projects	938,377	400,000
Digital television grant	429,405	-
Direct support from Anycity Board of Education	270,632	282,758
ITV contributions	257,313	269,983
Public Broadcasting Service	127,735	45,385
Total non-in-kind support	6,594,621	5,491,579
In-kind facilities and administrative services from Anycity Board of Education	253,593	254,350
In-kind transmitter site	35,000	35,000
Total in-kind support	288,593	289,350
Total support	6,883,214	5,780,929
Revenues:		
Underwriting and foundation grants	637,159	604,583
Contract productions	293,622	430,982
ITFS transactions	764,869	250,000
Royalties	82,883	116,233
Interest income	107,697	123,521
Dubbing	4,181	5,606
Uplink	12,850	6,275
Special events	63,409	7,796
Other	101,309	83,025
Total non-in-kind revenues	2,067,979	1,628,021
In-kind underwriting	525,489	350,078
Total in-kind revenues	525,489	350,078
Total revenues	2,593,468	1,978,099
Total support and revenues	9,476,682	7,759,028

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Governmental Fund Statements of Revenues, Expenses, and Changes in Fund Balances
For the Years Ended June 30, 200X and 200X-1

EXPENDITURES		
Program services		
Programming and production	3,639,335	3,358,144
Broadcasting	1,250,756	1,602,117
Program information	105,148	95,233
Total non-in-kind program services	4,995,239	5,055,494
In-kind programming and production	140,075	147,219
In-kind broadcasting	117,047	116,979
In-kind program information	402,964	194,046
Total in-kind program services	660,086	458,244
Total program services	5,655,325	5,513,738
Support services		
Membership solicitation	448,293	424,021
Underwriting solicitation	142,450	122,151
General and administrative	520,890	499,730
Total non-in-kind support services	1,111,633	1,045,902
In-kind membership solicitation	35,175	52,867
In-kind underwriting solicitation	78,142	101,562
In-kind general and administrative	40,679	26,755
Total in-kind support services	153,996	181,184
Total support services	1,265,629	1,227,086
Capital outlay	1,323,672	79,258
Total expenditures	8,244,626	6,820,082
EXCESS (DEFICIENCY) OF SUPPORT AND REVENUES OVER EXPENDITURES	1,232,056	938,946
OTHER FINANCING SOURCES		
Transfer from Friends of Channel 8	22,468	14,490
NET CHANGE IN FUND BALANCE FROM OPERATIONS AND CAPITAL	1,254,524	953,436
FUND BALANCE, beginning of year	2,710,545	1,757,109
FUND BALANCE, end of year	$ 3,965,069	$ 2,710,545

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Reconciliation of Governmental Fund Balance Sheets
To Governmental-wide Statements of Net Assets
For the Years Ended June 30, 200X and 200X-1

	200X		200X-1	
Fund balance - total governmental funds		$ 3,965,069		$ 2,710,545
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:				
Governmental capital assets	6,783,179		8,339,994	
Less accumulated depreciation as of June 30	(3,132,500)		-	
		3,650,679		8,339,994
Net assets of governmental activities		$ 7,615,748		$ 11,050,539

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Reconciliation of Governmental Fund Statements of Revenues, Expenditures, and
Changes in Fund Balance to Government-wide Statements of Activities
For the Years Ended June 30, 200X and 200X-1

	200X		200X-1	
Net change in fund balance - total governmental funds		$ 1,254,524		$ 1,025,656
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives:				
Expenditures for capital assets	1,323,672		79,258	
Less current-year depreciation	(383,002)		-	
		940,670		79,258
Gains and losses are not presented in the statements of revenues, expenditures and changes in fund balance because they do not provide or use current financial resources but they are presented in the statement of activities.		(32,407)		(77,586)
Change in net assets of governmental activities		$ 2,162,787		$ 1,027,328

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Proprietary Fund Statements of Net Assets
As of June 30, 200X and 200X-1

	Friends of Channel 8	
	June 30, 200X	**June 30, 200X-1**
Assets		
Current Assets:		
Cash and investments	$ 41,667	$ 43,811
Restricted investments	205,274	200,000
Prepaids	2,193	7,590
Total assets	$ 249,134	$ 251,401
Liabilities		
Current Liabilities:		
Accounts payable	$ 517	$ 1,550
Total liabilities	517	1,550
Net Assets		
Unrestricted and unreserved	48,740	36,947
Reserved for permanent endowment	199,877	212,904
Total net assets	248,617	249,851
Total liabilities and net assets	$ 249,134	$ 251,401

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Proprietary Fund Statements of Revenues, Expenses, and Changes in Fund Net Assets
For the Years Ended June 30, 200X and 200X-1

	Friends of Channel 8	
	200X	**200X-1**
Operating Revenues:		
Underwriting and foundation grants	$ 21,320	$ 19,980
Special events	29,173	34,731
Other	7,145	400
Total operating revenues	57,638	55,111
Operating Expenses:		
Special events and volunteer services	42,869	60,092
Total operating expenses	42,869	60,092
Operating income (loss)	14,769	(4,981)
Non-Operating Revenues (Expenses):		
Interest income	6,465	12,433
Total non-operating revenues (expenses)	6,465	12,433
Transfers Out:	(22,468)	(14,490)
Change in net assets	(1,234)	(7,038)
Total net assets, beginning of year	249,851	256,889
Total net assets, end of year	$ 248,617	$ 249,851

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Proprietary Fund Statements of Cash Flows
For the Years Ended June 30, 200X and 200X-1

	Friends of Channel 8	
	200X	**200X-1**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors	$ 28,465	$ 30,820
Cash received from other sources	29,174	18,472
Cash payments to suppliers for goods and services	(16,394)	(30,862)
Cash paid to employees for services	(27,386)	(29,451)
Net cash flows provided (used) by operating activities	13,859	(11,021)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out	(22,468)	(14,490)
Net cash flows provided (used) by non-capital financing activities	(22,468)	(14,490)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	6,465	12,433
Net cash flows provided (used) by investing activities	6,465	12,433
Net change in cash and cash equivalents	(2,144)	(13,078)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	43,811	56,889
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	**$ 41,667**	**$ 43,811**
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 14,769	$ (4,981)
Changes in current assets and current liabilities:		
(Increase) decrease in prepaids	5,397	(7,590)
Increase (decrease) in restricted investments	(5,274)	4,152
Increase (decrease) in accounts payable	(1,033)	(2,602)
Net cash flows provided (used) by operating activities	$ 13,859	$ (11,021)

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
(A Public Telecommunications Entity Licensed to the
Board of Education of Anycity, Anystate)

Notes to Financial Statements

Years ended June 30, 200x And 200x-1

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The financial statements of the KXXX Public Telecommunications Group (KXXX) have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). KXXX applies all applicable GASB pronouncements as well as FASB, APB and ARB pronouncements (unless such pronouncements conflict with or contradict related GASB pronouncements) in accounting and reporting for KXXX's operations.

On July 1, 200X-2, KXXX adopted the provisions of GASB Statements:

No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*;

No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34;* and

No. 38, *Certain Financial Statement Note Disclosures*,

which together establish standards for external financial reporting for all state and local governmental entities and component units. This reporting includes both public-broadcasting-entity-wide statements (a statement of net assets, and a statement of activities) and fund statements (for governmental funds, a balance sheet, and a statement of revenues, expenditures and changes in fund balances; and for proprietary funds, a statement of net assets or balance sheet, a statement of revenues, expenses and changes in fund net assets or fund equity, and a statement of cash flows prepared using the direct method), together with notes to the financial statements and certain required supplemental information (RSI) including the MD&A and a budgetary comparison schedule showing original and final budgets and actual revenues and expenditures. Statement No. 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Measurement Focus and Basis of Accounting – "Measurement focus" refers to which kinds of transactions are recorded within the various financial statements. In the public-broadcasting-entity-wide statements and the proprietary fund statements, KXXX uses an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets. In the governmental funds statements, the focus is on sources, uses, and balances of current financial resources.

"Basis of accounting" refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. KXXX uses the following as its bases of accounting:

1. *Accrual basis* – Both governmental-type and business-type activities are presented in the public-broadcasting-entity-wide financial statements on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.
2. *Modified accrual basis* – In the governmental funds financial statements, the governmental-type activities are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined, and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year period is used for recognition for all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Reporting Entity – KXXX is a public telecommunications entity licensed to the Board of Education of Anycity, Anystate. Two of the seven members of the Board of Education are appointed by the Governor of Anystate and ratified by the Legislature; the remaining members are elected by the voters of Anycity. KXXX's primary functions are to promote, establish and provide public broadcasting and other noncommercial educational telecommunications services.

KXXX's financial statements include KXXX Television and all its component units:

- KXXX-TV Channel 8
- KXXX-DT Channel 9
- thirty-one Instructional Television Fixed Service transmitters, serving the Anycity, Othercity, and Someothercity areas
- the Anystate Distance Learning Satellite System
- the KXXX Educational Media Center
- non-broadcast audio-visual production and duplication services provided to the Board of Education of Anycity
- Friends of Channel 8, Inc. (an Anystate not-for-profit corporation), and
- the non-programming operational costs for Anycity Metropolitan Educational Cable Channel 57.

The component units are included in KXXX's reporting entity because of the financial accountability criteria in GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Friends of Channel 8, Inc. – Friends of Channel 8, Inc. (Friends) – a legally discrete Anystate not-for-profit corporation – is a citizen support organization which solicits funds to be used to support public television program production and broadcasting in Anycity. The distribution of Friends funds is determined by the Board of Directors of Friends, of which the Executive Director of KXXX is a member. Friends is the sole activity of KXXX that is classified as a business-type activity, so it is, in effect, reported discretely in both the public-broadcasting-entity-wide statements and in the proprietary fund statements. Separate financial statements for Friends can be obtained by contacting KXXX, 100 Main Street, Anycity, Anystate 55555 or (300) 555-3655.

Cash and Cash Equivalents – All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Investments - At June 30, 200X and 200X-1, investments consist of U.S. Treasury notes, certificates of deposit and mutual funds. The U.S. Treasury notes and certificates of deposit all have original maturities greater than three months and are carried at fair value. The mutual funds are stated at fair value based on quoted market prices.

Property and Equipment – KXXX records property and equipment at cost or, in the case of donated property, at its estimated fair value at date of receipt, net of accumulated depreciation. KXXX uses the straight-line method to calculate depreciation over the following estimated useful lives:

Buildings	30 years
Towers & Transmitters	20 years
Building Improvements	15 years
Broadcast & Production Equipment	3-10 years
Office Furniture & Equipment	3-5 years
Software	3 years

During fiscal 200X-1, KXXX changed its capitalization policy from $300 to $1,500. As a result of this change, $248,956 in net book value of property and equipment were written off by KXXX.

Licensed Program Rights – Program series and other syndicated products are recorded at the lower of unamortized cost, based on the gross amount of the related liability, or estimated net realizable value. Generally these programs and products are amortized on a straight-line basis over the period of the license agreement.

Costs Incurred for Programs Not Yet Broadcast – Costs incurred for programs not yet broadcast are recorded as a deferred asset. Such costs relate to programs produced by KXXX that will be broadcast subsequent to June 30. Programs to be completed and broadcast within one year are classified as current assets whereas programs to be completed and broadcast in more than one year are classified as long-term. At June 30, 200X, there were no long-term costs incurred for programs not yet broadcast. As the programs are broadcast, the costs incurred will be included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.

Gifts of Long-Lived Assets – KXXX reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, KXXX reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Compensated Absences – Certain hourly employees do not receive vacation leave. For other employees, vacation leave is earned at rates dependent on the length of employment and can be accumulated to a specified maximum number of days. Employees of KXXX are considered employees of the Board of Education for purposes of determining benefits, and the ultimate liability for payment of these benefits remains with the Board of Education. As such, a separate liability has not been included in these financial statements.

Fund Balances – In the fund financial statements, reservations of fund balances represent amounts that are not subject to appropriation or are legally segregated for a specific purpose.

Net Assets – In the statement of net assets, net assets includes the following:

Invested in capital assets, net of related debt – This is the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets. At June 30, 200X, there is no related debt.

Restricted assets – The component of net assets that reports the constraints placed on the use of net assets by either external parties and/or enabling legislation.

Unrestricted assets – The difference between the assets and liabilities that is not reported in *Invested in capital assets, net of related debt* and *Restricted assets*.

It is KXXX's policy to expend restricted resources first and to use unrestricted resources when the restricted resources have been depleted.

Donor-Restricted Endowment Funds – The Board of Education has interpreted Anystate Revised Statutes Title 40, Section 111 as requiring the preservation of the purchasing power (real value) of the permanent endowment funds unless explicit donor stipulations specify how net appreciation must be used. To meet that objective, KXXX's endowment management policies require that net appreciation be retained permanently in an amount necessary to adjust the historic dollar value of original endowment gifts by the change in the Consumer Price Index. After maintaining the real value of the permanent endowment funds, any remainder of total return is available for use and transfer to unrestricted net assets.

Split-Interest Agreements and Perpetual Trusts – KXXX's and Friends's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the public broadcasting entity serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts and other changes in estimates of future benefits.

KXXX and Friends are also the beneficiaries of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in estimates of future receipts.

Pledges and Contributions – KXXX and Friends engage in periodic fundraising campaigns manifested by offering some special programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to KXXX and to Friends for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers and listeners. Contributions including unconditional promises to give and membership receipts are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors. An allowance for uncollectable contributions receivable is provided based upon KXXX's judgment including such factors as prior collection history and type of contribution. All member pledges receivable are promises to give within one year of June 30, 200X. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of KXXX. This usage is consistent with appeals for contributions and pledges.

In-kind Contributions – Contributed materials, supplies, facilities, and property are recorded at their estimated fair value at the date of donation. KXXX reports gifts of equipment, professional services, materials and other nonmonetary contributions as unrestricted revenue in the accompanying statements of revenues, expenses, and changes in net assets.

If the fair value of contributed materials, supplies, facilities, and property cannot be reasonably determined, they are not recorded. Donated personal services of nonprofessional volunteers, as well as donated national and local programs, are not recorded as revenue and expense as there is no objective basis available to measure the value of such services.

Contributed advertising and promotion are recorded at the fair value of the contribution portion of the total value received.

Revenue Recognition – State and city appropriations are recorded as revenue in the statement of activities when an expenditure is recorded.

Membership contributions are recognized as operating revenues in the period they are received.

Program production grants are reported as deferred revenues for programs not yet broadcast until the specific program is broadcast. At such time, amounts are included as revenues and the expenditures are recorded.

Revenue related to program underwriting for subsequent fiscal years is reflected as deferred revenues in the accompanying statement of net assets. Revenue is recognized when the related program is aired.

Contributed support represents expenses paid on behalf of a public telecommunications entity by others outside the reporting entity, and includes contributed professional services, donated materials or facilities, and indirect administrative support.

KXXX recognizes transponder space rental income in the period that the excess transponder capacity is contractually available to the third-party lessee.

Grants to finance non-capital projects are recorded as deferred revenue until an expenditure is incurred for which the grant was intended. The amounts are then included in revenues, and the expenditures are recorded.

Program revenues and general revenues – In the public-broadcasting-entity-wide statement of activities, KXXX reports as program revenues all revenues that derive directly from the program activities themselves, including charges for services in exchange transactions, as well as operating and capital grants and contributions that are restricted for particular uses or for capital purposes. Other grants and contributions not thus restricted – including Community Service Grants from the Corporation for Public Broadcasting and membership contributions – are reported as general revenues.

Corporation for Public Broadcasting Community Service Grants – The Corporation for Public Broadcasting is a private, nonprofit grantmaking organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

The CSGs are reported on the accompanying financial statements as increases in restricted net assets until satisfaction of the time and purpose restrictions, after which they are reported as a release from restricted net assets and an increase in unrestricted net assets.

Indirect Administrative Support – Indirect support from the Board of Education consists of allocated institutional support and physical plant costs incurred by various other divisions of the Board of Education for which KXXX receives benefits. The fair value of this support is recognized in the Statements of Activities as indirect administrative support and also as expense in the management and general functional expense category. For the years ended June 30, 200X and 200X-1, indirect support was calculated using the Board of Education's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The approved rate was modified to exclude certain cost components – departmental and sponsored projects administration – that do not benefit KXXX. The Board of Education also provides office, studio and tower facilities, the benefit for which is included as a building use allowance in the approved rate.

Production Revenue – KXXX uses the percentage-of-completion method of accounting for production revenue, whereby the cumulative production revenue earned equals the ratio of costs incurred to the estimated total costs at completion applied to the total committed revenues from outside sponsors. Production costs include charges by subcontractors plus all direct labor and other direct costs. Indirect and general and administrative expenses are charged to expense as incurred.

Cost estimates on programs are reviewed periodically as the work progresses and adjustments, if needed, are reflected in the period in which the estimates are revised.

Program and Production Underwriting – Revenue for program underwriting is recorded on a pro-rata basis for the period covered, and for production underwriting on an estimated percentage-of-completion basis.

Operating Activities – KXXX's policy for defining operating activities as reported on the proprietary fund statement of revenues, expenses, and changes in fund net assets and on the proprietary fund statement of cash flows are those that generally result from the provision of public broadcasting and instructional technology services, and from the production of program material for distribution in those services. Revenues associated with, or restricted by donors to use for, capital improvements, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues.

Production Costs – Production costs incurred in connection with KXXX's arrangements with the Athletic Department of the University of Anystate at Capitalcity are capitalized. KXXX amortizes these costs over the life of the initial licensing period.

Advertising Costs – Advertising costs are expensed in the period in which they are incurred.

Commissions – KXXX and Friends have agreements with independent consultants to solicit and acquire funds for program underwriting and other activities related to public broadcasting. The agreements provide for payment of commissions to the consultants based on varying percentages of funds received.

Operating Leases – KXXX leases tower space for certain ITFS transmitting antennas from third parties under lease agreements. The leases are accounted for as operating leases and are for various terms ranging from 5 to 10 years, with additional renewal options.

KXXX leases space on certain towers that it owns to various third parties using five-year leases with renewal options. Tower rental income is included as "other income" in the statements of activities.

Functional Allocation of Expenses – The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

Use of Estimates – The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 200X-1 financial statements to conform to the 200X financial statement presentation.

2. RECEIVABLES AND PAYABLES

Receivables consisted of the following at June 30:

	200X	200X-1
Accounts/Interagency/Pledges	$ 249,400	$ 136,399
Accrued Interest	55,561	-
Federal Grants	213,484	-
Due from Friends	242,381	-
	$760,826	$136,399

Payables consisted of the following at June 30:

	200X	200X-1
Accounts	$ 329,939	$ 63,860
Accrued Payroll/Vacation	82,742	-
	$ 412,681	$ 63,860

3. DEPOSITS AND INVESTMENTS

Deposits – For purposes of classifying categories of credit risk, the bank balances of KXXX's deposits at June 30, 200X are either entirely insured or collateralized with securities.

Investments – KXXX's investments are categorized to give an indication of the level of risk assumed by KXXX at year-end. Category 1 includes investments that are insured or registered, with securities held by KXXX or its agent in KXXX's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in KXXX's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in KXXX's name. At June 30, 200X, all investments other than mutual funds are Category 1 investments.

Included in investments is $5,704 and $4,704, respectively, subject to permanent restrictions set by the donor.

A reconciliation of deposits and investments for KXXX to the statement of net assets at June 30, 200X and 200X-1 is as follows:

	200X	200X-1
Investments:		
Mutual Funds	$ 66,296	$ 38,822
Deposits and Cash:		
Pooled-basis State and Federal cash funds maintained by Anycity Treasurer	1,160,208	1,029,933
Certificates of deposit	369,554	363,408
Short-term investments	177,414	176,174
Checking account	44,739	50,937
	1,751,915	1,620,452
Restricted Cash:		
Money market account held by trustee for purchase of DTV equipment and facility renovations	18,787,414	7,390,515
Pooled-basis State and federal cash funds maintained by Anycity Treasurer	1,797,209	1,882,500
Short-term investments	88,894	120,840
	20,673,517	9,393,855
Restricted Investments:		
U.S. Treasury notes held by trustee for purchase of DTV equipment and facility renovations	10,775,389	14,880,260
	31,448,906	24,274,115
	33,267,117	25,933,389
Assets as reflected on statement of net assets:		
Cash and cash equivalents	3,268,464	3,260,384
Investments	435,850	402,230
Restricted assets held by trustee	29,562,803	22,270,775
	$ 33,267,117	$ 25,933,389

4. INTERFUND TRANSFERS

In the fund financial statements, interfund transfers are shown as other financing sources or uses. Transfers between funds during the years ended June 30, 200X and 200X-1 are as follows:

	200X		200X-1	
	Transfers In	Transfers Out	Transfers In	Transfers Out
Operating Fund	$ 22,468	$ -	$ 14,490	$ -
Friends Fund	-	22,468	-	14,490
	$ 22,468	$ 22,468	$ 14,490	$ 14,490

In both years, the funds were transferred to help cover the operating costs of the broadcast stations.

5. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at June 30, 200X and 200X-1 is as follows:

	July 1, 200X-1 Beginning Balance	Additions	Reductions	June 30, 200X Ending Balance
Land	$ 73,790	$ 56,767	$ -	$ 130,557
Buildings and building improvements	4,729,606	1,582,341	-	6,311,947
Towers and transmission equipment	11,474,657	1,611,953	400,151	12,686,459
Broadcast and production equipment	18,607,025	3,386,373	821,367	21,172,031
Office furniture and equipment	825,388	103,992	22,738	906,642
Software	95,456	-	-	95,456
Total	35,805,922	6,741,426	1,244,256	41,303,092
Less accumulated depreciation:				
Buildings and building improvements	4,484,104	102,312	-	4,586,416
Towers and transmission equipment	7,009,634	471,674	396,902	7,084,406
Broadcast and production equipment	12,608,311	1,115,281	819,608	12,903,984
Office furniture and equipment	601,337	164,445	22,738	743,044
Software	62,321	31,818	-	94,139
Total	24,765,707	1,885,530	1,239,248	25,411,989
Property and equipment, net	$ 11,040,215	$ 4,855,896	$ 5,008	$ 15,891,103

	July 1, 200X-2 Beginning Balance	Additions	Reductions	June 30, 200X-1 Ending Balance
Land	$ 73,790	$ -	$ -	$ 73,790
Buildings and building improvements	4,534,837	194,769	-	4,729,606
Towers and transmission equipment	11,376,888	641,797	544,028	11,474,657
Broadcast and production equipment	16,232,705	3,515,570	1,141,250	18,607,025
Office furniture and equipment	958,253	89,560	222,425	825,388
Software	95,456	-	-	95,456
Total	33,271,929	4,441,696	1,907,703	35,805,922
Less accumulated depreciation:				
Buildings and building improvements	4,337,797	146,307	-	4,484,104
Towers and transmission equipment	7,136,765	398,603	525,734	7,009,634
Broadcast and production equipment	12,673,404	840,201	905,294	12,608,311
Office furniture and equipment	605,918	191,962	196,543	601,337
Software	30,502	31,819	-	62,321
Total	24,784,386	1,608,892	1,627,571	24,765,707
Property and equipment, net	$ 8,487,543	$ 2,832,804	$ 280,132	$ 11,040,215

6. INSURANCE SETTLEMENT

On January 4, 200X-1, KXXX signed a Settlement Agreement and Release with Lloyd's of London to settle a claim related to the failure of a KXXX-owned satellite transponder. The settlement amount of $1,882,500 was for one-half of the face value of the original insurance policy. The settlement proceeds were received and deposited in KXXX's cash fund on January 17, 200X-1. The Board of Education determined that these insurance proceeds would be used to partially fund the Founders Telecommunications Center facility renovation project that began in the fiscal year ended June 30, 200X. At June 30, 200X, $85,292 of the proceeds have been spent on the project.

7. PENSION PLAN ADMINISTERED BY THE PUBLIC EMPLOYEES RETIREMENT BOARD

Through the Board of Education, KXXX participates in the State Employee's Retirement Plan which covers substantially all full-time employees of KXXX. The plan is a single-employer defined contribution plan. Participation in the plan is required on reaching the age of 30 and completion of two years of continuous service. Each member contributes 4.33% of their compensation until $864 has been paid and 4.8% of pay for the rest of the calendar year. KXXX matches a member's contribution at a rate of 156% of the employees contribution. Contribution and benefit provisions are established by State law and may only be amended by the Anystate General Assembly. In addition State law requires there to be an equitable allocation of expenses among the retirement systems administered by the Public Employees Retirement Board.

The plan provides that the total contributions made for each employee, together with applicable earnings, are to be used to provide an annuity upon retirement. Costs under this plan are funded as they accrue. KXXX's portion of the total cost of this plan was $181,084 and $180,717 for the years ending June 30, 200X and 200X-1, respectively. The Public Employees Retirement Board prepares a separate report for the State's Employees' Retirement Plan that include financial statements and required supplementary information for the plan which may be obtained by writing to Public Employees Retirement Systems, P.O. Box 55555, Anycity, Anystate 55555-5555, or by calling (300) 555-5655.

8. NONFEDERAL FINANCIAL SUPPORT (NFFS)

The Corporation for Public Broadcasting (CPB) allocates a portion of its funds annually to public broadcasting entities, primarily based on NFFS. NFFS is defined as the total value of cash and the fair market value of property and services received as either a contribution or a payment and meeting all of the respective criteria for each.

A "contribution" is cash, property or services given to a public broadcasting entity for general operational purposes. Support received as a contribution by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source may be an entity except the federal government or any other public broadcasting entity; (2) the contribution may take the form of a gift, grant, bequest, donation or appropriation; (3) the purpose must be for the construction or operation of a noncommercial, educational public broadcast station or for the production, acquisition, distribution or dissemination of educational television or radio program and related activities; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station. However, to eliminate distortions in the TV CSG grant program precipitated by extraordinary infusions of new capital investments in DTV, all capital contributions received for purposes of acquiring new equipment or upgrading existing or building new facilities regardless of source or form of the contribution are not included in calculating the 200X NFFS. This change excludes all revenues received for any capital purchases.

A "payment" is cash, property or services received by a public broadcasting entity from specific sources in exchange for specific services or materials. Support received as a payment by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source must be a state, any agency or political subdivision of a state, an educational institution or organization or a nonprofit entity; (2) the form of the payment must be appropriations or contract payments in exchange for specific services or materials; (3) the purpose must be for any related activity of the public broadcast station; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

Reported NFFS for KXXX wwas $11,010,287 and $11,453,938 for 200X and 200X-1, respectively.

9. COMMUNITY SERVICE GRANTS (CSGs)

KXXX receives a Community Service Grant (CSG) from the Corporation for Public Broadcasting annually. The Community Service Grants received and expended during the most recent fiscal years were as follows:

		Expended			Uncommitted
Year of Grant	**Grants Received**	**200X-3 & Prior**	**200X-2**	**200X-1**	**Balance at June 30, 200X**
200X-3	$ 1,284,880	974,582	310,298	-	$ -
200X-2	$ 1,281,438	99,114	872,568	309,756	$ -
200X-1	$ 1,224,643	-	97,218	998,385	$ 129,040
200X-XX	$ 1,543,224	-	-	34,094	$ 1,509,130

10. CITY OF ANYCITY APPROPRIATIONS

This classification includes financial resources provided to KXXX through budgetary authorizations of the City Council. City appropriations utilized were as follows:

	200X	**200X-1**
Authorized City Appropriations	$7,850,011	$7,630,902
Unexpended Appropriation	(510,098)	(607,827)
Accrual Adjustments	(111,470)	25,841
Operating Fund	7,228,443	7,048,916
Property Fund	389,520	1,284,768
Total	$7,617,963	$8,333,684

11. INDIRECT ADMINISTRATIVE SUPPORT

Indirect support from the Board of Education consists of allocated institutional support and physical plant costs incurred by various other divisions of the Board of Education for which KXXX receives benefits. The fair value of this support is recognized in the Statements of Activities as indirect administrative support and also as expense in the management and general functional expense category. For the years ended June 30, 200X and 200X-1, indirect support was calculated using the Board of Education's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The approved rate of 29% was modified to exclude certain cost components that do not benefit KXXX. The approved rate was modified to exclude departmental and sponsored projects administration, resulting in an applied rate of 18%. The Board of Education also provides office, studio and tower facilities, the benefit for which is included as a building use allowance in the approved rate. The value of this support included in the Statements of Activities was $375,000 and $350,000 for the years ended June 30, 200X and 200X-1, respectively.

12. BOND ISSUE COSTS

KXXX capitalized $264,166 in bond issue costs in connection with the issuance of the Lease Rental Revenue Bonds Series 2000 on February 15, 200X-2. KXXX capitalized an additional $99,751 in bond issue costs in connection with the issuance of the Lease Rental Revenue Bonds Series 200X on April 1, 200X. The bond issue costs are being amortized using the bonds outstanding method over the life of the bonds.

13. CONTRIBUTED IN-KIND SUPPORT

Contributed support represents expenses paid on behalf of KXXX by others outside the reporting entity, and includes contributed professional services, donated materials or facilities, and indirect administrative support. The amount of contributed services is reflected as revenues in the accompanying combined statements of revenues, expenses and changes in net assets. As expenses of an equivalent amount are also recognized, there is no impact on net assets.

A summary of the contributed support received in 200X and 200X-1 is as follows:

> The University of Anystate at Capitalcity (UAC) Television Department contributes support to KXXX by partially funding the operations of the KXXX station, studio and production facility. UAC's allocated costs for this support totaled $713,103 and $709,081 in 200X and 200X-1, respectively.
>
> Contributed support from the State consists of certain administrative and other expenses incurred by various state agencies on behalf of KXXX. These costs for 200X and 200X-1, respectively, were $23,184 and $8,802.

14. LEASE RENTAL REVENUE BONDS

Long-term debt is as follows as of June 30, 200X and 200X-1:

	Beginning Balance	Additions	Payments	Amortization of Premium	Ending Balance	Current Portion
Bonds payable, June 30, 200X	$ 21,211,001	$ 9,991,691	$ 1,665,000	$ 63,167	$ 29,474,525	$ 1,745,000
Bonds payable, June 30, 200X-1	$ 22,922,454	-	$ 1,645,000	$ 66,453	$ 21,211,001	$ 1,665,000

On February 15, 200X-2, the Board of Education issued $22,515,000 Lease Rental Revenue Bonds at a premium of $433,076 on behalf of KXXX. The bonds were issued for the purposes of paying the cost of acquiring equipment and facilities to allow KXXX to broadcast in compliance with the new digital television standard (DTV) as required by the Federal Communications Commission (the Project), and for paying certain costs in connection with the issuance and delivery of the bonds. The bonds interest rates range from 4.35% to 6%.

On May 22, 200X, the Board of Education issued $9,850,000 Lease Rental Revenue Bonds at a premium of $141,691 on behalf of KXXX. The bonds were issued for the purpose of paying the cost of renovating and remodeling the Founders Telecommunications Center, funding reserves and for paying certain costs in connection with the issuance and delivery of the bonds. The bonds interest rates range from 2.70% to 4.50%. The bond premiums are being amortized over the life of the bonds using the bonds outstanding method.

The Bonds are special limited obligations of the Corporation and are secured solely by and payable solely from revenues and other monies derived by the Corporation from its ownership of the Project, including, in particular, lease payments funded by specific appropriations by the State of Anystate General Assembly as described under Assembly Bill 111. The Lease-Purchase Agreement and the lease payments thereunder are subject to recurring biennial appropriations by the Anystate General Assembly.

Annual maturities of principal and interest subject to redemption are as follows:

Year Ending June 30:	DTV Project Series 200X-2 Principal	DTV Project Series 200X-2 Interest	Founders Telecommunications Center Project Series 200X Principal	Founders Telecommunications Center Project Series 200X Interest
200X+1	$ 1,745,000	$ 1,102,980	$ -	$ 326,907
200X+2	1,830,000	1,015,730	1,355,000	380,863
200X+3	1,925,000	922,400	1,390,000	344,278
200X+4	2,025,000	822,300	1,435,000	301,187
200X+5	2,145,000	700,800	1,495,000	243,786
200X+6 – 200X+8	9,535,000	1,298,700	4,175,000	301,888
Total	$ 19,205,000	$ 5,862,910	$ 9,850,000	$ 1,898,909

Associated with these issuances, the Corporation acquired property and equipment totaling $3,677,272 and $2,473,926 for fiscal year ended June 30, 200X and 200X-1, respectively.

15. TRANSPONDER SPACE RENTAL INCOME

KXXX previously entered into agreements with two outside parties to sublease excess capacity on its Transponder. These sublease agreements were terminated by KXXX as of January 31, 200X-2, upon reaching the end of the satellite's useful life. Since the sublease agreements were terminated, KXXX has entered into an ad hoc agreement based on usage with one of the previous outside parties. The revenues associated with these agreements are reflected in a separate line item on the accompanying statement of revenues, expenses and changes in net assets.

16. SATELLITE TRANSPONDER LEASE

AB 111 authorized KXXX to enter into a long-term contract for replacement of satellite capacity, with the contract period not to exceed ten years. KXXX executed a multi-year lease of two 36 MHz C-band satellite transponders, and transition of services to the new satellite was completed by February 1, 200X-2. The lease agreement stipulates that payments are due in monthly installments of $118,555 per transponder for a period of 10 years. The expense is being recognized over the life of the lease which is 12 years. The amount paid in excess of the amount recognized is recorded as a prepaid asset on the statement of net assets. While the State Constitution does not allow the General Assembly to approve appropriations extending beyond the current biennium, the General Assembly has demonstrated a history of fulfilling funding requirements authorized in a prior biennium.

The following is a schedule of future minimum obligations under this operating lease as of June 30, 200X:

Year Ended June 30	Amount
200X+1	$ 2,845,320
200X+2	2,845,320
200X+3	2,845,320
200X+4	2,845,320
200X+5	2,845,320
200X+6 - 200X+8	7,350,410
	$ 21,577,010

17. COMMITMENTS AND CONTINGENCIES

Litigation – KXXX, Friends, and the Board of Education are subject to litigation in the normal course of business. Management does not believe that KXXX, Friends, or the Board of Education is party to any pending litigation which would have a material adverse effect on KXXX's financial statements or future operations.

Digital Television Conversion – The Federal Communications Commission (FCC) has mandated that all public broadcasting stations begin transmitting DTV (Digital Television) signals by May 1, 2003. This change in broadcasting standards means that, eventually, all transmissions, pass-through and production equipment must be replaced with digital-capable equipment. Management expects to comply with the FCC mandate for the broadcast transmission requirement at an estimated cost of $2.1 million. Conversion of the production plant to DTV, which is not required by the FCC, is expected to cost an additional $3.8 million to be incurred over ten years.

In order to facilitate the digital television conversion, KXXX has obtained funding as follows:

> The 200X-3 Anystate General Assembly authorized $2 million for KXXX's digital conversion costs from funds received to settle legal actions against tobacco companies. To receive funds under the act, KXXX is required to broadcast four anti-smoking messages a day for ten years, to dedicate 25 percent of its broadcast programming to educational programming for ten years, and to raise $3 million in additional matching funds restricted to use for defraying digital television transition costs. At June 30, 200X, KXXX had qualified for $1,650,000 and had received $1,481,750 of the tobacco settlement funds from the Interim Finance Committee of the Anystate General Assembly.

In January 200X-2, the Board of Education entered into an agreement with MDS Corporation of America, Inc., whereby the Board of Education would exchange the operating license rights to four Instructional Television Fixed Service channels operated by KXXX and receive the license rights to four Multipoint Multichannel Distribution Service channels. In addition, the agreement called for KXXX to receive two payments totaling $1.5 million. The channel swap was effectuated in March of 200X-1, and KXXX received all funds due from the agreement in November of 200X-1. These funds were designated by the Board of Education for digital television conversion and are available to satisfy the matching requirements for release of tobacco settlement funds for digital television.

These two sources of funding are expected to fund approximately 59% of the total cost of the DTV conversion. Funding for the balance of costs is expected to come from a combination of Federal, state and private sources over the next ten years.

18. RESERVED FUND BALANCES

Through donor, state, or federal designation, the following funds have been reserved in Fund Balance – Operating Fund for specified programs, prepaid services or supplies:

Corporation for Public Broadcasting grant reserved for programming acquisitions	$918,385
Reserve for digital television	2,573,450
Ready-to-Learn (RTL)	312,152
Total grants	3,803,987
Reserve for inventory	30,341
Reserve for prepaids	22,918
Total reserved fund balance – Operating Fund	$3,857,246

Additionally, Friends has reserved fund balances restricted for the following purposes at June 30, 200X:

Permanent endowment	$ 199,877

19. RISK MANAGEMENT

KXXX is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Board of Education accounts for such losses through its Insurance and Risk Management Internal Service Fund, of which KXXX is a participant. The Board of Education retains the risk of financial loss per occurrence as follows:

1. Worker's compensation up to $500,000
2. General liability or automobile liability up to $1,000,000 with a state statutory limit of $50,000 per claimant, out-of-state automobile coverage subject to $50,000 retention
3. Errors and omissions up to $100,000
4. Property (excluding boiler and machinery) up to $50,000
5. Boiler and machinery up to $50,000

6. Broadcasters liability up to $5,000
7. Employee dishonesty up to $10,000

The Board of Education purchases commercial insurance for occurrences in excess of the forgoing retention levels. Over the last three years there have been no reductions in insurance coverage, and no settlements made in excess of insurance coverage.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
OPERATING FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES – BUDGETED AND ACTUAL AMOUNTS
For the Year Ended June 30, 200X

	Budgeted amounts			Variance – Original from Final Budget – Positive (Negative)	Variance – Final Budget from Actual Amounts Positive (Negative)
	Original budget	Final budget	Actual		
Revenues:					
Local sources	$ 3,445,853	$ 3,445,853	$ 8,662,601	$ -	$ 5,216,748
Total revenues	3,445,853	3,445,853	8,662,601	-	5,216,748
Expenditures:					
Programming and production					
Salaries	1,682,979	1,684,268	1,606,913	(1,289)	77,355
Benefits	432,334	432,606	401,797	(272)	30,809
Purchased services	265,625	265,625	301,782	-	(36,157)
Supplies	872,733	872,733	1,171,847	-	(299,114)
Other	302,781	302,781	156,997	-	145,784
Total programming and production	3,556,452	3,558,013	3,639,336	(1,561)	(81,323)
Broadcasting					
Salaries	514,745	514,745	566,234	-	(51,489)
Benefits	136,665	136,665	141,860	-	(5,195)
Purchased services	92,526	92,526	421,912	-	(329,386)
Supplies	51,603	51,603	56,133	-	(4,530)
Other	68,741	68,741	64,617	-	4,124
Total broadcasting	864,280	864,280	1,250,756	-	(386,476)
Program information					
Purchased services	489,670	489,670	100,468	-	389,202
Supplies	3,465	3,465	3,005	-	460
Other	4,590	4,590	1,675	-	2,915
Total program information	497,725	497,725	105,148	-	392,577
Membership solicitation					
Salaries	142,496	142,496	145,176	-	(2,680)
Benefits	46,418	46,418	42,829	-	3,589
Purchased services	49,768	49,768	153,816	-	(104,048)
Supplies	8,000	8,000	7,561	-	439
Other	175,910	175,910	98,911	-	76,999
Total membership solicitation	422,592	422,592	448,293	-	(25,701)
Underwriting solicitation					
Salaries	106,957	106,957	81,834	-	25,123
Benefits	29,319	29,319	21,428	-	7,891
Purchased services	7,800	7,800	34,867	-	(27,067)
Supplies	1,150	1,150	1,531	-	(381)
Other	1,000	1,000	2,790	-	(1,790)
Total underwriting solicitation	146,226	146,226	142,450	-	3,776
General and administrative					
Salaries	359,593	359,915	341,028	(322)	18,887
Benefits	96,007	96,076	92,266	(69)	3,810
Purchased services	27,100	27,100	48,918	-	(21,818)
Supplies	6,634	(63,034)	3,844	69,668	(66,878)
Other	25,154	25,154	34,834	-	(9,680)
Total general and administrative	514,488	445,211	520,890	69,277	(75,679)

(Continued)

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OPERATING FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES – BUDGETED AND ACTUAL AMOUNTS
For the Year Ended June 30, 200X

	Budgeted amounts			Variance – Original from Final Budget –	Variance – Final Budget from Actual Amounts
	Original budget	**Final budget**	**Actual**	**Positive (Negative)**	**Positive (Negative)**
Capital outlay					
Property	141,550	141,550	1,323,672	-	(1,182,122)
Total capital outlay	141,550	141,550	1,323,672	-	(1,182,122)
Total expenditures	6,143,313	6,075,597	7,430,545	67,716	(1,354,948)
Excess (deficiency) of revenues over expenditur	(2,697,460)	(2,629,744)	1,232,056	(67,716)	(3,861,800)
Other financing sources:					
Transfer from Friends of Channel 8	-	-	22,468	-	(22,468)
Net change in fund balances	(2,697,460)	(2,629,744)	1,254,524	(67,716)	(3,884,268)
Fund balance, beginning of year	1,760,816	2,710,415	2,710,545	(949,599)	(130)
Fund balance, end of year	$ (936,644)	$ 80,671	$ 3,965,069	$ (1,017,315)	$ (3,884,398)

The accompanying notes are an integral part of the financial statements.

KXXX PUBLIC TELECOMMUNICATIONS GROUP
A Public Telecommunications Entity Licensed to the Board of Education of Anycity, Anystate
Operating Fund Schedule of Functional Expenditures
For the Year Ended June 30, 200X
With Comparative Totals for the Year Ended June 30, 200X=1

	Programming and Production	Broadcasting	Program Information	Subtotal	Membership Solicitation	Underwriting Solicitation	General and Administrative	Subtotal	Totals (Memorandum Only) 200X	200X-1
Non-in-kind:										
Salary	$ 1,606,913	$ 566,234	$ -	$ 2,173,147	$ 145,176	$ 81,834	$ 341,028	$ 568,038	$ 2,741,185	$ 2,537,273
Programming	1,096,946	-	-	1,096,946	-	-	-	-	1,096,946	967,352
Fringes	401,797	141,860	-	543,657	42,829	21,428	92,266	156,523	700,180	634,460
Professional services	110,605	81,257	58,731	250,593	76,605	25,433	26,511	128,549	379,142	351,038
Engineering/legal/technical	78,759	104,297	-	183,056	45,291	711	1,363	47,365	230,421	738,667
Supplies	72,309	56,133	2,819	131,261	7,501	1,531	3,844	12,876	144,137	99,724
Utilities	101,014	57,963	-	158,977	12,226	1,060	12,407	25,693	184,670	159,815
Printing	56,873	95	5,786	62,754	2,708	-	499	3,207	65,961	125,599
Repairs and maintenance	12,588	31,112	6,294	49,994	6,294	6,294	6,294	18,882	68,876	79,678
Premiums	-	-	-	-	82,610	-	-	82,610	82,610	77,090
Dues and fees	54,673	663	1,675	57,011	4,075	1,730	22,427	28,232	85,243	98,391
Equipment rental	8,800	-	-	8,800	110	-	-	110	8,910	9,528
Fiber and tower leases	-	63,954	-	63,954	-	-	-	-	63,954	76,346
Advertising	2,454	-	29,668	32,122	-	-	-	-	32,122	28,415
Postage	4,452	1,460	-	5,912	21,790	1,460	1,469	24,719	30,631	39,579
Travel and conference	22,827	14,371	-	37,198	877	629	11,717	13,223	50,421	65,662
Vehicle maintenance	1,617	541	-	2,158	-	-	-	-	2,158	2,291
Building rental	-	15,247	-	15,247	-	-	-	-	15,247	-
Equipment - minor	600	113,315	-	113,915	-	-	-	-	113,915	328
Communication services	2,807	2,254	-	5,061	141	340	1,065	1,546	6,607	6,245
Software	2,592	-	175	2,767	60	-	-	60	2,827	3,458
Set design	710	-	-	710	-	-	-	-	710	457
Total non-in-kind expenditures	3,639,336	1,250,756	105,148	4,995,240	448,293	142,450	520,890	1,111,633	6,106,873	6,101,396
In-kind										
Advertising	-	-	402,964	402,964	-	-	-	-	402,964	194,046
Indirect administrative support	138,715	79,597	-	218,312	16,788	1,455	17,038	35,281	253,593	254,350
Professional services	-	-	-	-	-	66,227	9,556	75,783	75,783	115,611
Building rental	-	35,000	-	35,000	-	-	-	-	35,000	-
Equipment rental	-	-	-	-	12,425	-	-	12,425	12,425	40,800
Dues and fees	1,360	2,450	-	3,810	5,962	10,460	11,860	28,282	32,092	12,100
Technical services	-	-	-	-	-	-	2,225	2,225	2,225	-
Travel	-	-	-	-	-	-	-	-	-	660
Premiums	-	-	-	-	-	-	-	-	-	21,861
Total in-kind expenditures	140,075	117,047	402,964	660,086	35,175	78,142	40,679	153,996	814,082	639,428
Total expenses before depreciation	3,779,411	1,367,803	508,112	5,655,326	483,468	220,592	561,569	1,265,629	6,920,955	6,740,824
Depreciation	160,166	200,556	-	360,722	10,601	919	10,760	22,280	383,002	-
Total expenses including depreciation	$ 3,939,577	$ 1,568,359	$ 508,112	$ 6,016,048	$ 494,069	$ 221,511	$ 572,329	$ 1,287,909	$ 7,303,957	$ 6,740,824
Percentage of total expenditures	54%	21%	7%	82%	7%	3%	8%	18%	100%	

The accompanying notes are an integral part of the financial statements.

Appendices

Appendix A: Glossary of Acronyms Used

AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board Opinions
CFR	Code of Federal Regulations
CPB	Corporation for Public Broadcasting
CSG	Community Service Grants
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GASBS	Statements of Government Financial Accounting Standards
PTS	Public Television Station
SAS	Statement on Auditing Standards
SFAC	Statement of Financial Accounting Concepts
SOP	Statement of Position
SOSAP	Summary of Significant Accounting Policies
SFAS	Statements of Financial Accounting Standards
USC	United States Code

Appendix B: Glossary of Terms Used

Annuity and Life Income Funds – A gift of money or other property on the condition that the recipient binds itself to make periodic stipulated payments to the donor or other designated individuals that terminate at the donor's death or another specified time or event.

Business-type Activity – A government activity financed in whole or part by fees charged to external parties for goods of services.

Capital Additions – Gifts, grants, bequests, investment income, and gains and losses on investments restricted either permanently or for a period of time by parties outside of the entity to endowment funds. Capital additions also include similar resources restricted for fixed asset additions but only to the extent expended during the year.

Compensated Absence – Employee absences such as vacation, illness, and holidays for which it is expected that employees will be paid.

Condition (on a contribution) - A donor stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred or releases the promisor from its obligation to transfer the assets.

Contribution - An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Deferred Revenue and Support – Revenue or support received or recorded before it is earned, that is, before the conditions are met, in whole or in part, for which the revenue or support is received or is to be received.

Encumbrances – Commitments in the form of orders, contracts, and similar items that will become payable when goods are delivered or services rendered.

Endowment Fund – A fund in which a donor has stipulated in the donative instrument that the principal is to be maintained inviolate and in perpetuity and only the income from the investments of the fund may be expended. See also "term endowment."

Exchange transaction – A situation in which the grantor, sponsor, or appropriator expects to receive commensurate value.

Functional Expenses – A classification of expenses that accumulates expenses according to the purpose for which costs are incurred. The primary functional classifications are program and supporting services.

Indirect Administrative Support – A type of contributed, allocated support applicable to institutional stations only. Represents services provided to a station by the controlling organization (e.g., college or government). Examples include allocated space or general administrative services provided at no cost to the station.

Natural expenses - A classification of expenses that shows expenses by their type - such as salaries, employee benefits, occupancy, postage and shipping.

Net Realizable Value – Estimated selling price of an item in the ordinary course of business, less reasonably predictable costs of disposal.

Object Expense Classification – A method of classifying expenditures according to their natural classification, such as salaries and wages, employee benefits, supplies, purchased services, and so forth.

Participation Agreement – Persons involved in the production of a program are compensated, in part or in full, with a participation in the income from the program. The amount of compensation to the participant is usually based on percentages of revenues or profits from the production.

Permanently restricted net assets – The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Related Party – Affiliates or other parties with which a station may deal that control or can significantly influence management or operating policies.

Restriction (on a contribution) - Specifies a use for the contributed assets that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Support – The conveyance of property or services from one person or organization to another without considerations (e.g., donations, gifts, grants, or bequests). Support is grouped with revenue for reporting, but differs in that revenue results from reciprocal *exchanges* based on provision of goods or services.

Temporarily restricted net assets – The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

Term Endowment – A fund that has all the characteristics of an endowment fund, except that at some future date or event it will no longer be required to be maintained as an endowment fund.

Unrestricted net assets - The part of net assets of a not-for-profit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Appendix C: Index of Pronouncements and Issuance Dates

AICPA SOPs	Issuance Date
SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*	July 1981
SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund Raising Appeal*	August 1987
SOP 93-3, *Rescission of Accounting Principles Board Statements*	March 1993
SOP 94-2, *The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations*	September 1994
SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*	September 1994
SOP 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund Raising*	March 1998

AICPA SAS Standards	Issuance Date
SAS No. 52, *Omnibus Statement on Auditing Standards-1987*	April 1988
SAS No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report*	January 1992
SAS No. 91, *Federal GAAP Hierarchy*	April 2000

APB Opinions	Issuance Date
APB 18, *The Equity Method of Accounting for Investments in Common Stock*	March 1971
APB 21, *Interest on Receivables and Payables*	August 1971
APB 22, *Disclosure of Accounting Policies*	April 1972
APB 29, *Accounting for Nonmonetary Transactions*	May 1973

ARB	Issuance Date
ARB 43, *Restatement and Revision of Accounting Research Bulletins*	June 1953
ARB 51, *Consolidated Financial Statements*	August 1959

SFAC	Issuance Date
SFAC No. 6, *Elements of Financial Statements*	December 1985

SFAS Pronouncement	Issuance Date
SFAS No. 57, *Related Party Disclosures*	March 1982
SFAS No. 63, *Financial Reporting by Broadcasters*	June 1982
SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*	October 1987
SFAS No. 95, *Statement of Cash Flows*	November 1987
SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*	December 1991
SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*	May 1993
SFAS No. 116, *Accounting for Contributions Received and Contributions Made*	June 1993
SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*	June 1993
SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*	November 1995
SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*	June 1999

GASBS Pronouncement	Issuance Date
GASBS No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*	April 1986
GASBS No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*	September 1989
GASBS No. 27, *Accounting for Pensions by State and Local Governmental Employers*	November 1994
GASBS No. 31, *Certain Investments and External Investment Pools*	March 1997
GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*	December 1998
GASBS No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*	June 1999
GASBS No. 35, *Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities*	November 1999
GASBS No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*	April 2000
GASBS No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus an amendment of GASB Statements No. 21 and No. 34*	June 2001
GASBS No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment to GASB Statement No. 14*	May 2002

OMB Circulars	Issuance Date
OMB Circular A-21, *Cost Principles for Educational Institutions*	September 1979; revised August 2000
OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*	May 1995; amended August 1997
OMB Circular A-122, *Cost Principles for Non-Profit Organizations*	June 1998