

**SOUTH CAROLINA  
EDUCATIONAL TELEVISION COMMISSION  
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL AND COMPLIANCE REPORT**

**YEAR ENDED JUNE 30, 2003**

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

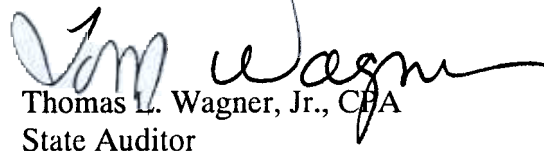
January 23, 2004

The Honorable Mark Sanford, Governor  
and  
Members of the South Carolina Educational Television Commission  
South Carolina Educational Television Commission  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Educational Television Commission for the fiscal year ended June 30, 2003, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

**SOUTH CAROLINA  
EDUCATIONAL TELEVISION COMMISSION**

**TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2003**

<b>INDEPENDENT AUDITOR'S REPORT</b>	1 and 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 6
<b>FINANCIAL STATEMENTS:</b>	
Entity-wide financial statements:	
Statement of net assets	7
Statement of activities	8
Fund financial statements:	
Balance sheet – governmental funds	9 and 10
Statement of revenues, expenditures and changes in fund balances – governmental funds	11 and 12
Notes to financial statements	13 - 31
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	32
<b>REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u></b>	33 and 34
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	35 and 36
<b>SCHEDULE OF FINDINGS AND QUESTINED COSTS</b>	37 and 38
<b>MANAGEMENT LETTER COMMENTS</b>	39
<b>STATUS OF PRIOR FINDINGS</b>	40
<b>CORRECTIVE ACTION PLAN</b>	APPENDIX A

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Educational Television Commission ("the Commission") as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1 to the financial statements, the financial statements of the Commission are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Commission, an agency of the State. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2003, and changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include, other agencies, divisions or component units of the State of South Carolina.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Educational Television Commission as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Commission taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



**SCACPA**

1919 BULL STREET • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • Email: [cpa@rogerslaban.com](mailto:cpa@rogerslaban.com)

*Investment Advisory Services Offered  
Through 1st Global Advisors, Inc.*

*Securities Offered Through 1st Global  
Capital Corp Member NASD, SIPC*

*Insurance Services Offered Through  
1st Global Insurance Service, Inc.*

In accordance with Government Auditing Standards, we have also issued our report dated December 24, 2003 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

*Rogers + Lalan, PA*

December 24, 2003

# **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### ***Overview of the Financial Statements and Financial Analysis***

As management of the South Carolina Educational Television Commission ("the Commission"), we provide this Management's Discussion and Analysis of South Carolina Educational Television's Financial Statements for the fiscal year ended June 30, 2003 as a narrative overview and analysis. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The financial statements presented focus on the financial condition of the Commission, the results of operations, and the cash flows of the Commission.

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements include three components: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The *Entity-Wide Financial Statements* provide a broad overview of the Commission's operations. The entity-wide financial statements include two statements: the Statement of Net Assets; and, the Statement of Activities.

The *Fund Financial Statements* provide information on the Commission's funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the Commission's funds are classified as Governmental funds. The Commission's governmental funds include the General Fund, State Lottery Fund, Education Improvement Act Fund and Other Governmental Funds.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the Department-wide and fund financial statements.

The following discussion and analysis of the Commission's entity-wide financial statements provides an overview of its financial activities for the year. Comparisons to previous fiscal years are also made.

### **Statement of Net Assets**

The Statement of Net Assets presents information reflecting the Commission's assets, liabilities and net assets as of the end of the fiscal year. This statement provides the reader with a fiscal snapshot of the Commission. The Statement of Net Assets presents end of year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities). Current assets and liabilities are those with immediate liquidity or which are collectible or due within twelve months of the statement date. The Statement of Net Assets is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Over time, increases or decreases in the Commission's net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The assets of the Commission exceeded its liabilities by \$62.2 million at fiscal year ending June 30, 2003 (See Table 1 below for a summary of net assets for fiscal years 2002-2003 and 2001-2002). Of this amount, \$3 million was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the Commission's ongoing obligations.

**Table 1****Condensed Statement of Net Assets**

	<u>2003</u>	<u>2002</u>	<u>Increase / (Decrease)</u>	<u>Percent Change</u>
<b>ASSETS</b>				
Current Assets	\$ 28,737,836	\$ 15,095,898	\$ 13,641,938	90.37%
Capital Assets, net of accumulated depreciation	45,147,649	38,992,157	6,155,492	15.79%
Loan Issuance Costs	84,000	-	84,000	100.00%
<b>Total Assets</b>	<u>\$ 73,969,485</u>	<u>\$ 54,088,055</u>	<u>\$ 19,881,430</u>	36.76%
<b>LIABILITIES</b>				
Current Liabilities	\$ 8,389,759	\$ 7,865,180	\$ 524,579	6.67%
Noncurrent Liabilities	3,370,339	4,077,631	(707,292)	(17.35%)
<b>Total Liabilities</b>	11,760,098	11,942,811	(182,713)	(1.53%)
<b>NET ASSETS</b>				
Capital Assets, net of related debt	41,583,061	34,366,287	7,216,774	21.00%
Restricted	17,600,669	5,121,237	12,479,432	243.68%
Unrestricted	3,025,657	2,657,720	367,937	13.84%
<b>Total Net Assets</b>	62,209,387	42,145,244	20,064,143	47.61%
<b>Total Liabilities and Net Assets</b>	<u>\$ 73,969,485</u>	<u>\$ 54,088,055</u>	<u>\$ 19,881,430</u>	36.76%

Total assets of the Commission increased by \$19.8 million. Capital assets increased by \$6.1 million, primarily due to the continued conversion of television transmitters from analog to digital. Cash and cash equivalents increased \$13.6 million, driven by an increase in restricted net assets. This increase can be attributed to an \$18.5 million lottery fund appropriation received during the fiscal year. The lottery fund appropriation is being used to convert the Commission's television transmitters from an analog signal to a digital signal. At June 30, 2003 the Commission had a cash balance of \$11.8 million from the lottery appropriation.

The small increase in current liabilities is attributable to an increase in accounts payable associated with the digital conversion project.

The decrease in noncurrent liabilities can be attributed to the payment of the Commission's note payable during the fiscal year.

Net assets of the Commission increased during the year by \$20 million. The increase is driven largely by a \$12.4 million increase in restricted net assets, and a \$7.2 million increase in capital assets, net of related debt. This increase can be attributed to the \$18.5 million in lottery funds appropriated during the fiscal year for the Commission's digital conversion project.

**Statement of Activities**

This statement represents the program revenues and expenses, as well as any general revenue that the Commission receives. The purpose of this statement is to present the reader with information relating to revenues received and expenses incurred during the fiscal year ending June 30, 2003.

Program revenues for the commission are classified in three categories; Charges for Services, Operating Grants and Capital Grants. Charges for services are received for providing services to the various customers and constituencies of the Commission. Operating grants are primarily made up of the Community Service Grants received from the Corporation for Public Broadcasting, contributed support from the ETV Endowment and private grants. Operating grants are used in the ongoing operations of the Commission. Capital grants are grants used for the purchase or construction of capital assets. The commission currently has capital grants from the US

Department of Commerce, State issued Capital Improvement Bonds, Lottery funds and State Capital Reserve funds. Total program revenue from all three sources received during the fiscal year totaled \$34.6 million.

Expenses for the Commission are shown under the category of Educational Broadcasting and are classified as Personal Services, Other Operating, Interest and Depreciation. Personal Service costs were \$14.4 million (43.4%). Other operating costs totaled \$14.3 million (43.3%). Interest and depreciation costs totaled \$4.4 million (13.3%).

The statement of Revenues, Expenses and Changes in Net Assets reflects a positive increase in net assets for the current fiscal year (See Table 2 for a comparison of revenues, expenses and changes in net assets for fiscal years 2002-2003 and 2001-2002).

**Table 2**

**Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2003</u>	<u>2002</u>	<u>Increase / (Decrease)</u>	<u>Percent Change</u>
<b>REVENUES</b>				
Program Revenues:				
Charges for Services	\$ 4,102,314	\$ 5,185,986	\$ (1,083,672)	(20.90%)
Operating grants & contributions	8,745,330	9,066,031	(320,701)	(3.54%)
Capital grants & contributions	21,798,177	1,542,415	20,255,762	1313.25%
General Revenues:				
State Appropriations	18,530,867	19,625,251	(1,094,384)	(5.58%)
Interest / Investment income	-	8	(8)	(100.00%)
Contributions	<u>70,188</u>	<u>8,919</u>	<u>61,269</u>	<u>686.95%</u>
Total Revenues	53,246,876	35,428,610	17,818,266	50.29%
<b>EXPENSES</b>				
Educational Broadcasting:				
Personal Services	14,410,817	15,419,947	(1,009,130)	(6.54%)
Other operating costs	14,358,589	15,196,258	(837,669)	(5.51%)
Interest Expense	209,990	259,254	(49,264)	(19.00%)
Depreciation	<u>4,203,337</u>	<u>3,633,359</u>	<u>569,978</u>	<u>15.69%</u>
	<u>33,182,733</u>	<u>34,508,818</u>	<u>(1,326,085)</u>	<u>(3.84%)</u>
Total Expenses	<u>33,182,733</u>	<u>34,508,818</u>	<u>(1,326,085)</u>	<u>(3.84%)</u>
Increase in Net Assets	20,064,143	919,792	19,144,351	2081.38%
Net Assets - beginning of year	<u>42,145,244</u>	<u>41,225,452</u>	<u>919,792</u>	<u>2.23%</u>
Net Assets - end of year	<u>\$ 62,209,387</u>	<u>\$ 42,145,244</u>	<u>\$ 20,064,143</u>	<u>47.61%</u>

Program revenues reflected a large increase (\$17.8 million) over the previous fiscal year. Revenues from charges for services (-20.9%) and operating grants (-3.54%) declined from the previous fiscal year. Capital grants increases of \$20.2 million can be attributed to the state lottery appropriation (\$18.5 million) and federal funds received for the Commission's digital conversion project.

General revenues decreased as a result of continued state budget reductions. Total expense reductions were \$1.3 million. Personal service reductions of \$1 million were the result of a voluntary separation program along with a mandatory five day furlough for employees. Depreciation expense increased as a result of major equipment being purchased for the Commission's conversion to digital transmitters.



The Commission's net assets increased by \$20 million from the previous fiscal year. This can be attributed to the aforementioned digital conversion capital projects.

### Capital Assets and Debt Administration

The Commission's Capital Assets net of depreciation were \$45.1 million at June 30, 2003. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. Table 3 summarizes capital assets at June 30, 2003 and June 30, 2002.

<b>Table 3</b>		
<b>SC ETV Capital Assets</b>		
	<b>2003</b>	<b>2002</b>
Land	\$ 946,579	\$ 946,579
Building & Improvements	26,717,159	26,495,326
Equipment & Furniture	58,512,399	48,931,954
Vehicles	1,521,828	1,589,729
Construction in Progress	9,400	-
Total Cost	87,707,365	77,963,588
Less: Accumulated Depreciation	42,559,716	38,971,431
Net Capital Assets	<u>\$ 45,147,649</u>	<u>\$ 38,992,157</u>

The total increase in the Commission's investment in capital assets for the current fiscal year was \$6.1 million. Actual expenditures to purchase or construct capital assets were \$10.4 million. Depreciation charges for the year totaled \$4.2 million.

The Commission refinanced its note payable with B&A Leasing during the fiscal year. The note had an interest rate of 4.66%, original maturity date of May 28, 2006 and was secured by equipment held by the Commission. The new note payable has an interest rate of 3.29%, original maturity date of June 30, 2008 and is secured by equipment held by the Commission. As of June 30, 2003 the total amount still owed, including interest, was approximately \$3.6 million.

### Economic Outlook

The Commission underwent midyear and base budget reductions to our state appropriated funds during the fiscal year. Even with these reductions, the Commission managed an increase in its net assets. The Commission is aware that future state funded appropriations may be reduced and continues to look for ways to increase operating revenue and improve its operating efficiencies.

### Requests For Information

This financial report is designed to provide a general overview of the South Carolina Educational Television Commission's finances for all of the Commission's taxpayers, customers and creditors. This financial report seeks to demonstrate the Commission's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Educational Television Commission  
 Senior Vice President Administration  
 1101 George Rogers Boulevard  
 Columbia, South Carolina 29211

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2003**

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 26,375,838
Accounts receivable, net of allowance for doubtful accounts of \$30,025	404,548
Intergovernmental receivables:	
General Fund of the State	860,371
State agencies	93,087
Federal government	615,044
Costs incurred for programs not telecast	259,345
State capital improvement bond proceeds receivable	126,056
Capital Reserve Fund appropriation receivable	3,547
Total current assets	<u>28,737,836</u>
Non-current assets	
Capital assets, net of accumulated depreciation	45,147,649
Loan issuance costs	84,000
Total non-current assets	<u>45,231,649</u>
<b>Total assets</b>	<u><u>\$ 73,969,485</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	\$ 2,921,848
Retainages payable	116,387
Accrued salaries and related benefits	1,256,923
Due to Corporation for Public Broadcasting	775,841
Deferred revenue	1,532,132
Current portion of note payable	667,532
Current portion of accrued compensated absences and related benefits	1,119,096
Total current liabilities	<u>8,389,759</u>
Noncurrent liabilities:	
Note payable, net of current portion	2,897,056
Accrued compensated absences and related benefits, net of current portion	473,283
Total noncurrent liabilities	<u>3,370,339</u>
<b>Total liabilities</b>	<u>11,760,098</u>
<b>Net assets:</b>	
Capital assets, net of related debt	41,583,061
Restricted	17,600,669
Unrestricted	3,025,657
<b>Total net assets</b>	<u>62,209,387</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 73,969,485</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

Expenses:	<u>Governmental Activities</u>
Educational Broadcasting	
Personal services	\$ 14,410,817
Other operating costs	14,358,589
Interest expense	209,990
Depreciation	<u>4,203,337</u>
Total program expenses	33,182,733
Program revenues:	
Charges for services	4,102,314
Operating grants and contributions	8,745,330
Capital grants and contributions	<u>21,798,177</u>
Net program expenses	<u>(1,463,088)</u>
General revenues:	
State appropriations	18,530,867
Contributions	<u>70,188</u>
Total general revenues	<u>18,601,055</u>
Increase in net assets	20,064,143
Net assets - beginning of year	<u>42,145,244</u>
Net assets - end of year	<u><u>\$ 62,209,387</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2003**

	General	State Lottery Fund	Education Improvement Act	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 12,349,857	\$ 11,836,385	\$ 1,531,004	\$ 658,592	\$ 26,375,838
Accounts receivable, net of allowance for doubtful accounts of \$30,025	404,548				404,548
Intergovernmental receivables:					
General Fund of the State	860,371				860,371
State agencies	93,087				93,087
Federal government				615,044	615,044
Due from other fund			1,000		1,000
Costs incurred for programs not telecast	259,345				259,345
State capital improvement bond proceeds receivable				126,056	126,056
Capital Reserve Fund appropriation receivable				3,547	3,547
<b>TOTAL ASSETS</b>	<b>\$ 13,967,208</b>	<b>\$ 11,836,385</b>	<b>\$ 1,532,004</b>	<b>\$ 1,403,239</b>	<b>\$ 28,738,836</b>
<b>LIABILITIES AND FUND EQUITY</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 2,374,392	\$ 117,660	\$ 2,972	\$ 426,824	\$ 2,921,848
Accrued salaries and related benefits	1,135,512	2,990	114,874	3,547	1,256,923
Deferred revenue	22,355		1,414,158	95,619	1,532,132
Due to Corporation for Public Broadcasting	775,841				775,841
Due to other fund	1,000				1,000
Retainages payable				116,387	116,387
<b>TOTAL LIABILITIES</b>	<b>\$ 4,309,100</b>	<b>\$ 120,650</b>	<b>\$ 1,532,004</b>	<b>\$ 642,377</b>	<b>\$ 6,604,131</b>
<b>FUND EQUITY:</b>					
Fund balances:					
Reserved for costs incurred for programs not telecast	259,345				259,345
Reserved for capital projects and equipment		11,715,735		611,882	12,327,617
Reserved for K-12 School Technology Initiative	5,273,052				5,273,052
Unreserved:					-
Undesignated	4,125,711			148,980	4,274,691
<b>TOTAL FUND EQUITY</b>	<b>9,658,108</b>	<b>11,715,735</b>	<b>-</b>	<b>760,862</b>	<b>22,134,705</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 13,967,208</b>	<b>\$ 11,836,385</b>	<b>\$ 1,532,004</b>	<b>\$ 1,403,239</b>	<b>\$ 28,738,836</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**  
**BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)**  
**JUNE 30, 2003**

**Reconciliation to the statement of net assets:**

Fund balance - governmental funds		\$ 22,134,705
Amounts reported for governmental activities in the statement of net assets are different because:		
Liabilities are not due and payable in the current period, therefore, are not reported in the fund:		
Note payable	\$ (3,564,588)	
Accrued compensated absences and related benefits	<u>(1,592,379)</u>	(5,156,967)
Assets capitalized and depreciated or amortized in statement of net assets and charged to expenditures in the governmental fund:		
Capital assets, net of accumulated depreciation	\$ 45,147,649	
Loan issuance costs	<u>84,000</u>	<u>45,231,649</u>
Net assets of governmental activities		<u>\$ 62,209,387</u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**COMBINED STATEMENT OF REVENUES EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003**

	General	State Lottery Fund	Education Improvement Act	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
State appropriations	\$ 18,530,867	\$ -	\$ -	\$ -	\$ 18,530,867
Lottery grants		18,500,000			18,500,000
Contributed support	4,067,439				4,067,439
Program sales	2,931,601				2,931,601
Corporation for Public Broadcasting, Inc. grant	3,350,203				3,350,203
Education Improvement Act			670,394		670,394
Federal grants				1,281,679	1,281,679
Private grants and contracts	59,521			597,772	657,293
Charges for services	138,670				138,670
Rental fees	785,106				785,106
Royalties	103,328				103,328
Interest/investment income					
Capital improvement bond revenue				1,863,215	1,863,215
Capital Reserve Fund appropriations				43,043	43,043
Miscellaneous	143,798			180,240	324,038
<b>TOTAL REVENUES</b>	<b>30,110,533</b>	<b>18,500,000</b>	<b>670,394</b>	<b>3,965,949</b>	<b>53,246,876</b>
<b>EXPENDITURES:</b>					
Internal Administration	2,184,429			5,000	2,189,429
Public education:					
Early childhood	315,907			233,850	549,757
School services	359,166				359,166
General support and services	6,776,082		670,394	264,474	7,710,950
Higher education general support and services	2,009,094				2,009,094
Agency services:					
Local government and business services	517,845				517,845
General support and services	1,183,176			1,507	1,184,683
Community education general support and services	5,557,911			92,941	5,650,852
Public affairs general support and services	2,363,777				2,363,777
Cultural and performing arts general support and services	4,735,199				4,735,199
Partnership for distance learning	32,337				32,337
K-12 school technology initiative	910,091				910,091
Equipment and materials purchased for resale	104,630				104,630
Legal services	12,058				12,058
Bad debt expense	5,115				5,115
Debt service:					
Principal	5,723,200				5,723,200
Interest	233,449				233,449
Issuance costs	84,000				84,000
Equipment and permanent improvements purchased		6,784,265		4,278,878	11,063,143
<b>TOTAL EXPENDITURES</b>	<b>33,107,466</b>	<b>6,784,265</b>	<b>670,394</b>	<b>4,876,650</b>	<b>45,438,775</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,996,933)</b>	<b>11,715,735</b>	<b>0</b>	<b>(910,701)</b>	<b>7,808,101</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in				9,400	
Transfers out	(9,400)				
Refunding debt	4,752,645				4,752,645
Sale of capital assets	8,405				
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>4,751,650</b>	<b>0</b>	<b>0</b>	<b>9,400</b>	<b>4,761,050</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>1,754,717</b>	<b>11,715,735</b>	<b>0</b>	<b>(901,301)</b>	<b>12,569,151</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>7,903,391</b>	<b>-</b>	<b>-</b>	<b>1,662,163</b>	<b>9,565,554</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 9,658,108</b>	<b>\$ 11,715,735</b>	<b>\$ 0</b>	<b>\$ 760,862</b>	<b>\$ 22,134,705</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2003**

**RECONCILIATION TO THE STATEMENT OF ACTIVITIES:**

Revenues and other financing sources over (under) expenditures for the governmental funds	\$ 12,569,151
Amounts reported for governmental activities in the statement of activities are different because:	
Cost of capital assets are reported as expenditures in the governmental funds, but are recorded as capital asset additions in the statement of net assets	10,503,470
Depreciation of capital assets is reported as an expense in the statement of activities	(4,203,337)
Decrease in accrued interest payable is reported as a reduction of expense in statement of activities	23,458
Loan issuance costs are reported as expenditures in the governmental fund and are reported as assets in the statement of net assets	84,000
Proceeds from debt financing are reported as other financing sources in the governmental fund and are reported as an increase in liabilities in the statement of net assets	(4,752,645)
Repayments of long-term debt are reported as expenditures in the governmental funds, but the repayments reduce liabilities in the statement of net assets	
Note payable	5,702,617
Capital leases	20,584
Decrease in accrued compensated absences is reported as a reduction of expense in the statement of activities	170,759
Loss on disposals of capital assets is reported as an expense in the statement of activities, net of cash received	(53,914)
<b>INCREASE IN NET ASSETS</b>	<b>\$ 20,064,143</b>

**See accompanying Notes to Financial Statements.**

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the South Carolina Educational Television Commission (the Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The Commission's significant accounting principles are described below.

#### **Reporting Entity**

The Commission is responsible for the administration of the South Carolina Educational Television Network systems. The Commission is an agency of the State of South Carolina established by Section 59-7-10 of the Code of Laws of South Carolina.

The Governor appoints the members of the Commission with the advice and consent of the Senate. The Commission members are the governing body of the Commission. The funds and account groups of the Commission are included in the Comprehensive Annual Financial Report of the State of South Carolina, the primary government.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The Commission has determined it has no component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

The accompanying financial statements present the financial position and the results of operations of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Commission.



## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

#### **Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance. The Commission had the following governmental funds.

The Commission reports the following major funds:

**General Fund** - The general fund accounts for all activities except those required to be accounted for in another fund. Revenues include the annual state appropriation as approved by the General Assembly, Corporation for Public Broadcasting, Inc. (CPB) grant funds, program sales, royalties, charges for services, contributed support and cost reimbursements. The revenues are used for general ongoing governmental services such as administration, maintenance, program development and production, transmission and reception of programs, and debt service. Program sales revenues report amounts received from State agencies, the ETV Endowment and others for services related to and for support of programming, production and broadcasting of programs. The Commission reports as charges for services revenue income from the ETV Endowment primarily for reimbursement of administrative services and other costs and income from State agencies and other entities for services not related to production of programs and for certain equipment.

In addition, the general fund includes the receipts and disbursements of monies from other state agencies related to the dual employment of Commission employees.

**State Lottery Fund** - consist of State Lottery grants as required by Section 59-150-355 of the South Carolina Code of Laws which are used primarily for the acquisition of equipment or the construction of capital projects to assist the Commission in the digital conversion process. The fund balance account related to these capital projects is titled reserved for capital projects and equipment

**Educational Improvement Act (EIA) Fund** – generally records the expenditure of revenues and contributions that are restricted to specific programs or projects. Revenues and contributions are derived from grants that are restricted for certain purposes. The fund recognizes revenue when the expenditure is incurred.

**Other Non-Major Governmental Funds** – Other non-major funds account for federal grants, private grants and contracts, funds received from the State from capital improvement bonds and capital reserve fund appropriations and expenditures from these resources.

#### **Government-wide and Fund Financial Statements**

The financial statements of the Commission are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

#### **Measurement Focus, Basis of accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

#### **Revenues – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Commission, available means expected to be received within one year of the fiscal year-end.

Nonexchange transactions, in which the Commission receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Commission must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Commission on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

#### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Commission follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements costing \$100,000 or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Commission capitalized movable personal property with a unit value in excess of \$5,000 and a useful

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

life in excess of one year and buildings and improvements and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

#### **Budget Policy**

The Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

A budget versus actual comparison is not presented as required supplementary information for any of the funds since not all revenues or expenditures are budgeted in any of the funds.

#### **Cash and Cash Equivalents**

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Commission, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 3.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Commission records and reports its deposits in the general deposit accounts at cost and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Commission's special deposit accounts is posted to the Commission's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Commission's accumulated daily interest receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less at the time of acquisition.

#### **Accounts Receivable**

Accounts receivable consists primarily of amounts due for sales, services and rentals. The Commission has established an allowance for doubtful accounts based on historical data and an analysis of the aged receivables at year end. The balance on the financial statements is shown net of the allowance.

#### **Cost Incurred for Programs Not Telecast**

Cost incurred for programs not telecast is accounted for using the consumption method whereby these costs are recorded as expenditures when the program is telecast and the cost incurred for programs not telecast at year end is reflected at cost in the asset section of the financial statements. For financial statement purposes, costs incurred for programs not telecast as of each year end are offset by a reserved fund balance account because the asset does not represent resources available for expenditures.

#### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2003. The Commission calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability in the statement of net assets.

#### **Net Assets / Fund Balances**

The Commission records reservations for portions of its fund equity which are legally segregated for specific future uses or which do not represent available expendable resources and therefore, are not available for expenditures in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity, which is available for appropriations, in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

Net assets are categorized as follows:

Invested in capital assets, net of related debt: This represents the Fund's total investment in capital assets, net of outstanding debt obligations, if any, related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted: Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted: Consists of the remainder of the Commission's assets in excess of liabilities excluding those net assets reported in other categories.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Contributed Support**

Contributed support consisting of expenditures incurred on behalf of the entity is recorded as revenues and expenditures in the general fund as services are provided. The principal portion of contributed support is provided by the ETV Endowment of South Carolina. Support by these entities includes payments on behalf of the Commission, primarily for program production or purchase, such as advertising, project development, general and administrative expenditures and fund raising expenditures which are reported primarily in cultural and performing arts general support and service expenditures by the Commission at a value equal to the actual cost to the contributing entity.

#### **Deferred Revenue**

Deferred revenue consist primarily of certain EIA and private grant contract revenue received before services required by the grantor or donor have been rendered.

#### **CPB Grants**

The Commission annually receives a grant from the Corporation for Public Broadcasting, Inc. (CPB). The CPB is a non-federal, non-governmental, not-for-profit organization that receives grants from the federal government, the private sector, and other sources. The CPB then allocates grants to public television stations nationwide for community service and these funds are unrestricted for broadcasting operations.

# SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

### NOTE 2. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriations Act for the period ended June 30, 2003 as originally enacted by the General Assembly to State appropriation revenue as reported in the general fund.

Original appropriation	\$ 17,619,844
Supplemental Appropriations (Proviso 63C.9)	47,684
Supplemental Appropriations (Proviso 72.109)	2,535,957
State budget mid-year reductions	<u>(1,511,004)</u>
Adjusted Appropriation, Budgetary Basis	18,692,481
Accrual adjustments:	
Funding for personal services and employer contributions	<u>(161,614)</u>
Accrual basis State appropriation revenue	<u><u>\$ 18,530,867</u></u>

The total amount of 2003 State appropriated funds authorized to be carried forward to fiscal year 2004 was \$5,273,052. This amount was reserved for and carried forward pursuant to Proviso 72.52 of the 2002-2003 Appropriations Act for the K-12 School Technology Initiative.

### NOTE 3. DEPOSITS:

All deposits of the Commission are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits within the footnotes to the financial statement amounts:

<u>Financial Statements</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$26,375,838	Petty Cash	\$ 200
		Deposits Held by State Treasurer	<u>26,375,638</u>
Totals	<u>\$26,375,838</u>	Totals	<u>\$26,375,838</u>

#### Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

# SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

### NOTE 4. CAPITAL ASSETS:

The following schedule summarizes capital assets activity for the Commission for the fiscal year 2003:

	Beginning Balances June 30, 2002	Increases	Decreases	Ending Balances June 30, 2003
Capital assets not being depreciated:				
Land and improvements	\$ 946,579	\$ -	\$ -	\$ 946,579
Construction in progress	-	9,400		9,400
Total capital assets not being depreciated	946,579	9,400	-	955,979
Other capital assets:				
Buildings and improvements	26,495,326	221,833		26,717,159
Equipment and furniture	48,931,954	10,251,957	(671,512)	58,512,399
Vehicles	1,589,729	20,280	(88,181)	1,521,828
Total other capital assets	77,017,009	10,494,070	(759,693)	86,751,386
Less accumulated depreciation for:				
Buildings and improvements	6,011,412	527,236		6,538,648
Equipment and furniture	32,253,147	3,529,621	(542,670)	35,240,098
Vehicles	706,872	146,480	(72,382)	780,970
Total accumulated depreciation	38,971,431	4,203,337	(615,052)	42,559,716
Other capital assets, net	38,045,578	6,290,733	(144,641)	44,191,670
Total capital assets, net	\$ 38,992,157	\$ 6,300,133	\$ (144,641)	\$ 45,147,649

Construction in progress consist of cost incurred on a backup generator. The total cost of the project is approximately \$467,000.

### NOTE 5. DUE FROM THE GENERAL FUND OF THE STATE:

The amount receivable represents funds due from the State General Fund for personal services and employer contributions of Commission salaries and the cost of related employee benefits funded by State appropriations accrued at June 30 but paid in July. Personal services and employer contributions applicable to funding sources other than State appropriations are accrued as expenditures at year end but are not included in the receivable from the General Fund of the State.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

**NOTE 6. LEASES:**

**Capital Leases**

The saddle stitch system obligation of \$111,310 from Bank of America as executed on June 29, 2001 required annual installments of \$24,948 on July 15<sup>th</sup> of each year, beginning on July 15, 2002 with a final installment due on July 15, 2006. The Commission transferred the saddle stitch system to the University of South Carolina in June, 2003. The University assumed the balance of \$90,726 due under the capital lease.

Total interest expense on capital leases was \$182 for the fiscal year.

**Operating Leases**

The Commission conducts part of its operations from leased facilities which include towers and office space. All leases are with external policies. These leases expire beginning with fiscal year 2007 and continue through fiscal year 2008. The Commission has the option to renew the tower leases upon the expiration of the lease term under conditions agreeable to both parties which primarily is an increase in the lease payment based on the CPI index. All leases with terms of more than twelve months are cancelable without penalty to the Commission should the General Assembly not provide funding for these leases. The Commission also leases equipment on a month to month basis. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Commission is responsible for maintenance on most leased property. Rental expenditures under all operating leases totaled approximately \$408,000 for the year ended June 30, 2003.

At June 30, 2003, the Commission's obligations under noncancelable operating leases having remaining terms in excess of one year are as follows:

Fiscal year ending June 30,

2004	\$ 240,170
2005	241,251
2006	106,790
2007	30,387
2008	<u>31,603</u>
Total	<u><u>\$ 650,201</u></u>



# SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

### NOTE 7. NOTE PAYABLE:

On May 25, 1999, the Commission borrowed \$7,400,000 under a note payable from a financial institution. Annual payments of \$1,263,058 including interest at 4.66% are due each May 28<sup>th</sup> with final maturity on May 28, 2006.

The Commission borrowed \$4,752,645 under an agreement with a local financial institution during the year and paid off the principal balance of \$4,514,560 on the note dated May 25, 1999 along with interest on June 26, 2003. The new note required a principal payment of \$1,188,057 on June 30, 2003 and annual payments of principal and interest totaling \$784,789 commencing on June 30, 2004 through June 30, 2008. The interest rate on this note is 3.29% per annum. The Commission incurred \$84,000 in loan issuance cost in connection with this loan which will be amortized over the life of the loan. The note is secured by various equipment with a book value of approximately \$6,380,000. The new borrowing was undertaken to reduce annual debt service payments over the next five years and to reduce the interest rate which resulted in increasing the term of the note. Total debt service payments will be approximately \$60,000 higher. The refunding resulted in an economic gain of approximately \$79,000.

Total interest expense on the note payable during the fiscal year was \$233,449.

Details of annual debt service, including interest, for each year are as follows:

Year ending June 30,	Principal	Interest	Total
2004	\$ 667,532	\$ 117,257	\$ 784,789
2005	689,490	95,299	784,789
2006	712,171	72,618	784,789
2007	735,598	49,191	784,789
2008	759,797	24,992	784,789
Total debt service	<u>\$ 3,564,588</u>	<u>\$ 359,357</u>	<u>\$ 3,923,945</u>

### NOTE 8. LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30 2003 was as follows:

	Balances, July 1, 2002	Additions	Reductions	Balances, June 30, 2003	Due Within One Year
Note payable	\$ 4,514,560	\$ 4,752,645	\$ 5,702,617	\$ 3,564,588	\$ 667,532
Obligation under capital lease	111,310		111,310	-	
Accrued compensated absences and related benefits	1,763,138	1,100,216	1,270,975	1,592,379	1,119,096
	<u>\$ 6,389,008</u>	<u>\$ 5,852,861</u>	<u>\$ 7,084,902</u>	<u>\$ 5,156,967</u>	<u>\$ 1,786,628</u>

# SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

### NOTE 9. STATE CAPITAL IMPROVEMENT BOND PROCEEDS RECEIVABLE:

In prior years, the State authorized funds for improvements and expansion of facilities and for debt service using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. The Commission records the proceeds as revenue in the capital projects fund when the expenses/expenditures are incurred. The Commission is not obligated to repay state capital improvement bonds. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects.

A summary of the balances from these authorizations as of June 30, 2003 follows:

Act	Total Authorized	Balance Authorized June 30, 2003
518 of 1980	\$ 2,621,641	\$ 2,782
28 of 1999	\$ 10,000,000	\$ 335,108

### NOTE 10. DUE FROM CAPITAL RESERVE FUND:

In fiscal year 1997, the Commission received a transfer of \$3,500,000 of Capital Reserve Funds from the State Budget and Control Board (B&CB) for Instructional Television Fixed Service (ITFS) Expansion. An additional \$3,500,000 was received in fiscal year 1999 for the same purpose as the 1997 appropriation. In fiscal year 2001, the Commission received \$250,000 for the Charleston Regional Station expansion pursuant to fiscal year 2000 Joint Resolution R467,H4776. The unspent portion at June 30, 2003 from each of the appropriations described above is restricted to expenditure for the purpose for which the funds were originally appropriated. The Commission can request these funds as capital expenditures are made.

A summary of the balances for these funds as of June 30, 2003 follows:

Total <u>Appropriation</u>	Balance of Appropriation <u>to Be Drawn</u>
\$ 3,500,000	\$ 20,742
3,500,000	375,844
<u>250,000</u>	<u>237,808</u>
\$ 7,250,000	\$ 634,394

# SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

### NOTE 11. RELATED PARTY:

A major portion of the funding of the Commission is provided by the ETV Endowment of South Carolina, Inc. (the Endowment) and South Carolina Educational Communications, Inc.(Communications), a separately chartered eleemosynary corporations governed by an independent boards of trustees over whom the Commission exercises no control. The Endowment/Communications provides support services for the Commission through the purchasing and underwriting of various programming. During the year ended June 30, 2003, the Endowment/Communications disbursed \$4,067,441 on behalf of the Commission for programs, development, advertising and other costs. The disbursements have been recorded as revenue under contributed support and expenditures under Cultural and Performing Arts General Support and Services, Public Affairs General Support and Services and Community Education General Support and Services in the General Fund. In addition, the Commission received approximately \$1,300,000 from the Endowment/Communications which is reported primarily as program sales.

Summarized financial information for the Endowment/Communications as of and for the year ended June 30, 2003 is as follows:

	<u>Endowment</u>	<u>Communications</u>
As of June 30, 2003		
Total assets	<u>\$ 12,545,228</u>	<u>\$ 901,807</u>
Total liabilities	\$ 1,062,543	\$ 278,357
Total net assets	<u>11,482,685</u>	<u>623,450</u>
Total liabilities and net assets	<u>\$12,545,228</u>	<u>\$ 901,807</u>
For year ended June 30, 2003		
Revenues	\$ 9,107,504	\$ 3,839,466
Expenses	<u>8,450,682</u>	<u>3,646,731</u>
Change in net assets	<u>\$ (656,822)</u>	<u>\$ 192,735</u>

In addition, as discussed in Note 6, the University of South Carolina, a related party, assumed a capital lease obligation of the Commission in the amount of \$90,726.

### NOTE 12. TRANSACTIONS WITH OTHER STATE AGENCIES:

The Commission has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; debt assistance services, check preparation and banking from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, grant services, audit services, personnel management, assistance in the preparation of the State Budget, property management and record keeping, review and approval of certain budget amendments and other centralized functions.

The Commission had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for worker's compensation and

# SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

unemployment insurance, respectively. The fiscal year expenditures applicable to these transactions are not readily available.

The Commission provided no services free of charge to other State agencies during the fiscal year. Program sales revenues include fees charged for services provided to the following State agencies which include programming, production, and broadcasting:

Name of Agency

Department of Health and Human Services	\$ 242,043
Department of Education	209,296
Public Service Commission	200,532
Governor's Office	139,990
Department of Public Safety	131,921
Adjutant General	111,769
Department of Health and Environmental Control	78,485
University of South Carolina	75,933
Clemson University	72,953
Department of Transportation	55,449
Department of Archives and History	49,489
Winthrop University	34,987
Medical University of South Carolina	32,474
Commission for Higher Education	32,442
Budget and Control Board	26,225
Wildlife Commission	19,200
South Carolina State University	13,680
Department of Mental Health	12,366
Other State agencies under \$10,000 each	36,632
Total	<u>\$ 1,575,866</u>

During the year, the Commission purchased services from various State agencies. These expenditures are reported primarily under the classification of Internal Administration primarily for taxes, insurance telecommunications and other contracted services and were paid to the following State agencies:

Name of Agency

State Budget and Control Board	\$ 2,433,818
State Accident Fund	108,077
University of South Carolina	50,078
Department of Revenue and Taxation	39,546
Department of Education	18,587
Department of Correction	16,653
Comptroller General	11,669
Other state agencies under \$10,000	9,984
Total	<u>\$ 2,688,412</u>

### NOTE 13. PENSION PLAN AND OTHER EMPLOYEE BENEFITS:

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The majority of employees of the Commission are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all state employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. (This requirement does not apply if the disability is a result of a job related injury.) A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.70 percent which included a 3.15 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2003, 2002, and 2001, were approximately \$836,000, \$894,000, and \$874,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$16,600 in the current fiscal year at the rate of .15 percent of compensation. In addition to the \$836,000, the Commission paid approximately \$4,900 for the employee's share of contributions while the employee was on furlough.

The amounts paid by the Commission for pension and group-life benefits are included as personal services expenses.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Commission's liability under the retirement plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Commission's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the fund recognizes no contingent liability for unfunded costs associated with participation in the plans. At retirement, employees participating in the SCRS may receive additional service credit (at a rate of 20 days equal to one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.15 percent from the employer in fiscal year 2003.

Certain of the Commission's employees have elected to be covered under optional retirement plans. For the fiscal year, total contributions requirements to the ORP were approximately \$3,800 (excluding the surcharge) from the Commission as employer and approximately \$3,100 from its employees as plan members. 5.7 percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board. Also, the Commission paid employer group life insurance contributions of approximately \$75 in the current fiscal year at the rate of .15 percent of compensation. The balance was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

#### **NOTE 14. POST RETIREMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Commission are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally, those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Commission for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the Fund for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 25,000 State retirees met these eligibility requirements as of June 30, 2003.

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The Commission recorded employer contribution expenses applicable to these insurance benefits for active employees in the amount of approximately \$1,071,000 for the year ended June 30, 2003. As discussed in Note 13, the Fund paid approximately \$350,000 applicable to the 3.15 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to Commission retirees is not available. By State law, the Fund has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements. In addition, the South Carolina General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from the System's earnings; however, a portion of the required amount is appropriated from the South Carolina General Fund annually.

#### **NOTE 15. DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Commission have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee.

The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

#### **NOTE 16. RETIREMENT INCENTIVE**

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The Commission recorded expenditures of approximately \$73,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2003. These expenditures are reported in the applicable program categories in which the payroll costs for the respective employees are recorded.

In accordance with Proviso 72.68 of the 2002-2003 Appropriations Act, the Commission offered a voluntary separation program effective April 22, 2003. Eligible employees received one week's salary for each year of service for up to four weeks and the Commission will provide health and dental benefits for up to six months. Total payments under this program for the year were approximately \$73,000.

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

#### **NOTE 17. RISK MANAGEMENT:**

The Commission is exposed to various risks of loss and maintains State or commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The Commission pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

The Commission and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts; and
5. Natural disasters.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability. The IRF's rates are determined actuarially.

The Commission obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The limit is \$100,000 per incident. The Commission self-insures above this amount because it feels the likelihood of loss is remote. No payments for uninsured losses were made during the fiscal year ended June 30, 2003.

The Commission obtains broadcaster liability insurance through a commercial carrier covering media liability. The policy has a limit of \$1,000,000 with a \$5,000 deductible.



## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The Commission has recorded insurance premium expenses in the applicable program expenditure category. These expenses do not include estimated claim losses and estimable premium adjustments.

The Commission has not reported an estimated claims loss expenditure, and the related liability at June 30, 2003, based on the requirements of GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which states that a liability for claims must be reported if information prior to issuance of the financial statements indicates that it is probable and estimable for accrual that an asset has been impaired or liability has been incurred on or before June 30, 2003 and the amount of the loss is reasonably estimable have not been satisfied.

In the fiscal year ended June 30, 2003, the Commission was unable to obtain business interruption insurance at a cost it considered economically justifiable. In addition, the Commission's management believes for risk of loss the occurrence of which it considers a remote likelihood, it is more economical to manage such risks internally. The Commission does not derive any revenue from advertising; therefore, no loss of revenue would occur if transmission capabilities were impaired.

The Commission is unable to estimate lost revenues, the costs of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. During the fiscal year ended June 30, 2003, the Commission did not experience any losses as a result of business interruption.

In management's opinion, claim losses in excess of insurance coverage, if any, is unlikely and if it occurred, would not be significant. Therefore, no loss accrual has been made in these financial statements. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be accrued at year-end.

#### **NOTE 18. COMMITMENTS:**

As of June 30, 2003, the Commission had approximately \$3,183,000 in outstanding commitments primarily for purchases of supplies and equipment. The funding sources for these commitments consist primarily of capital improvement bond proceeds, State Capital Reserve Fund appropriations, EIA funds, State Lottery grants, and other operating sources.

#### **NOTE 19. CONTINGENCIES:**

During fiscal year 2001, the Corporation for Public Broadcasting (CPB) performed an audit of the Commission's Non-Federal Financial Support (NFFS) for the fiscal years 1998, 1999 and 2000. The CPB bases its annual grant to the Commission on the Commission's NFFS.

According to the CPB's Inspector General's audit findings, the Commission had overstated its NFFS which resulted in higher grant awards from the CPB. The Commission included in-kind local productions in calculating the NFFS. In 1996, the CPB simplified its grants process and no longer accepted donated local or national programming for NFFS purposes.

## **SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

The audit findings went further and recalculated the grant awards received by the Commission in fiscal years 2000 and 2001 which are based on the Commission's NFFS for fiscal years 1998 and 1999, respectively. The CPB has requested a reimbursement for the difference of \$775,841 and the Commission recorded a liability for the \$775,841 in fiscal year 2001.

The Commission, in a letter dated in October of 2001, asked that the amount due be relieved. Additional correspondence has been sent to the CPB and received. CPB has not changed its initial determination.

During fiscal year 2000, the Commission sold its Millwood Avenue property. In fiscal year 2001, the Commission was served a complaint by the purchaser of that property regarding an asbestos problem. The case is going through the discovery process for both sides and the Commission is vigorously contesting the case. As of the date of the audit report, the outcome of this case cannot be determined.

#### **NOTE 20 PRIOR PERIOD ADJUSTMENT:**

The Commission received \$1,500,000 in the prior fiscal year to be used for digital conversion pursuant to Proviso 72.109 of the 2001-2002 Appropriations Act. All of the funds were unspent as of June 30, 2002 and reported as unrestricted net assets on the statement of net assets. The \$1,500,000 should have been reported as restricted net assets.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures To Subrecipients</u>
<i>Direct Programs:</i>			
<b>U.S. Department of Commerce</b>			
Public Telecommunication Facilities Planning and Construction	11.550	\$ 1,281,678	\$ -
Total Direct Programs		<u>\$ 1,281,678</u>	<u>\$ -</u>

NOTE: The Commission used the accrual basis method of accounting in preparing the above schedule. This is the same basis of accounting used by the Commission in the preparation of its annual financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

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

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the financial statements of the South Carolina Educational Television Commission (the Commission) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-1 and 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Commission as detailed on page 39.

This report is intended solely for the information and use of the Governor of South Carolina and Commission members and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Roger A. Lalan, PA*

December 24, 2003

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina

**Compliance**

We audited the compliance of the South Carolina Educational Television Commission (the Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

**Internal Control Over Compliance**

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governor of the State of South Carolina, Commission members and management of the Commission, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers & Lalan, PA*

December 24, 2003

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

1. Type of auditor's report issued: Unqualified Opinion
2. Internal control over financial reporting:
- Material weaknesses identified:       x       yes            no
- Reportable conditions identified not considered to be material weaknesses?            yes       x       no
3. Non-compliance material to the Financial Statements noted?            yes       x       no

**Federal Awards**

4. Internal control over major programs:
- Material weaknesses identified:            yes       x       no
- Reportable conditions identified not considered to be material weaknesses?            yes       x       no
5. Type of auditor's report issued on compliance for major programs: Unqualified Opinion
6. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?            yes       x       no
7. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
11.550	Public Telecommunication Facilities Planning and Construction

8. Dollar threshold used to be distinguished between Type A and Type B Programs: \$ 300,000
9. Auditee qualified as low-risk auditee?            yes       x       no

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**03-1 CAPITAL ASSETS CAPITALIZED IN ERROR**

Condition: The Commission capitalized equipment on one invoice that totaled \$5,856. The equipment did not meet the Commission's capitalization policy of \$5,000 since the \$5,856 was actually for 3 individual pieces of equipment costing \$1,952 each. Also, the Commission included in capital assets and accounts payable equipment costing \$36,830 that was not invoiced or received until July 28, 2003.



Cause: Failure to adequately review the invoices to ensure that all criteria were met before the item was capitalized.

Effect: Overstatement of capital assets and accounts payable.

Criteria: State requirements mandate that an individual piece of equipment cost \$5,000 or more before it is capitalized. Generally accepted accounting principles require that goods or services be received before they are recorded as assets.

Recommendation: We recommend that the Commission set up procedures to ensure that only items that have been received and meet the capitalization criteria are recorded as capital assets.

## 03-2 ERRORS IN COST INCURRED FOR PROGRAMS NOT TELECAST REPORTS

Condition: The report provided to us by the Commission initially listed cost of approximately \$313,000 for programs not telecast as of June 30, 2003. The Commission determined that the report was incorrect when questioned why the amount had increased over the prior year. A second report given to us was also not correct.

Cause: Failure to adequately review the reports after preparation to ensure accuracy

Effect: Overstatement of assets and understatement of expenditures/expenses.

Criteria: Good internal controls require that reports be reviewed for accuracy.

Recommendation: We recommend that the Commission ensure that all reports created to support financial statement amounts are accurate.

### **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510(a) of OMB Circular A-133.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION  
MANAGEMENT LETTER COMMENTS**

**FOR THE YEAR ENDED JUNE 30, 2003**

**OPERATING LEASE DEFICIENCIES**

The operating leases closing package prepared by the Commission and submitted to the Comptroller General contained a cancelable lease. The closing package should only contain leases that are non-cancelable with a remaining term in excess of one year. The prior year's management letter cited that two non-cancelable leases were omitted from last year's closing package.

We recommend that additional care should be taken to ensure that the information contained in the closing package is accurate.

**CAPITAL ASSETS**

Our audit of capital assets disclosed the following:

1. Some equipment that had been cannibalized, is obsolete, or is not being used and had not been removed from the detailed equipment listing.
2. The Commission included the payment of a \$9,400 performance bond as equipment and recorded depreciation on it instead of recording it as construction in progress.
3. The Commission could not locate one piece of equipment out of ten items selected for observation.
4. The tag number on one item observed did not agree with the tag number per the detailed equipment listing.

A finding regarding fixed assets not being removed from the detail listing was also cited in the prior year's management letter.

We recommend that the Commission ensure that all cannibalized or disposed of equipment is removed from the detail fixed asset listing in a timely manner. Also, care should be taken to ensure that all items are properly classified and that records are maintained to support the location and tag numbers of the various capital assets.

**COMPENSATED LEAVE REPORTS**

Our testing of the compensated leave report showing the year-end balances disclosed the following:

1. One employee annual leave report showed that that one employee was charged with two days of leave without pay on the same day.
2. Leave request forms for two employee were found in another employee's file.
3. An employee that took leave on June 23 did not have the time posted until after June 30 resulting in an overstatement of the June 30 leave balance.

Our testing of a special report prepared to show the amount of leave actually used during the year disclosed the following:

1. One employee was underpaid \$300 upon termination.
2. The amount of annual leave used for two of the ten employees did not agree with the actual amount used per documentation in the employee's files.

A similar finding was cited in last year's management letter.

We recommend that additional care be taken to ensure that all data is entered correctly and in a timely manner. Additional care should also be taken to ensure that all documents are filed in the correct file.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION**

**STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

During our current audit, we reviewed the status of corrective action taken on the findings we reported in our report on the financial statements of the Commission dated December 13, 2002, resulting from the audit of the financial statements for the year ended June 30, 2002. Similar findings to the three findings cited last year are repeated in this year's report.

# **CORRECTIVE ACTION PLAN**

## **APPENDIX A**



## **CORRECTIVE ACTION PLAN**

January 23, 2004

Thomas L. Wagner Jr., CPA  
State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Wagner:

The South Carolina Educational Television Commission respectfully submits the following Corrective Action Plan for the year ended June 30, 2003.

This plan outlines actions taken, or to be taken, to address “material weaknesses” contained in the audit report prepared by Rogers and Laban, PA, CPA’s dated December 23, 2003. Each audit recommendation is repeated prior to our response and numbered as in the audit report.

### **FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

#### **03-1 Capital Assets Capitalized in Error**

##### **Recommendation:**

We recommend that the Commission set up procedures to ensure that only items that have been received and meet the capitalization criteria are recorded as capital assets.

##### **SC ETV Corrective Action:**

The Commission concurs that only items meeting the capitalization criteria and received should be included as capital assets. Currently all vouchers, over \$1,000, processed during the first two fiscal months are reviewed for possible accounts payable. In the future, additional care will be taken when preparing the accounts payable and capital assets closing packages.

## **03-2 Errors in Cost Incurred for Programs not Telecast Reports**

### **Recommendation:**

We recommend that the Commission ensure that all reports created to support financial statement amounts are accurate.

### **SC ETV Corrective Action:**

The Commission concurs that all reports created for the audit should be correct. Our Accounting, Production and Computer Services departments will be reviewing the way this report is electronically compiled and will ensure that this report is accurate for future audits.

## **OTHER MANAGEMENT LETTER COMMENTS**

### **Operating Lease Deficiencies**

#### **Recommendation:**

We recommend that additional care should be taken to ensure that the information contained in the closing package is accurate.

#### **SC ETV Corrective Action:**

The Commission concurs with this recommendation. Findings from the previous years audit found where operating leases were not included because they were treated as contingent rentals. The finding for the current year related to the lease being cancelable. In the future, the Commission's operating leases will be examined more carefully to determine if they are considered cancelable or non-cancelable.

### **Capital Assets**

#### **Recommendation:**

We recommend that the Commission ensure that all cannibalized or disposed of equipment is removed from the detail fixed asset listing in a timely manner. Also, care should be taken to ensure that all items are properly classified and that records are maintained to support the location and tag numbers of the various capital assets.

#### **SC ETV Corrective Action:**

One asset was being stored in an area normally reserved for items that have been taken out of service and cannibalized for spare parts. The asset had not yet been cannibalized and no paperwork had been submitted to remove the said item from the capital assets listing. In the future, only equipment that is to be removed from the capital assets listing will be stored in this area. Agency staff will be reminded of the importance of submitting the proper documentation to the Inventory specialist so that assets can be removed in a timely manner.

The \$9,400 performance bond was recorded under the equipment category because it was related to design services for an emergency back-up generator being installed at the Commission's Telecommunications building. Accounting staff will ensure that capital assets are categorized and reported correctly in the future.

One capital asset could not be located during the audit. The asset had been inventoried during the fiscal year. Since, the asset has not been located the Commission is proceeding with filing a police report and having it removed from our capital asset listing.

The tag number on one asset did not agree with the tag number on the inventory listing, but the serial numbers were in agreement. Capital asset custodians will be advised of the importance of placing the correct property tags on the corresponding assets.

## **Compensated Leave Reports**

### Recommendation:

We recommend that additional care be taken to ensure that all data is entered correctly and in a timely manner. Additional care should also be taken to ensure that all documents are filed in the correct file.

### SC ETV Corrective Action:

The Commission concurs with this recommendation and will implement procedures to ensure that data is entered correctly and in a timely manner and to ensure that all documents are filed correctly.

If additional information is needed, please contact me at 737-3318 or Brad Livingston at 737-3223.

Sincerely,

A handwritten signature in black ink that reads "David L. Crouch". The signature is written in a cursive, flowing style.

David L. Crouch  
Sr. Vice-President, Administration