

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

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 2005

State of South Carolina



Office of the State Auditor

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January 13, 2006

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 basic financial statements and the additional reports required by OMB Circular A-133 of the South Carolina Educational Television Commission for the fiscal year ended June 30, 2005, 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/cwc

**SOUTH CAROLINA
EDUCATIONAL TELEVISION COMMISSION**

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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, 2005, 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, 2005, 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, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management discovered errors in the classification of certain capital assets and revenues in the prior year as detailed in Note 19.

Management's Discussion and Analysis on pages 3 through 8 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Rogers + Lalan, PA

December 14, 2005

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, 2005 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, Capital Projects Fund, State Lottery 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 the prior fiscal year 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 \$37.4 million at fiscal year ending June 30, 2005 (See Table 1 below for a summary of net assets for fiscal years 2004-2005 and 2003-2004). Of this amount, \$3.6 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				
	2005	2004	Increase / (Decrease)	Percent Change
ASSETS				
Current Assets	\$ 14,643,412	\$ 21,694,619	\$ (7,051,207)	(32.50%)
Capital Assets, net of accumulated depreciation	30,464,207	47,039,366	(16,575,159)	(35.24%)
Prepaid Expenses, net of current portion	513,239	558,833	(45,594)	(8.16%)
Loan Issuance Costs	50,400	67,200	(16,800)	(25.00%)
Total Assets	<u>\$ 45,671,258</u>	<u>\$ 69,360,018</u>	<u>\$ (23,688,760)</u>	(34.15%)
LIABILITIES				
Current Liabilities	\$ 6,148,051	\$ 7,161,473	\$ (1,013,422)	(14.15%)
Noncurrent Liabilities	2,131,937	2,710,694	(578,757)	(21.35%)
Total Liabilities	8,279,988	9,872,167	(1,592,179)	(16.13%)
NET ASSETS				
Capital Assets, net of related debt	28,256,642	44,142,310	(15,885,668)	(35.99%)
Restricted	5,524,175	12,018,584	(6,494,409)	(54.04%)
Unrestricted	3,610,453	3,326,957	283,496	8.52%
Total Net Assets	<u>37,391,270</u>	<u>59,487,851</u>	<u>(22,096,581)</u>	(37.14%)
Total Liabilities and Net Assets	<u>\$ 45,671,258</u>	<u>\$ 69,360,018</u>	<u>\$ (23,688,760)</u>	(34.15%)

Total assets of the Commission decreased by \$23.7 million. The Commission transferred title of its land and buildings to the State of South Carolina in accordance with Proviso 73.18 of the 2004-05 Appropriation Act. This transfer resulted in a \$19 million decrease in the Commission's capital assets. Cash and cash equivalents decreased \$7.7 million. The decrease in total assets and cash and cash equivalents can be attributed to a \$2.9 million decrease in the cash and cash equivalents in the State Lottery Fund, a \$3.8 million decrease in the General Fund and a \$1.0 million decrease in Capital Projects and Other Governmental Funds. The commission incurred prepaid expenses during the fiscal year for tower leases paid from Lottery Funds and the General Fund.

The decrease in current liabilities is attributable to a decrease in Accounts Payable. Deferred revenue decreased by \$284 thousand in Other Governmental Funds.

The decrease in non-current liabilities can be attributed to the payment of the Commission's note payable during the fiscal year. This decrease was offset by an increase in the non-current portion of Accrued compensated absences.

Net assets of the Commission decreased during the year by \$22.1 million. The decrease is driven largely by the \$19 million decrease in capital assets and the decrease in cash and cash equivalents. There was also a decrease in total liabilities during the fiscal year.

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, 2005.

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 U.S. Department of Commerce and State Capital Reserve funds. Total program revenue from all three sources received during the fiscal year totaled \$12.4 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 \$10.7 million (34%). Other operating costs totaled \$17.7 million (56%). Interest and depreciation costs totaled \$3.2 million (10%).

The statement of Activities reflects a decrease 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 2004-2005 and 2003-2004).

Table 2				
Statement of Activities	Governmental Activities			
		(as Restated)	Increase /	Percent
	2005	2004	(Decrease)	Change
REVENUES				
Program Revenues:				
Charges for Services	\$ 2,453,106	\$ 2,315,436	\$ 137,670	5.95%
Operating grants & contributions	8,593,318	7,595,016	998,302	13.14%
Capital grants & contributions	1,358,575	876,563	482,012	54.99%
General Revenues:				
State Appropriations	14,877,958	14,376,606	501,352	3.49%
Contributions	1,233,334	1,007,617	225,717	22.40%
Interest	384	-	384	100.00%
Transfers:				
Transfer of capital assets to State	(18,976,274)	-	(18,976,274)	100.00%
Total Revenues	9,540,401	26,171,238	(16,630,837)	(63.55%)
EXPENSES				
Educational Broadcasting:				
Personal Services	10,747,718	11,311,910	(564,192)	(4.99%)
Other operating costs	17,720,069	13,819,598	3,900,471	28.22%
Interest Expense	95,299	117,257	(21,958)	(18.73%)
Depreciation	3,073,896	3,530,488	(456,592)	(12.93%)
Total Expenses	31,636,982	28,779,253	2,857,729	9.93%
Decrease in Net Assets	(22,096,581)	(2,608,015)	(19,488,566)	747.26%
Net Assets - beginning of year	59,487,851	62,095,866	(2,608,015)	(4.20%)
Net Assets - end of year	\$ 37,391,270	\$ 59,487,851	\$ (22,096,581)	(37.14%)

Program revenues reflected an increase of \$1.6 million over the previous fiscal year. Revenues from charges for services (5.95%), operating grants and contributions (13.14%) and capital grants (54.9%) all increased from the previous fiscal year. The Capital grants increase can be attributed to two new federal grants received for the purchase of two new digital radio transmitters.

General revenues showed a slight increase from the previous fiscal year. The Commission received a supplemental appropriation for employee pay increases. The Commission also received a non-recurring supplemental appropriation related to Proviso 73.9.

Total expenses increased \$2.9 million. Other operating expenses increased by \$3.9 million. K-12 funds accounted for sixty percent of the increase. The Commission started a statewide video streaming project in public schools. This initiative included a \$1 million vendor payment for the first five years of the project. Personal services and interest expense showed slight decreases from the previous fiscal year.

The Commission's net assets decreased \$22.1 million from the previous fiscal year. The reduction in net assets can be attributed to the transfer of capital assets to the State and the increase in other operating expenses.

Capital Assets and Debt Administration

The Commission's Capital Assets net of depreciation were \$30.5 million at June 30, 2005. This investment in capital assets includes equipment, vehicles and construction in progress.

The Commission transferred title of its land and buildings and improvements to the State in accordance with Proviso 73.18 of the 2004-05 Appropriation Act. Table 3 summarizes capital assets at June 30, 2005 and June 30, 2004 (as restated).

The net decrease in the Commission's investment in capital assets for the current fiscal year was \$16.57 million. Actual expenditures to purchase or construct capital assets were \$5.5 million. Depreciation charges for the year totaled \$3.1 million.

The Commission currently has one note payable with an interest rate of 3.29%, original maturity date of June 30, 2008, which is secured by equipment held by the Commission. As of June 30, 2005 the total principal amount still owed was approximately \$2.2 million.

Table 3		
SC ETV Capital Assets		
	2005	(As Restated) 2004
Land	\$ -	\$ 946,579
Building & Improvements	-	24,413,564
Equipment & Furniture	69,569,231	65,820,613
Vehicles	1,481,560	1,473,229
Construction in Progress	1,471,654	125,819
Total Cost	72,522,445	92,779,804
Less: Accumulated Depreciation	42,058,238	45,740,438
Net Capital Assets	\$ 30,464,207	\$ 47,039,366

Economic Outlook

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. The Commission has been notified that its Community Service Grant from the Corporation for Public Broadcasting would be reduced beginning with the 2006 grant year. This reduction is the result of a previous CPB audit that affected the way the Commission calculates its grant amount. The total amount of the payback has been reflected as a liability on the financial statements.

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, 2005**

ASSETS	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 12,202,034
Accounts receivable, net of allowance for doubtful accounts of \$36,309	1,162,049
Intergovernmental receivables:	
General Fund of the State	743,910
State agencies	213,076
Federal government	198,137
Costs incurred for programs not telecast	27,820
Prepaid expenses	96,386
Total current assets	<u>14,643,412</u>
Non-current assets	
Capital assets, net of accumulated depreciation	30,464,207
Prepaid expenses, net of current portion	513,239
Loan issuance costs, net of accumulated amortization	50,400
Total non-current assets	<u>31,027,846</u>
Total assets	<u><u>\$ 45,671,258</u></u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 2,435,595
Accrued salaries and related benefits	986,901
Due to Corporation for Public Broadcasting	775,841
Deferred revenue	260,543
Current portion of note payable	712,171
Current portion of accrued compensated absences and related benefits	977,000
Total current liabilities	<u>6,148,051</u>
Noncurrent liabilities:	
Note payable, net of current portion	1,495,394
Accrued compensated absences and related benefits, net of current portion	636,543
Total noncurrent liabilities	<u>2,131,937</u>
Total liabilities	<u>8,279,988</u>
Net assets:	
Capital assets, net of related debt	28,256,642
Restricted	5,524,175
Unrestricted	3,610,453
Total net assets	<u>37,391,270</u>
Total liabilities and net assets	<u><u>\$ 45,671,258</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

	Governmental Activities
Expenses:	
Educational broadcasting:	
Personal services	\$ 10,747,718
Other operating costs	17,720,069
Interest expense	95,299
Depreciation and amortization	3,073,896
Total program expenses	31,636,982
Program revenues:	
Charges for services	2,453,106
Operating grants and contributions	8,593,318
Capital grants and contributions	1,358,575
Net program expenses	19,231,983
General revenues:	
State appropriations	14,877,958
Contributions	1,233,334
Interest	384
Transfers:	
Transfer of capital assets to State of South Carolina	(18,976,274)
Total general revenues and transfers	(2,864,598)
Increase (decrease) in net assets	(22,096,581)
Net assets - beginning of year	59,487,851
Net assets - end of year	\$ 37,391,270

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Capital Projects</u>	<u>State Lottery Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 8,086,238	\$ 439,661	\$ 3,625,000	\$ 51,135	\$ 12,202,034
Accounts receivable, net of allowance for doubtful accounts of \$36,309	965,666			196,383	1,162,049
Intergovernmental receivables:					
General Fund of the State	743,910				743,910
State agencies	213,076				213,076
Federal government		198,137			198,137
Due from other fund		78,520		1,000	79,520
Costs incurred for programs not telecast	27,820				27,820
Prepaid expenses	50,792		558,833		609,625
TOTAL ASSETS	<u>\$ 10,087,502</u>	<u>\$ 716,318</u>	<u>\$ 4,183,833</u>	<u>\$ 248,518</u>	<u>\$ 15,236,171</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Accounts payable	\$ 1,708,557	\$ 716,318		\$ 10,720	\$ 2,435,595
Accrued salaries and related benefits	986,901				986,901
Deferred revenue	22,745			237,798	260,543
Due to Corporation for Public Broadcasting	775,841				775,841
Due to other fund	1,000		78,520		79,520
TOTAL LIABILITIES	<u>\$ 3,495,044</u>	<u>\$ 716,318</u>	<u>\$ 78,520</u>	<u>\$ 248,518</u>	<u>\$ 4,538,400</u>
FUND EQUITY:					
Fund balances:					
Reserved for costs incurred for programs not telecast	27,820				27,820
Reserved for prepaid expenses	50,792		558,833		609,625
Reserved for capital projects and equipment		-	3,546,480		3,546,480
Reserved for K-12 School Technology Initiative	1,419,362				1,419,362
Unreserved:					
Undesignated	5,094,484				5,094,484
TOTAL FUND EQUITY	<u>6,592,458</u>	<u>-</u>	<u>4,105,313</u>	<u>-</u>	<u>10,697,771</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 10,087,502</u>	<u>\$ 716,318</u>	<u>\$ 4,183,833</u>	<u>\$ 248,518</u>	<u>\$ 15,236,171</u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2005**

Reconciliation to the statement of net assets:

Fund balances - governmental funds		\$ 10,697,771
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 funds:		
Note payable	\$ (2,207,565)	
Accrued compensated absences and related benefits	<u>(1,613,543)</u>	(3,821,108)
Assets are capitalized and depreciated or amortized in statement of net assets and are charged to expenditures in the governmental funds:		
Capital assets, net of accumulated depreciation	\$ 30,464,207	
Loan issuance costs, net of accumulated amortization	<u>50,400</u>	<u>30,514,607</u>
Net assets of governmental activities		<u><u>\$ 37,391,270</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	General	Capital Projects	State Lottery Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
State appropriations	\$ 14,877,958	\$ -	\$ -	\$ -	\$ 14,877,958
Lottery grants			1,400,000		1,400,000
Contributed support	2,745,434				2,745,434
Contributions	1,233,334				1,233,334
Program sales	46,261				46,261
Corporation for Public Broadcasting, Inc. grant	3,416,273				3,416,273
Education Improvement Act				285,115	285,115
Federal grants		848,308			848,308
Private grants and contracts				746,496	746,496
Charges for services	1,348,203				1,348,203
Rental fees	804,294				804,294
Royalties	104,462				104,462
Capital Reserve Fund appropriations		510,267			510,267
Miscellaneous	150,271				150,271
TOTAL REVENUES	24,726,490	1,358,575	1,400,000	1,031,611	28,516,676
EXPENDITURES:					
Internal Administration	3,271,582		15,278		3,286,860
Public education:					
Early childhood	12,988				12,988
School services	203,864		2,547		206,411
General support and services	5,454,136		20,373	791,869	6,266,378
Higher education general support and services	1,336,034		5,093		1,341,127
Agency services:					
Local government and business services	362,629		1,698		364,327
General support and services	1,535,905		6,791	38,671	1,581,367
Community education general support and services	5,151,440		20,373	195,474	5,367,287
Public affairs general support and services	2,025,644		8,489		2,034,133
Cultural and performing arts general support and services	3,543,326		4,244	5,597	3,553,167
K-12 School Technology Initiative	3,676,221				3,676,221
Equipment and materials purchased for resale	29,844				29,844
Debt service:					
Principal	689,491				689,491
Interest	95,299				95,299
Satellite lease payments			1,275,000		1,275,000
Equipment and permanent improvements		4,972,214			4,972,214
TOTAL EXPENDITURES	27,388,403	4,972,214	1,359,886	1,031,611	34,752,114
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,661,913)	(3,613,639)	40,114	0	(6,235,438)
OTHER FINANCING SOURCES (USES):					
Transfers in		3,078,520			3,078,520
Transfers out			(3,078,520)		(3,078,520)
Proceeds from sales of capital assets	21,740				21,740
TOTAL OTHER FINANCING SOURCES (USES)	21,740	3,078,520	(3,078,520)	-	21,740
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(2,640,173)	(535,119)	(3,038,406)	0	(6,213,698)
FUND BALANCES - BEGINNING OF YEAR	9,232,631	535,119	7,143,719	-	16,911,469
FUND BALANCES - END OF YEAR	\$ 6,592,458	\$ -	\$ 4,105,313	\$ -	\$ 10,697,771

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, 2005**

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Revenues and other financing sources over (under) expenditures for the governmental funds	\$ (6,213,698)
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	5,508,143
Depreciation of capital assets is reported as an expense in the statement of activities	(3,073,896)
Amortization of loan issuance costs is reported as an expense in the statement of activities	(16,800)
Repayments of long-term debt are reported as expenditures in the governmental funds, but the repayments are reported as a reduction of liabilities in the statement of net assets	689,491
Decrease in accrued compensated absences and related benefits is reported as a reduction of expense in the statement of activities	19,586
Losses on disposals of capital assets are reported as an expense in the statement of activities, net of cash received	(33,133)
Book value of capital assets transferred to the State of South Carolina is reported as a transfer in the statement of activities	<u>(18,976,274)</u>
INCREASE (DECREASE) IN NET ASSETS	<u><u>\$ (22,096,581)</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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, 2005

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

Capital Projects Fund - This fund accounts for federal grants, private grants and contracts, funds received from the State from capital improvement bonds and capital reserve fund appropriations and expenditures made from these resources. In addition, expenditures by this fund are funded by transfers from the State Lottery fund.

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.

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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 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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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.

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Accounts Receivable

Accounts receivable consists primarily of amounts due for sales, services and rentals. The Commission 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.

Costs Incurred for Programs Not Telecast

Costs incurred for programs not telecast is accounted for using the consumption method whereby these costs are recorded as expenditures when the programs are 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.

Prepaid Expenses

Prepaid expenses are accounted for using the consumption method. Prepaid expenses consist of payments made for the long term rental of an antenna. For financial statement purposes, prepaid expenses 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, 2005. 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, 2005

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 by the ETV Endowment of South Carolina is recorded as revenues and expenditures in the general fund as services are provided. 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 Revenues

Deferred revenues consist primarily of certain EIA and private grant contract revenues 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses/expenditures and affect disclosure of contingent assets and liabilities at the balance sheet date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriations Act for the year ended June 30, 2005 as originally enacted by the General Assembly to State appropriation revenue as reported in the general fund.

Original appropriation	\$ 12,733,539
Supplemental appropriation (Proviso 73.9)	1,026,992
Supplemental appropriation (Proviso 63.46)	280,376
Transfer from the Department of Education for K-12 Technology funds	793,000
 Adjusted appropriation, budgetary basis	 14,833,907
 Accrual adjustments:	
Funding for personal services and employer contributions	44,051
 Accrual basis State appropriation revenue	 \$ 14,877,958

The total amount of 2004 State appropriated funds brought forward to fiscal year 2005 was \$4,904,787. The carryover consisted of \$4,339,746 for the K-12 School Technology Initiative carried over pursuant to Proviso 72.48 of the 2003-04 Appropriation Act and \$565,041 of unspent fiscal year appropriations for general operating expenditures. Proviso 72.41 of the 2004-2005 Appropriation Act under which the \$565,041 was carried forward, allowed a carry forward of unspent fiscal year 2003-04 appropriations up to a maximum 10% of the Commission's original appropriation less any reduction excluding amounts carried forward under separate carry forward authority.

The total amount of 2005 State appropriated funds authorized to be carried forward to fiscal year 2006 was \$1,988,236. The carryover consisted of \$1,419,362 for the K-12 School Technology Initiative carried over pursuant to Proviso 72.37 of the 2004-05 Appropriation Act and \$568,874 of unspent fiscal year appropriations for general operating expenditures. Proviso 72.30 of the 2005-2006 Appropriation Act under which the \$568,874 was carried forward, allowed a carry forward of unspent fiscal year 2004-05 appropriations up to a maximum 10% of the Commission's original appropriation less any reduction excluding amounts carried forward under separate carry forward authority.

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	\$12,232,034	Petty Cash	\$ 200
		Deposits Held by State Treasurer	12,231,834
Totals	<u>\$12,232,034</u>	Totals	<u>\$12,232,034</u>

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

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 2005:

	Beginning Balances June 30, 2004 As Restated	Increases	Decreases	Ending Balances June 30, 2005
Capital assets not being depreciated:				
Land and improvements	\$ 946,579	\$ -	\$ (946,579)	\$ -
Construction in progress	125,819	1,345,835		1,471,654
Total capital assets not being depreciated	<u>1,072,398</u>	<u>1,345,835</u>	<u>(946,579)</u>	<u>1,471,654</u>
Other capital assets:				
Buildings and improvements	24,413,564		(24,413,564)	-
Equipment and furniture	65,820,613	4,049,255	(300,637)	69,569,231
Vehicles	1,473,229	113,053	(104,722)	1,481,560
Total other capital assets	<u>91,707,406</u>	<u>4,162,308</u>	<u>(24,818,923)</u>	<u>71,050,791</u>
Less accumulated depreciation for:				
Buildings and improvements	6,383,869		(6,383,869)	-
Equipment and furniture	38,533,519	2,923,849	(296,018)	41,161,350
Vehicles	823,050	150,047	(76,209)	896,888
Total accumulated depreciation	<u>45,740,438</u>	<u>3,073,896</u>	<u>(6,756,096)</u>	<u>42,058,238</u>
Other capital assets, net	<u>45,966,968</u>	<u>1,088,412</u>	<u>(18,062,827)</u>	<u>28,992,553</u>
Total capital assets, net	<u>\$ 47,039,366</u>	<u>\$ 2,434,247</u>	<u>\$ (19,009,406)</u>	<u>\$ 30,464,207</u>

Construction in progress consists of costs incurred on upgrades to various towers. The total costs of the projects are approximately \$3,157,000.

Pursuant to Proviso 73.18 of the 2004-05 Appropriations Act, the Commission transferred ownership of land and buildings to the State under the control of the Budget and Control Board effective July 1, 2004. All amounts shown as decreases for land and improvements and buildings and improvements are due to this proviso. The Commission continues to be responsible for all costs of maintaining the properties including the costs of insurance.

See note 19 for details of the restatement of the balances as of June 30, 2004.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

NOTE 6. OPERATING LEASES:

The Commission conducts part of its operations from leased facilities which include towers and office space. All leases are with external parties. 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. The Commission also entered into one mailroom equipment lease and two copier leases during fiscal year 2005, which will expire in 2008 and 2009 respectively. 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 payments under all operating leases totaled approximately \$396,000 for the year ended June 30, 2005.

At June 30, 2005, the Commission's obligations under noncancelable operating leases having remaining terms in excess of one year are as follows:

Fiscal year ending June 30,	
2006	\$ 253,276
2007	119,970
2008	94,300
2009	<u>17,905</u>
Total	<u>\$ 485,451</u>

NOTE 7. NOTE PAYABLE:

The Commission borrowed \$4,752,645 under an agreement with a local financial institution during 2003 and paid off the principal balance of a prior obligation. The note requires annual payments of principal and interest totaling \$784,789 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 that is being amortized over the life of the loan. Current year's amortization expense was \$16,800. The note is secured by various equipment with a book value of approximately \$3,812,000.

Total interest expense on the note payable for the fiscal year was \$95,299.

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

Year ending June 30,	Principal	Interest	Total
2006	\$ 712,171	\$ 72,618	\$ 784,789
2007	735,598	49,191	784,789
2008	<u>759,797</u>	<u>24,992</u>	<u>784,789</u>
Total debt service	<u>\$ 2,207,566</u>	<u>\$ 146,801</u>	<u>\$ 2,354,367</u>

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8. LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30 2005 was as follows:

	Balances, July 1, 2004	Additions	Reductions	Balances, June 30, 2005	Due Within One Year
Note payable	\$ 2,897,056	\$ -	\$ 689,491	\$ 2,207,565	\$ 712,171
Accrued compensated absences and related benefits	1,633,128	957,288	976,874	1,613,542	977,000
	<u>\$ 4,530,184</u>	<u>\$ 957,288</u>	<u>\$ 1,666,365</u>	<u>\$ 3,821,107</u>	<u>\$ 1,689,171</u>

NOTE 9. DUE FROM CAPITAL RESERVE FUND:

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, 2005 is \$87,808 and is restricted to expenditures for the purposes for which the funds were originally appropriated.

NOTE 10. 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), 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, 2005, the Endowment/Communications disbursed \$2,745,43 on behalf of the Commission for programs, development, advertising and other costs. The disbursements have been recorded as revenue under contributed support and expenditures for 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 \$1,233,000 from the Endowment/Communications which is reported primarily as contribution revenue. Also, the Commission recorded approximately \$166,000 in private grant revenues from the Endowment.

Summarized financial information for the Endowment/Communications as of and for the year ended June 30, 2005 is as follows:

	Endowment	Communications
As of June 30, 2005		
Total assets	<u>\$ 14,895,840</u>	<u>\$ 812,751</u>
Total liabilities	\$ 1,604,071	\$ 361,302
Total net assets	<u>13,291,769</u>	<u>451,449</u>
Total liabilities and net assets	<u>\$ 14,895,840</u>	<u>\$ 812,751</u>
For year ended June 30, 2005		
Revenues	\$ 7,439,707	\$ 2,775,121
Expenses	<u>6,524,055</u>	<u>2,725,306</u>
Changes in net assets	<u>\$ 915,652</u>	<u>\$ 49,815</u>

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 11. 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 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. Revenues of approximately \$811,000 were received from various State agencies.

During the year, the Commission purchased services with a total cost of approximately \$3,508,000 from various State agencies. These expenditures are reported primarily under the classification of Internal Administration primarily for taxes, insurance telecommunications and other contracted services.

NOTE 12. 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.

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

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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, 2004, the employer contribution rate became 10.80 percent which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2005, 2004, and 2003, were approximately \$701,000, \$703,000, and \$836,000, 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 \$14,000 in the current fiscal year at the rate of .15 percent of compensation.

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).

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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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 3.30 percent from the employer in fiscal year 2005.

For the fiscal year, total contributions requirements to the ORP were approximately \$5,400 (excluding the surcharge) from the Commission as employer and approximately \$4,300 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 \$100 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 13. 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 27,000 State retirees met these eligibility requirements as of June 30, 2005.

The Commission recorded employer contribution expenses applicable to these insurance benefits for active employees in the amount of approximately \$819,000 for the year ended June 30, 2005. As discussed in Note 13, the Fund paid approximately \$304,000 applicable to the 3.25 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.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 14. 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 15. 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 \$95,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2005. These expenditures are reported in the applicable program categories in which the payroll costs for the respective employees are recorded.

NOTE 16. 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).

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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, 2005.

The Commission obtains broadcaster liability insurance through a commercial carrier covering media liability. The policy has a limit of \$1,000,000 with a \$10,000 deductible.

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, 2005, 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, 2005 and the amount of the loss is reasonably estimable have not been satisfied.

In the fiscal year ended June 30, 2005, 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, 2005, 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

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 17. COMMITMENTS:

As of June 30, 2005, the Commission had approximately \$2,452,00 in outstanding commitments primarily for purchases of supplies and equipment. The funding sources for these commitments consist primarily of State Capital Reserve Fund appropriations, State Lottery grants, and other operating sources.

NOTE 18. 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.

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. This amount is being repaid equally over a five year period starting in fiscal year 2006 by the CPB reducing the annual grant sent to the Commission.

NOTE 19. PRIOR PERIOD RECLASSIFICATIONS

The Commission discovered that certain revenues received from the ETV Endowment were reported as charges for services or expenditure reductions instead of as contributions in the prior year. The total amount misclassified for the year ended June 30, 2004 was approximately \$953,000 of which \$206,000 was reported as expenditure reductions and \$747,000 was reported as revenue from charges for services. In addition, the Commission determined that approximately \$1,655,000 was incorrectly classified as program sales revenues instead of sales of services revenue in the prior year.

The Commission determined that it had been misclassifying certain transmission towers as buildings instead of as equipment in prior years. Capital asset balances as of June 30, 2004 were restated to reclassify \$2,409,422 of costs and \$684,396 of accumulated depreciation attributable to the towers from buildings to equipment and furniture.

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

FOR THE YEAR ENDED JUNE 30, 2005

<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>			
U.S. Department of Commerce			
Public Telecommunication Facilities Planning and Construction	11.550	\$ 848,308	\$ -
Total Direct Programs		<u>\$ 848,308</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 INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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, 2005, and have issued our report thereon dated December 14, 2005. 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.

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 05-1 to 05-4.

A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This 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.

Rogers + Lalan, PA

December 14, 2005

**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 have 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, 2005. 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 its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of finds and questioned costs as items 05-5 and 05-6.

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 14, 2005

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

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? x 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
6. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? x yes no
7. Identification of major programs:

CFDA Number	Name of Federal Program
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

05-1 ERRORS IN ANNUAL LEAVE REPORT

Condition: The manually prepared report prepared by the Commission to report the amount of leave taken during the year contained errors in four out of ten employees tested. The same finding was cited in last year's management letter.

Cause: Carelessness in preparing the report of leave used.

Effect: Misstatement of the amount of leave used as reported in the required schedule in the notes to financial statements.

Criteria: Generally accepted accounting principles require the preparation of accurate records.

Recommendation: We recommend that the Commission ensure that all schedules that are used to support financial statements amounts are accurate.

05-2 CONSTRUCTION IN PROGRESS CLASSIFIED INCORRECTLY

Condition: The Commission capitalized and depreciated two antennas that were not complete with a total cost of \$422,524 as machinery and equipment instead of as construction in progress as of June 30, 2005. The Commission claimed \$21,160 depreciation on these two antennas for the year. The financial statements were adjusted for these errors.

Cause: Failure to review all invoices supporting capital asset additions.

Effect: Misstatement of capital assets and overstatement of current year's depreciation expense.

Criteria: Generally accepted accounting principles require that assets being constructed by the Commission remain in construction in progress until they are completed and placed in service.

Recommendation: We recommend that the Commission ensure that all assets have been completed before they are reclassified from construction in progress.

05-3 DEFICIENCIES NOTED IN CONTROLS OVER CAPITAL ASSETS

Condition: Our audit procedures of capital assets disclosed the following:

- a. The Commission has not performed a physical observation of capital assets in over two years.
- b. Some equipment that had been cannibalized, is obsolete, or is not being used and had not been removed from the detailed equipment listing. Some of the equipment was not fully depreciated. In addition, we noted a piece of software costing \$32,000 on the books that had not been used since 1998.
- c. The Commission could not locate one item (a laptop computer) out of 20 sampled at the Columbia location.
- d. Numerous pieces of equipment was not located in the same location shown on the inventory listing.

A lack of controls over capital assets was also cited in the prior two year's management letters..

Effect: Lack of controls over capital assets and possible misstatement of the amount of capital assets reported.

Criteria: Good internal control policies require a system in place to accurately account for all assets.

Recommendation: We recommend that the Commission perform an annual observation of all moveable equipment and that a determination be made of all assets not currently being used by the Commission to determine whether they should be removed from the capital asset listing.

05-4 ACCOUNTS RECEIVABLE UNDERSTATED

Condition: Our review of the audit report from the ETV Endowment of South Carolina disclosed that the Commission had understated its receivables by \$620,000. The Commission was aware of this receivable as they had signed an audit confirmation confirming that the amount was due. The financial statements were adjusted for this error.

Effect: Misstatement of accounts receivable and revenues.

Criteria: Good internal control policies require a system in place to ensure that all accounts receivable existing at year-end are recorded.

Recommendation: We recommend that the Commission implement procedures to ensure that all accounts receivable and related revenues are recorded at year-end.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

05-5 COMMISSION DID NOT CHECK WHETHER ENTITY WAS DISBARRED OR SUSPENDED – PUBLIC TELECOMMUNICATIONS FACILITIES PLANNING AND CONSTRUCTION – CFDA # 11.550

Condition: As noted in last year's report, the Commission did not have a system in place to determine whether any contracts had been entered into with an entity that was on the listing on disbarred or suspended entities. The Commission entered into one new contract this year without verifying that the entity had not been disbarred or suspended. This contract was entered into prior to our reporting this finding to the Commission last year. The Commission was suppose to receive a certification from the entity that it had not been disbarred or suspended. Our audit determined that no payments were made to any entity that had been disbarred or suspended.

Criteria: Federal regulations prohibit the awarding of any contract in excess of \$100,000 to any entity that have been disbarred or suspended.

Effect of Condition: The Commission could make payments to an entity that is not eligible from federal funds and would have to refund the amounts involved to the federal government.

Cause of Condition: The Commission was not aware of this requirement.

Recommendation: The Commission should ensure that no contracts are awarded to entities that have been disbarred or suspended.

05-6 REPORTING DEFICIENCIES – PUBLIC TELECOMMUNICATIONS FACILITIES PLANNING AND CONSTRUCTION – CFDA # 11.550

Condition: Our audit disclosed that the Commission filed the semiannual financial status report (form 269) on May 2, 2005 which was after the due date. In addition, we noted that the Commission did not retain copies of the quarterly performance reports for one of the grants that they were required to submit online.

Criteria: The grant requirements required the Commission to file the report no later than 30 days following the end of each reporting period. Good controls require the Commission to maintain copies of all submitted reports.

Effect of Condition: Failure to follow all grant requirements and lack of documentation to support reports filed.

Cause of Condition: Unknown

Recommendation: We recommend that the Commission ensure that all reports are filed in a timely manner and that copies of all reports filed are maintained.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

04-4 We concurred with last year's audit recommendation for the need to ensure that no contracts are awarded to debarred vendors. During the fiscal year there were two purchase orders that were not verified through the EPLS website. Agency staff will be trained on the importance of verifying vendor contracts over \$100,000.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

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 November 11, 2004 resulting from the audit of the financial statements for the year ended June 30, 2004. The following findings were corrected:

Software capitalized in error
Support for annual leave taken not available

The remaining findings are repeated in this year's Schedule of Findings or Questioned Costs.

CORRECTIVE ACTION PLAN

APPENDIX A



CORRECTIVE ACTION PLAN

December 14, 2005

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, 2005.

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 14, 2005. Each audit recommendation is repeated prior to our response and numbered as in the audit report.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

05-1 Errors in Annual Leave Report

Recommendation:

We recommend that the Commission ensure that all schedules that are used to support financial statements amounts are accurate.

SC ETV Corrective Action:

The Commission concurs that the schedules used to support this report should be accurate. The Commission uses the Budget and Control Boards E-Leave system. The schedules used to prepare the leave liability report were done manually and were very labor intensive. In the future, the schedule will be reviewed by another staff member to ensure its accuracy.

05-2 Construction in Progress Classified Incorrectly

Recommendation:

We recommend that the Commission ensure that all assets have been completed before they are reclassified from construction in progress.

SC ETV Corrective Action:

The Commission concurs that construction in progress was classified incorrectly. Future asset additions will be reviewed carefully to ensure that they are classified correctly.

05-3 Deficiencies Noted in Controls over Capital Assets

Recommendation:

We recommend that the Commission perform an annual observation of all moveable equipment and that a determination be made of all assets not currently being used by the Commission to determine whether they should be removed from the capital asset listing.

SC ETV Corrective Action:

We concur with this recommendation. Agency staff will be reminded of the policies regarding the transfer of equipment and for the removal of assets no longer being used. Inventory coordinators will be assigned to each area and a physical inventory will be completed.

05-4 Accounts Receivable Understated

Recommendation:

We recommend that the Commission implement procedures to ensure that all accounts receivable and related revenues are recorded at year-end.

SC ETV Corrective Action:

We concur with this recommendation. The Commission will ensure that it verifies any receivable balances with the ETV Endowment.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

05-5 Commission Did Not Check Whether Entity Was Disbarred or Suspended – Public Telecommunications Facilities Planning and Construction – CFDA # 11.550

Recommendation:

The Commission should ensure that no contracts are awarded to entities that have been disbarred or suspended.

SC ETV Corrective Action:

Agency staff will be trained on the federal requirements concerning debarments and the EPLS website will be used to document that vendors have not been debarred.

05-6 Reporting Deficiencies – Public Telecommunications Facilities Planning and Construction – CFDA #11.550

Recommendation:

We recommend that the Commission ensure that all reports are filed in a timely manner and that copies of all reports filed are maintained.

SC ETV Corrective Action:

We concur with this recommendation. Reports will be filed in the required timeframes and copies of reports filed on-line will be maintained.

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

Sincerely,



David L. Crouch
Senior Vice President, Administration