

**SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS**

AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2012

SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS
BOARD OF DIRECTORS
JUNE 30, 2012

Board of Directors:

Mark Shlanta, Chairman

Kay Jorgenson

Rick Knobe

Julie Mathiesen

Larry Miller

Gerry Schlenker

Jim Erdman, Acting BIT Commissioner

Janelle Toman, Board of Regents

Julie Andersen, Executive Director

Friends of South Dakota Public Broadcasting:

Paul McDonald

President of the Friends of South Dakota
Public Broadcasting, (Ex- Officio Member)

Bureau of Information and Telecommunications:

Deb Larson, BIT Finance Manager

SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS

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QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

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

South Dakota Board of Directors for
Educational Telecommunications,
Vermillion, South Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit information of the South Dakota Board of Directors for Educational Telecommunications, Vermillion, South Dakota, as of and for the year ended June 30, 2012, which collectively comprise the organization's basic financial statements and have issued our report thereon dated October 18, 2012. 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

Management of South Dakota Board of Directors for Educational Telecommunications is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered South Dakota Board of Directors for Educational Telecommunications' internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Board of Directors for Educational Telecommunications' internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Board of Directors for Educational Telecommunications' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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*.

We also noted certain matters that we reported to the management of the South Dakota Board of Directors for Educational Telecommunications in a separate communication dated October 18, 2012.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the South Dakota Board of Directors for Educational Telecommunications and the State of South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Quam and Berglin, P.C.
Certified Public Accountants

October 18, 2012

**SOUTH DAKOTA BOARD OF DIRECTORS FOR EDUCATIONAL
TELECOMMUNICATIONS
SCHEDULE OF PRIOR AND CURRENT
AUDIT FINDINGS
JUNE 30, 2012**

PRIOR AUDIT FINDINGS:

The prior audit report contained no written audit comments.

CURRENT AUDIT FINDINGS:

The current audit report contains no written audit comments.

QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

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INDEPENDENT AUDITOR'S REPORT

South Dakota Board of Directors for
Educational Telecommunications
Vermillion, South Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate discretely presented component unit of the South Dakota Board of Directors for Educational Telecommunications as of and for the year then ended June 30, 2012, which collectively comprise the South Dakota Board of Directors for Educational Telecommunications' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Dakota Board of Directors for Educational Telecommunications' management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's June 30, 2012 financial statements and, in our report dated October 18, 2012 we expressed an unqualified opinion on those financial statements. We also audited the financial statements of the South Dakota Friends of Public Broadcasting, a discretely presented component unit of the South Dakota Board of Directors for Educational Telecommunications for the years ended June 30, 2011 and 2012 and expressed unqualified opinions on them.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Board of Directors for Educational Telecommunications' internal control over financial reporting. Accordingly, we express no such opinion. 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 the significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the South Dakota Board of Directors for Educational Telecommunications, State of South Dakota, are intended to present the financial position and changes in financial position of only that portion of the

governmental activities and each major fund that is attributable to the transactions of the South Dakota Board of Directors for Educational Telecommunications. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2012 and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, and the major fund for the South Dakota Board of Directors for Educational Telecommunications, State of South Dakota as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2012, on our consideration of the South Dakota Board of Directors for Educational Telecommunications' internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 6 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Quam and Berglin, P.C.
Certified Public Accountants

October 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

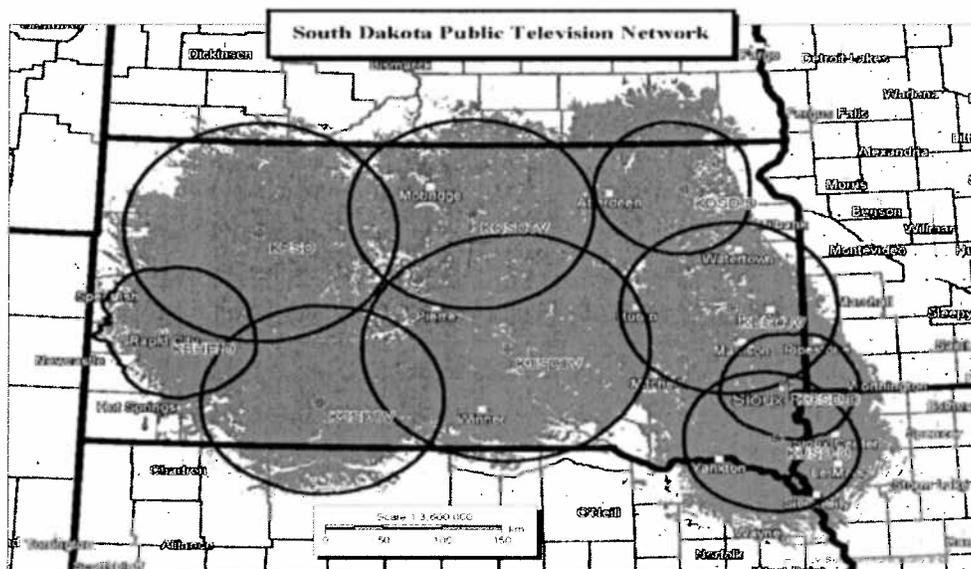
INTRODUCTION AND REPORTING ENTITY

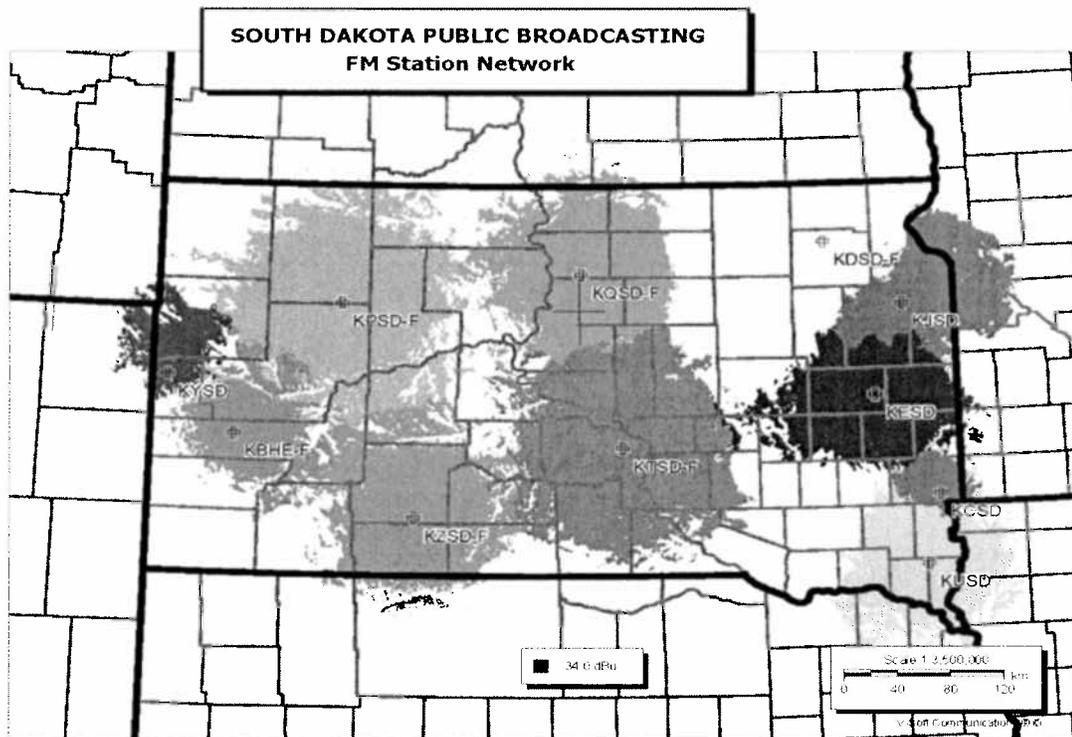
Management of South Dakota Public Broadcasting (SDPB) provides this Management's Discussion and Analysis of SDPB's annual financial statements. The narrative overview and analysis of the financial activities of SDPB is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with SDPB's financial statements, which follow this section.

SDPB is South Dakota's statewide public broadcasting network. SDPB is a State agency under the umbrella of the Bureau of Information and Telecommunications (BIT). SDPB Educational Telecommunications Board, the broadcast licensee, governs SDPB and sets general programming objectives and policy guidelines. Six of the nine members are appointed by the Governor of South Dakota. One of those six has to be a representative of a private college. The other three members are the Executive Director of SDPB, the Commissioner of BIT and the Executive Director of the SD Board of Regents.

SDPB's primary functions are to promote and establish noncommercial educational telecommunications facilities with the State of South Dakota and provide transmission facilities for noncommercial educational telecommunications programs throughout the State.

SDPB operates 9 television, 10 radio transmitters and 15 translators, microwave equipment that covers over 1,800 path miles and over 40 towers which support the network owned microwave system. Area coverage maps with associated call signs are shown below.





SDPB serves over 90% of the State of South Dakota and serves approximately 340,000 households across the State with Public TV and Radio programming. Membership for FY12 was 11,794. Local production hours produced/hours aired were 1,041 (including repeats). SDPTV local productions in FY12 included All State Chorus and Orchestra, SD Focus, Dakota Life, SD High School Activities Association (SDHSAA) championship events, and Jazzfest. SDPR hours of broadcast included cultural programming hours (719) and news and information hours (800). SDPR local productions included Midday, and Statehouse.

The financial statements present the financial information for SDPB (the primary governmental public broadcasting entity) and its component unit, the Friends of South Dakota Public Broadcasting (a not-for-profit organization which solicits funds to be used to support program production and broadcasting of public broadcasting in the State of South Dakota). The financial information of the Friends of Public Broadcasting can be obtained by contacting the offices of the South Dakota Public Broadcasting at Vermillion, South Dakota or by calling (605) 677-5861.

The financial statements of SDPB consist of the Statement of Net Assets, the Statement of Activities, the Balance Sheet, the Reconciliation of the Governmental Fund, and the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities. These statements are prepared in conformity with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The adoption of Statement 34 had no significant effect on the financial statements except for the reformatting of the basic financial statements and classification of net assets in conformity with Statement 34. Statement 34 requires the classification of net assets into three categories – invested in capital assets, net of related debt, restricted, and unrestricted. The Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Net Assets to the Statement of Activities shows the sources and uses of cash from operations, cash flows from non-capital financing activities, cash flows from capital and related financing activities.

FINANCIAL HIGHLIGHTS

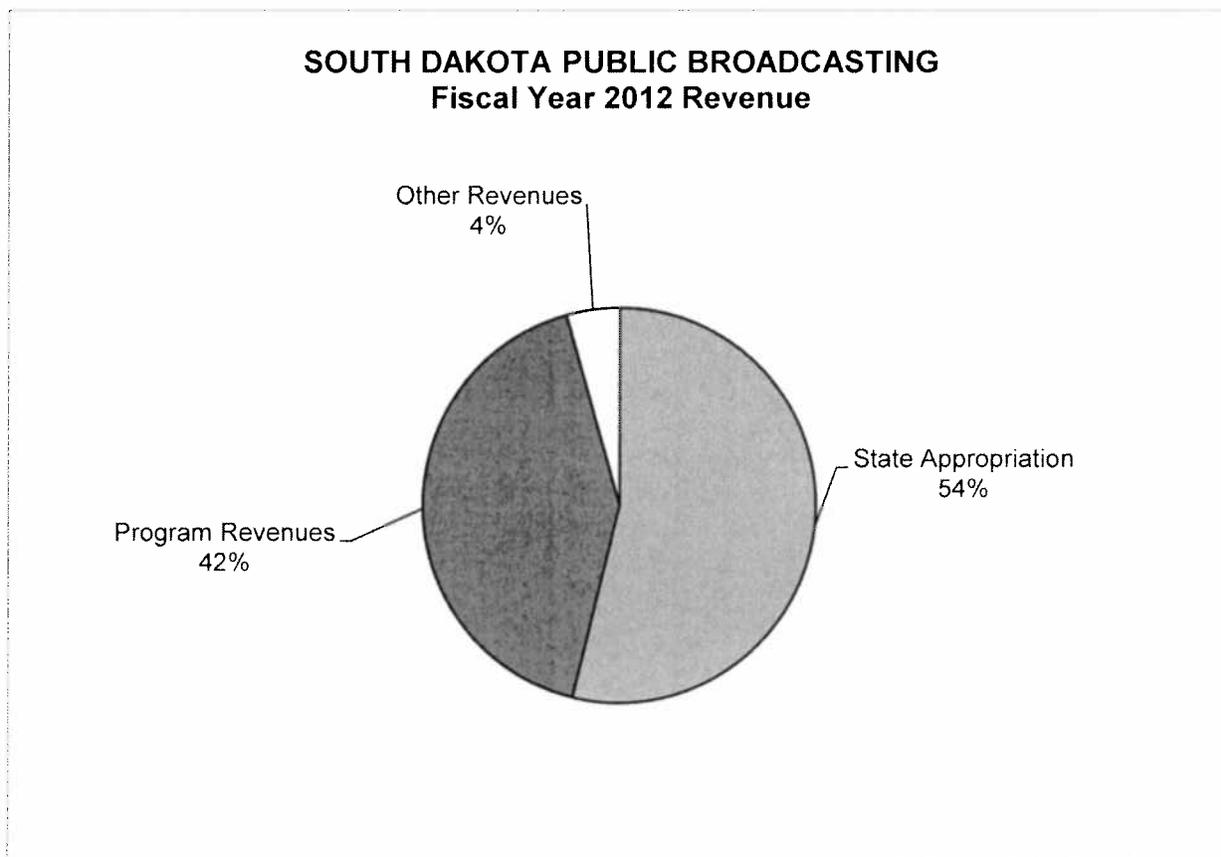
The total net assets of South Dakota Public Broadcasting (SDPB) were \$10,469,008 for the year ended June 30, 2012 (FY12) and \$11,513,974 for the year ended June 30, 2011 (FY11). SDPB’s net assets decreased by 9% from FY11 to FY12. This decrease is attributable to day-to-day activities and the timing of revenue. SDPB’s operating revenues decreased by 11% from FY11 to FY12. This decrease is attributable to the Appropriations from the State of South Dakota decrease of approximately 10%. Overall expenses decreased by 3% from FY11 to FY12. Capital asset expenses decreased. SDPB’s property and equipment, net of accumulated depreciation, totaled \$9,177,358 and \$10,429,288 at June, 30, 2012 and June 30, 2011, respectively.

These changes are shown in the table below:

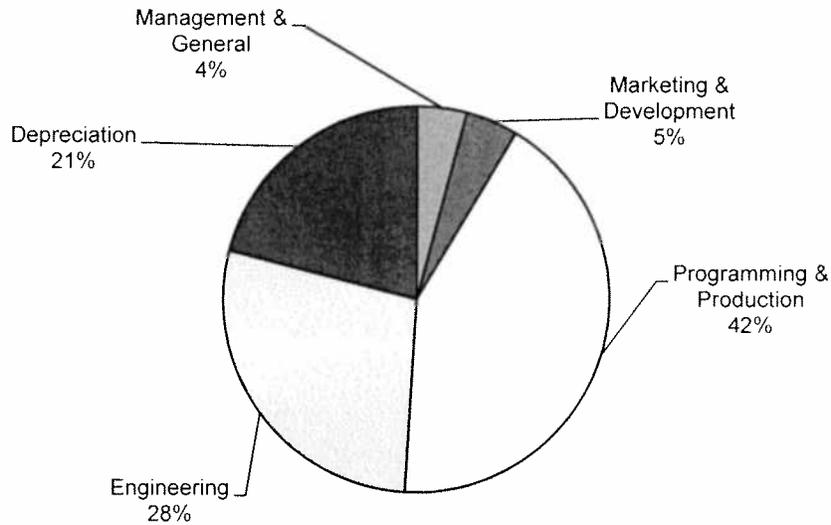
	SDPB FY11	SDPB FY12	% Change
<i>Statement of Net Assets</i>			
Cash and Cash Equivalents	\$ 1,063,813	\$ 689,954	-35%
Investments			
Other Current assets	730,208	1,333,158	83%
Capital assets, net of depreciation	10,429,288	9,177,358	-12%
Total Assets	<u>12,223,309</u>	<u>11,200,471</u>	-8%
Current Liabilities	246,920	278,529	13%
Noncurrent Liabilities	462,415	452,933	-2%
Total Liabilities	<u>709,335</u>	<u>731,462</u>	3%
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	10,429,288	9,177,358	-12%
Unrestricted	1,084,686	1,291,650	19%
Total Net Assets	<u>\$ 11,513,974</u>	<u>\$ 10,469,008</u>	-9%
<i>Statements of Revenues, Expenses & Changes in Net Assets</i>			
State appropriations	\$ 4,031,965	\$ 3,634,014	-10%
Program revenue	3,129,163	2,830,478	-10%
Other revenues	394,116	292,762	-26%
Total Revenues	<u>7,555,244</u>	<u>6,757,254</u>	-11%
<i>Program Expenses:</i>			
Administration	294,531	319,648	9%
Engineering	2,165,305	2,182,240	6%
Marketing & Development	386,833	346,378	-10%
Programming & production	3,618,645	3,312,587	-8%
Depreciation	1,572,443	1,635,542	4%
Total Expenses	<u>8,037,757</u>	<u>7,796,395</u>	-3%
Change in net assets, before Gain (Loss) on disposal of Capital Assets	(482,513)	(1,039,141)	-115%
Donated Equipment		24,989	
(Loss) on Disposal of Capital Assets	(86,678)	(30,814)	64%
Change in Net Assets	(569,191)	(1,044,966)	-84%
Net Assets, beginning of the year	<u>12,083,165</u>	<u>11,513,974</u>	-5%
Net Assets, end of the year	<u>\$ 11,513,974</u>	<u>\$ 10,469,008</u>	-9%

A summary of changes in capital assets for the year ended June 30, 2012:

	Balance 06/30/2011	Additions	Deletions	Balance 06/30/2012
Capital assets, not being depreciated				
Land	107,493.00	-	-	107,493.00
Construction Work in Progress	-	-	-	-
Capital assets, being depreciated				
Building	1,505,635.95	-	-	1,505,635.95
Machinery & Equipment	22,540,719.53	414,425.97	(221,505.01)	22,733,640.49
Totals	24,153,848.48	414,425.97	(221,505.01)	24,346,769.44
				-
Less accumulated depreciation				
Building	(443,944.18)	(32,815.58)	-	(476,759.76)
Machinery & Equipment	(13,280,616.58)	(1,602,726.64)	190,691.59	(14,692,651.63)
Total accumulated depreciation	(13,724,560.76)	(1,635,542.22)	190,691.59	(15,169,411.39)
Government activity, Capital Assets, Net	<u>\$ 10,429,287.72</u>	<u>\$ (1,221,116.25)</u>	<u>\$ (30,813.42)</u>	<u>\$ 9,177,358.05</u>



**SOUTH DAKOTA PUBLIC BROADCASTING
Fiscal Year 2012 Expenditures**



OTHER SIGNIFICANT MATTERS

In FY12, a new full-power FM station serving the community of Watertown, SD and surrounding communities was also added. Project funding was provided, in part, through a special private fundraising effort led by the Friends of South Dakota Public Broadcasting.

REQUEST FOR INFORMATION

This financial report is designed to provide donors, members, investment managers, foundations, and taxpayers with a general overview of SDPB's finances and to account for the funding it receives. It is also intended to help the reader better understand the changes in the financial statement format. Additional details can be requested by mail at the following address:

South Dakota Public Broadcasting
Attn: BIT Finance Department
PO Box 5000
Vermillion, SD 57069-5000

SOUTH DAKOTA BOARD OF DIRECTORS FOR EDUCATIONAL TELECOMMUNICATIONS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>Governmental Activities</u>		<u>Friends of Public Broadcasting</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:				
Current Assets:				
Cash and Cash Equivalents	\$ 689,954.35	\$ 1,063,766.89	\$ 4,448.92	\$ 12,820.50
Investments			2,174,375.67	2,101,532.39
Incidental Imprest		46.00		
Grant Receivables	31,500.00	100,000.00		
Other Receivables			243,802.50	256,224.00
Current Portion of Costs Incurred for Programs not yet Broadcast	<u>1,301,658.35</u>	<u>630,208.00</u>		
Total Current Assets	<u>2,023,112.70</u>	<u>1,794,020.89</u>	<u>2,422,627.09</u>	<u>2,370,576.89</u>
Capital Assets:				
Land	107,493.00	107,493.00		
Buildings	1,505,635.95	1,505,635.95		
Machinery and Equipment	22,733,640.49	22,540,719.53	63,047.75	79,842.75
Less: Accumulated Depreciation	<u>(15,169,411.39)</u>	<u>(13,724,560.76)</u>	<u>(63,047.75)</u>	<u>(79,842.75)</u>
Total capital assets, net of depreciation	<u>9,177,358.05</u>	<u>10,429,287.72</u>		
Total Assets	<u>11,200,470.75</u>	<u>12,223,308.61</u>	<u>2,422,627.09</u>	<u>2,370,576.89</u>
Liabilities				
Current Liabilities:				
Accounts Payable and Other Current Liabilities	278,529.25	246,920.08	37,596.82	105,802.99
Current Portion of Long Term Liabilities	<u>45,293.32</u>	<u>39,367.91</u>		
Total Current Liabilities:	<u>323,822.57</u>	<u>286,287.99</u>	<u>37,596.82</u>	<u>105,802.99</u>
Long Term Liabilities:				
Accrued Compensation	452,933.21	462,414.69	32,612.97	33,602.32
Less Current Portion	<u>(45,293.32)</u>	<u>(39,367.91)</u>		
Long-term Liabilities	<u>407,639.89</u>	<u>423,046.78</u>	<u>32,612.97</u>	<u>33,602.32</u>
Total Liabilities	<u>731,462.46</u>	<u>709,334.77</u>	<u>70,209.79</u>	<u>139,405.31</u>
Net Assets:				
Invested in Capital Assets	9,177,358.05	10,429,287.72		
Restricted			2,174,375.67	2,101,532.39
Unrestricted	<u>1,291,650.24</u>	<u>1,084,686.12</u>	<u>178,041.63</u>	<u>129,639.19</u>
Total Net Assets	<u>\$ 10,469,008.29</u>	<u>\$ 11,513,973.84</u>	<u>\$ 2,352,417.30</u>	<u>\$ 2,231,171.58</u>

The notes to the financial statements are an integral part of this statement

**SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
<u>Expenses</u>	<u>Operating</u>	<u>Capital</u>	<u>Net</u>	<u>Net</u>	
	<u>Grants and</u>	<u>Grants and</u>	<u>(Expense)</u>	<u>(Expense)</u>	
	<u>Contributions</u>	<u>Contributions</u>	<u>Revenue</u>	<u>Revenue</u>	
Governmental Activities:					
Programming and Production	\$ 3,312,586.81	\$ 1,893,357.25	\$ (1,419,229.56)	\$ (1,401,129.44)	
Engineering	2,182,239.51	894,077.90	24,989.00	(1,274,136.00)	
Marketing and Development	346,377.93		(346,377.93)	(386,833.09)	
Management and General	319,648.48	18,053.50	(301,594.98)	(274,052.39)	
Depreciation- Unallocated	1,635,542.22		(1,635,542.22)	(1,572,443.01)	
Total Government Activities	<u>7,796,394.95</u>	<u>2,805,488.65</u>	<u>(4,965,917.30)</u>	<u>(4,908,593.93)</u>	
Component Unit:					
Friends of Public Broadcasting	2,157,759.68	1,659,731.29			\$ (498,028.39)
Total	<u>\$ 9,954,154.63</u>	<u>\$ 4,465,219.94</u>	<u>\$ 24,989.00</u>	<u>(4,908,593.93)</u>	<u>\$ (675,120.51)</u>
General Revenues:					
Appropriations from the State of South Dakota			3,634,014.00	4,031,965.00	
Tower Rental Income			133,934.10	138,867.48	
Other General Revenues			183,817.07	255,248.70	917,352.00
Total General Revenues			<u>3,951,765.17</u>	<u>4,426,081.18</u>	<u>917,352.00</u>
Loss on Disposal of Capital Assets			(30,813.42)	(86,678.02)	
Change in Net Assets after General Revenues and Loss on Disposal of Capital Assets			(1,044,965.55)	(569,190.77)	121,245.72
Net Assets - Beginning			11,513,973.84	12,083,164.61	2,231,171.58
Net Assets - Ending			<u>\$ 10,469,008.29</u>	<u>\$ 11,513,973.84</u>	<u>\$ 2,352,417.30</u>

The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2012

	GENERAL FUND	
	<u>2012</u>	<u>2011</u>
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 689,954.35	\$ 1,063,766.89
Incidental Imprest		46.00
Grants Receivable	31,500.00	100,000.00
Current Portion of Costs Incurred for Programs not yet Broadcast	1,301,658.35	630,208.00
Total Assets	2,023,112.70	\$ 1,794,020.89
Liabilities and Fund Balances:		
Current Liabilities:		
Accounts Payable	\$ 97,531.68	\$ 66,382.89
Salaries and Benefits Payable	180,997.57	180,537.19
Total Liabilities	278,529.25	246,920.08
Fund Balances:		
Unassigned	1,744,583.45	1,547,100.81
Total Fund Balance	1,744,583.45	1,547,100.81
Total Liabilities and Fund Balances	\$ 2,023,112.70	\$ 1,794,020.89

The notes to the financial statements are an integral part of this statement

SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>2012</u>	<u>2011</u>
Total Fund Balances - Governmental Funds	\$ 1,744,583.45	\$ 1,547,100.81
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:		
The cost of the assets is:	\$ 24,346,769.44	
The accumulated depreciation is:	<u>(15,169,411.39)</u>	9,177,358.05
		10,429,287.72
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. The only long-term liability at the year end was Compensated Absences.		
	<u>(452,933.21)</u>	<u>(462,414.69)</u>
Total Net Assets - Government Activities	<u>\$ 10,469,008.29</u>	<u>\$ 11,513,973.84</u>

The notes to the financial statements are an integral part of this statement

SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
JUNE 30, 2012

	GENERAL FUND	
	<u>2012</u>	<u>2011</u>
Revenues:		
Appropriations from the State of South Dakota	\$ 3,634,014.00	\$ 4,031,965.00
Contributions from Friends	1,100,000.00	1,225,000.00
Donated Services and Equipment	135,515.65	138,425.72
Community Service Grants from Corporation for Public Broadcasting	1,569,973.00	1,562,364.66
NTIA Grants		203,372.79
Other	<u>317,751.17</u>	<u>394,116.18</u>
 Total Revenue	 <u>6,757,253.82</u>	 <u>7,555,244.35</u>
Expenditures:		
Programming and Production	3,309,626.96	3,650,765.13
Engineering	2,194,370.53	2,181,335.82
Marketing and Development	344,394.55	387,238.19
Management and General	321,942.17	299,065.95
Capital Outlays - Equipment and Building Acquisitions	<u>389,436.97</u>	<u>531,083.83</u>
 Total Expenditures	 <u>6,559,771.18</u>	 <u>7,049,488.92</u>
 Net Changes in Fund Balance	 197,482.64	 505,665.43
 Fund Balance, July 1,	 <u>1,547,100.81</u>	 <u>1,041,435.38</u>
 Fund Balance, JUNE 30,	 <u>\$ 1,744,583.45</u>	 <u>\$ 1,547,100.81</u>

The notes to the financial statements are an integral part of this statement

**SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
JUNE 30, 2012**

	<u>2012</u>	<u>2011</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 197,482.64	\$ 505,665.43

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays for the year.

Capital Assets Purchased	\$ 389,436.97			
Depreciation	<u>(1,635,542.22)</u>	(1,246,105.25)	(1,041,359.18)	

In the Statement of Activities, compensated absences are measured by the amounts earned and paid during the year. However, in the governmental funds expenditures for these items are the amount of financial resources used. This year, the amount paid exceeded the amount earned by:

	9,481.48	53,181.00
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The receipt of donated capital assets is not reported on the fund statements, but is reported as revenue on the government wide statements.

	24,989.00	
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Loss on Disposal of Assets		<u>(30,813.42)</u>	<u>(86,678.02)</u>	
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Change in Net Assets of Governmental Activities	<u>\$ (1,044,965.55)</u>	<u>\$ (569,190.77)</u>
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The notes to the financial statements are an integral part of this statement

**SOUTH DAKOTA BOARD OF DIRECTORS
FOR EDUCATIONAL TELECOMMUNICATIONS
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity

South Dakota Board of Directors for Educational Telecommunications is an agency of the South Dakota Bureau of Information and Telecommunications and a special revenue fund of the State of South Dakota reporting entity. The agency was formed by a consolidation of South Dakota Educational Television, KESD-TV, KUSD-TV, and South Dakota Public Radio Network on July 1, 1985.

As required by GASB 39, the financial statements of the agency include those of the South Dakota Board of Directors for Educational Telecommunications (the primary government), and of the Friends of Public Broadcasting, a legally separate, nonprofit South Dakota organization which is included as a discretely presented component unit. The Friends of Public Broadcasting solicit funds in the name of, and with the approval of, the South Dakota Board of Directors for Educational Telecommunications. The nature and significance of the relationship of the Friends of Public Broadcasting to the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading and incomplete. Complete financial statements for the Friends of Public Broadcasting can be obtained directly from their administrative office.

b. Basis of Presentation

Government-wide Statements: The government-wide financial statements include the statement of net assets and the statement of activities. The primary government and the component unit are presented separately within the financial statements with the focus on the primary government. These statements include the financial activities of the overall government. There are no business-type or fiduciary activities. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions.

The statement of net assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted

The statement of activities presents a comparison between direct expenses and program revenues for each function of the organization's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all intergovernmental revenues and contributions are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the organization's funds. Separate statements for each fund category - governmental, proprietary,

and fiduciary - are usually presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. However, the South Dakota Board of Directors for Educational Telecommunications does not have any business or fiduciary funds and so only the governmental fund is presented.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund – the General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. It is the only major fund.

c. Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Government-wide Financial Statements:

The government-wide fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the South Dakota Board of Directors for Educational Telecommunications gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Fund Financial Statements:

In the fund financial statements, the governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The South Dakota Board of Directors for Educational Telecommunications considers significant revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Under the terms of grant agreements, the South Dakota Board of Directors for Educational Telecommunications funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the South Dakota Board of Directors for Educational Telecommunication's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All Land		
Buildings	\$100,000	Straight-line	27-50 years
Machinery & Equipment	5,000	Straight-line	3-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisitions.

e. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures.

f. Program Revenues

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets

g. Cash and Investments

Temporary cash investments of the operating funds are held with the South Dakota State Treasury in the Cash Flow Portfolio. State public funds are deposited and invested using the pooled deposit and investment concept which preserves the integrity of the fund cash balance of each state fund while simultaneously allowing the deposit and investment of aggregate idle fund moneys. The Board's share of assets in the portfolio at June 30, 2012 is 1.18% of the total assets being invested in the pool. The investment risks associated with the pool can be obtained from the separately issued report on the South Dakota Investment Council.

h. Equity Classifications

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Equity is classified as fund balance and is divided into five components based primarily on the extent to which the organization is bound to observe constraints imposed upon the use of the resources in the governmental funds. In accordance with Government Accounting Standards Board (GASB) No. 54, the classifications are as follows:

1. Nonspendable – Consists of amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
2. Restricted – Consists of amounts that are constrained for a specific purpose through restrictions of (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Committed – Consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the Board and does not lapse at year-end. Those committed amounts cannot be used for any other purpose unless the Board rescinds or modifies the specified use by taking the same type of action (Board Motion) it employed to previously commit those amounts.
4. Assigned – Consists of amounts that are constrained by the government’s intent to be used for a specific purpose but are neither restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or appointed Committee delegated that authority by a Board Motion or Board Policy.
5. Unassigned – Consists of all amounts that are not constrained as reported in the other classifications within the General Fund. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Board uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the district would first use *committed, then assigned, and lastly, unassigned* amounts of unrestricted fund balance when expenditures are made.

The Board does not have a formal minimum fund balance policy.

i. Application of Net Assets

It is the policy of the South Dakota Board of Directors for Educational Telecommunication to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

j. Donated Facilities and Services

The organization occupies, without charge, certain premises located in government owned buildings. The estimated fair rental value of the premises is reported as revenue and expenditures in the period in which the premises are used.

Statewide Educational Services (SWES) donates direct expenditures for the provision of telecourses to the organization. These actual expenditures are reported as revenue and expenditures in the period in which they are incurred by SWES.

Donated professional services are recorded as revenue and expenditures at estimated fair value.

k. Costs Incurred for Programs Not Yet Broadcast

Costs incurred for programs not yet broadcast relate to programs produced by the organization and broadcast rights purchased for programs to be broadcast subsequent to June 30, 2012.

NOTE 2 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

Primary Government	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land:	\$ 107,493			\$ 107,493
Capital assets, being depreciated:				
Buildings	1,505,636			1,505,636
Machinery & Equipment	22,540,720	\$ 414,425	(221,505)	22,733,640
Totals	<u>24,153,849</u>	<u>414,425</u>	<u>(221,505)</u>	<u>24,346,769</u>
Less accumulated depreciation:				
Buildings	(443,945)	(32,815)		(476,760)
Machinery & Equipment	(13,280,616)	(1,602,727)	190,692	(14,692,651)
Total accumulated depreciation	<u>(13,724,561)</u>	<u>(1,635,542)</u>	<u>190,692</u>	<u>(15,169,411)</u>
Governmental activity				
Capital Assets, net	<u>\$ 10,429,288</u>	<u>\$ (1,221,116)</u>	<u>\$ (30,813)</u>	<u>\$ 9,177,358</u>

NOTE 3 - LONG TERM LIABILITIES

Compensated absences for governmental activities typically have been liquidated from the General Fund.

<i>Compensated Absences:</i>	
Beginning Balance as of July 1, 2011	\$ 462,414.69
Additions During the Year	9,176.16
(Less) Usage During the Year	<u>(18,657.64)</u>
Balance as of June 30, 2012	<u>\$ 452,933.21</u>
Due within One year	\$ 45,293.32
Due in More than one Year	\$ 407,639.89

NOTE 4 - OPERATING LEASES

The South Dakota Board of Directors for Educational Telecommunication has leased land at various locations in the State to construct towers, to locate transmitter buildings, and to set up microwave receivers and antennas. The organization is obligated under these leases for future payments. Operating leases do not give rise to property rights or capital lease obligations, and therefore the results of the lease agreements are not reflected in the organization's long term obligations. For the fiscal year ended June 30, 2012, the organization paid out \$21,004.06 for operating leases.

The following are the minimum payments on the existing operating leases:

<u>Year</u>	<u>Operating Lease Payments</u>
2013	\$ 17,228.78
2014	5,941.00
2015	5,941.00
2016	1.00
2017	1.00

NOTE 5 - RESTRICTED NET ASSETS

Restricted net assets consist of net assets with constraints placed on their use by external groups such as grantors. The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

	<u>Restricted by</u>	<u>Amount</u>
<i>Component Unit:</i>		
Friends of Public Broadcasting	Donors	\$ 2,174,375.67

NOTE 6 - RETIREMENT PLAN

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan established to provide retirement, disability and survivors benefits for employees of the State and its political subdivisions. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. South Dakota Board of Directors for Educational Telecommunication's contributions to the SDRS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$155,563.98, \$154,528.82 and \$140,655.72 respectively, equal to the required contributions each year.

NOTE 7 - LITIGATION

At June 30, 2012, the South Dakota Board of Directors for Educational Telecommunications was not involved in any litigation.

NOTE 8 - RISK MANAGEMENT

South Dakota Board of Directors for Educational Telecommunications employees are employees of the State of South Dakota, and accordingly, receive all benefits afforded to employees of the State.

Employee Health and Life Insurance

The State of South Dakota assumes substantially all risks associated with claims of covered public employees for health and life insurance benefits. Premiums are paid by South Dakota Board of Directors for Educational Telecommunications for all covered employees to the State of South Dakota Self-Insurance Internal Service Fund. Varying levels of health and life coverage may be purchased by employees for their spouses and dependents.

Worker's Compensation Benefits and Unemployment Insurance

The State of South Dakota assumes substantially all risks associated with claims of state employees for unemployment compensation and worker's compensation benefits. Premiums based on a percentage of wages are paid by South Dakota Board of Directors for Educational Telecommunications to the South Dakota Unemployment Insurance Fund to cover the cost of claims servicing and unemployment claims payments. A reserve derived from a percentage of wages paid to state employees is used to fund worker's compensation claims.

Liability and Property Insurance

South Dakota Board of Directors for Educational Telecommunications participates in the Public Entity Pool for Liability (PEPL). This is an Internal Service Fund of the State of South Dakota which was created to cover risks associated with automobile and general tort liability. South

Dakota Board of Directors for Educational Telecommunications pays premiums based on the number of automobiles it holds title to for automobile liability, and number of approved full-time employees for general tort liability.

NOTE 9 - COMPARATIVE FINANCIAL STATEMENTS

The fiscal year 2011 financial information presented is limited to summarized total columns. No opinion is issued on the comparative information since it does not contain sufficient details to constitute a fair presentation.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

The South Dakota Board of Directors for Educational Telecommunications' Other Post-Employment Benefits (OPEB) represents the implicit rate subsidy of retiree health insurance present in the contribution rates for existing employees under the State's health insurance program. Since the organization is an agency of the South Dakota Bureau of Information and Telecommunications and is reported as a Special Revenue Fund of the State of South Dakota reporting entity, its OPEB obligations are included in the comprehensive annual financial report of the State of South Dakota.

The South Dakota Board of Directors for Educational Telecommunications' share of the OPEB obligation is estimated to be 0.4852% of the State's total, and is not considered material to the financial statements.