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EDUCATIONAL BROADCASTING FOUNDATION, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended July 31, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5-24-06

EDUCATIONAL BROADCASTING FOUNDATION, INC.

Year Ended July 31, 2005

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SPILSBURY, HAMILTON, LEGENDRE & PACIERA

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MEMBERS OF
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Educational Broadcasting Foundation, Inc.
New Orleans, Louisiana

We have audited the accompanying statement of financial position of Educational Broadcasting Foundation, Inc. as of July 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2004 financial statements and, in our report dated October 1, 2004, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Educational Broadcasting Foundation, Inc. at July 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2006 on our consideration of Educational Broadcasting Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Trustees
Educational Broadcasting Foundation, Inc.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Educational Broadcasting Foundation, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Spilbury, Hamilton, Legendre & Paciera -

March 20, 2006

EDUCATIONAL BROADCASTING FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JULY 31, 2005
With Summarized Financial Information
at July 31, 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 6,443	\$ 19,415
Short-term investments	86,000	301,000
Accounts receivable	213,699	177,149
Accounts receivable - WYES-TV12	1,065,605	863,103
Pledges receivable	261,931	465,161
Interest receivable	0	251
Prepaid expenses - Other	22,315	91,059
Grants receivable	22,663	22,664
Other receivables	1,806	4,609
Due from related parties	<u>9,039</u>	<u>7,734</u>
<i>Total Current Assets</i>	<u>1,689,501</u>	<u>1,952,145</u>
<u>PROPERTY AND EQUIPMENT</u>		
Automotive and mobile units	146,882	146,882
Broadcasting equipment	1,285,507	1,262,690
Furniture and fixtures	290,979	284,479
Production equipment	2,356,758	2,356,758
Leasehold improvements	<u>493,077</u>	<u>493,077</u>
<i>Total Property and Equipment</i>	4,573,203	4,543,886
Less: Accumulated depreciation	<u>3,771,875</u>	<u>3,559,006</u>
<i>Net Property and Equipment</i>	<u>801,328</u>	<u>984,880</u>
<u>OTHER ASSETS</u>		
Investment in joint venture	165,003	171,575
Cash accounts designated for Teleplex transmitter	<u>631,271</u>	<u>125,006</u>
<i>Total Other Assets</i>	<u>796,274</u>	<u>296,581</u>
<i>Total Assets</i>	<u>\$3,287,103</u>	<u>\$3,233,606</u>

See accompanying notes to financial statements.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
(Continued)
JULY 31, 2005
With Summarized Financial Information
at July 31, 2004

	<u>2005</u>	<u>2004</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 59,847	\$ 197,598
Due to related parties	0	7,926
Accrued expenses	86,511	82,325
Accrued interest payable	1,620,352	1,399,343
Deferred revenue and refundable advances	633,473	153,907
Long-term debt/Related parties - Current maturities	<u>718,900</u>	<u>614,899</u>
<i>Total Current Liabilities</i>	3,119,083	2,455,998
<u>LONG-TERM LIABILITIES</u>		
Long-term debt/Related parties - Net of current maturities	<u>818,020</u>	<u>1,227,030</u>
<i>Total Liabilities</i>	<u>3,937,103</u>	<u>3,683,028</u>
<u>NET ASSETS</u>		
Unrestricted (Deficit)	(1,977,536)	(1,777,686)
Temporarily restricted	<u>1,327,536</u>	<u>1,328,264</u>
<i>Total Net Assets</i>	<u>(650,000)</u>	<u>(449,422)</u>
<i>Total Liabilities and Net Assets</i>	<u>\$3,287,103</u>	<u>\$3,233,606</u>

See accompanying notes to financial statements.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JULY 31, 2005
With Summarized Financial Information
at July 31, 2004

	<u>Unrestricted</u>
<u>REVENUE AND OTHER SUPPORT</u>	
Contributions:	
Willwoods Community	\$ 265,409
Other	103,738
Underwriting and membership income	506,892
Special event income	146,002
Grants:	
Corporation for Public Broadcasting	494,209
Federal	242,119
State	317,207
Other	0
Telecasting, production, royalty and miscellaneous revenue	910,146
Interest income	2,706
Gain on disposal of equipment	0
<i>Total Revenue and Other Support</i>	<u>2,988,428</u>
<u>EXPENSES</u>	
Program Services:	
Creative services	331,327
Programming and production	1,331,955
Broadcasting	403,291
Program information	119,711
Grants and telecommunications programs	214,499
Supporting Services:	
Fund-raising and membership development	120,353
Management and general	667,142
<i>Total Expenses</i>	<u>3,188,278</u>
<u>INCREASE (DECREASE) IN NET ASSETS</u>	(199,850)
Net Assets (Deficit) - Beginning of year	<u>(1,777,686)</u>
Net Assets (Deficit) - End of year	<u><u>\$(1,977,536)</u></u>

See accompanying notes to financial statements.

<u>2005</u>		<u>2004</u>
<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
\$ 0	\$ 265,409	\$ 271,709
56,446	160,184	199,967
0	506,892	558,010
0	146,002	141,131
0	494,209	478,917
0	242,119	86,312
0	317,207	316,701
0	0	2,794
0	910,146	988,423
0	2,706	1,008
<u>0</u>	<u>0</u>	<u>1,230</u>
<u>56,446</u>	<u>3,044,874</u>	<u>3,046,202</u>
0	331,327	464,718
0	1,331,955	1,381,303
0	403,291	369,661
0	119,711	129,544
0	214,499	121,908
0	120,353	131,094
<u>57,174</u>	<u>724,316</u>	<u>390,283</u>
<u>57,174</u>	<u>3,245,452</u>	<u>2,988,511</u>
(728)	(200,578)	57,691
<u>1,328,264</u>	<u>(449,422)</u>	<u>(507,113)</u>
<u>\$1,327,536</u>	<u>\$ (650,000)</u>	<u>\$ (449,422)</u>

EDUCATIONAL BROADCASTING FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JULY 31, 2005
With Summarized Financial Information
at July 31, 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$(200,578)	\$ 57,691
Adjustments to reconcile increase in net assets to net cash flows from operating activities:		
Contributions - Debt forgiveness by Willwoods Community	(221,009)	(227,309)
Depreciation	212,835	210,757
Equity in losses of joint venture	33,911	32,211
Net (increase) decrease in receivables and prepaid expenses	32,445	(20,619)
Net increase in accounts payable and accrued expenses	79,518	304,510
Net increase in deferred revenue and refundable advances	226,433	45,546
Net decrease in grants receivable	0	7,766
(Increase) decrease in pledges receivable	728	(53,374)
Increase in grants payable	253,133	34,221
(Gain) loss on disposal of equipment	<u>570</u>	<u>(1,231)</u>
Net Cash Provided by Operating Activities	<u>417,986</u>	<u>390,169</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(29,852)	(136,860)
Advances to joint venture	(27,339)	(27,882)
Net (increase) in amount due from related parties	(1,305)	(9)
Sale (purchase) of investments	215,000	(75,000)
(Increase) decrease in other receivables	2,803	(372)
(Increase) in cash designated for Teleplex transmitter	(506,265)	(68,371)
Proceeds from sale of equipment	<u>0</u>	<u>7,400</u>
Net Cash (Used for) Investing Activities	<u>(346,958)</u>	<u>(301,094)</u>

See accompanying notes to financial statements.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
STATEMENT OF CASH FLOWS
(Continued)
YEAR ENDED JULY 31, 2005
With Summarized Financial Information
at July 31, 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payments on long-term debt - Related parties	\$(84,000)	\$(71,997)
Net Cash (Used for) Financing Activities	<u>(84,000)</u>	<u>(71,997)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,972)	17,078
Cash and Cash Equivalents -		
Beginning of Year	<u>19,415</u>	<u>2,337</u>
End of Year	\$ <u>6,443</u>	\$ <u>19,415</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for -		
Interest	\$ <u>0</u>	\$ <u>0</u>
Income taxes	\$ <u>0</u>	\$ <u>0</u>

See accompanying notes to financial statements.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2005

A. General Information

Organization

Educational Broadcasting Foundation, Inc. (the "Corporation") was incorporated during 1981 in the State of Louisiana as a non-profit corporation to own and operate a non-commercial public television station (WLAE-TV in New Orleans.)

B. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

Assets and liabilities, and support, revenue and expenses are recognized on the accrual basis of accounting.

The financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows.

Unrestricted Net Assets - Net assets which are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets which are subject to donor-imposed restrictions that may or will be met by actions of the Corporation and/or the passage of time.

Permanently Restricted Net Assets - Net assets which are subject to donor-imposed restrictions that are required to be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on related investments for general or specific purposes.

The Corporation has no permanently restricted assets, liabilities or activities.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

Summary of Significant Accounting Policies (Cont'd)

Cash and Cash Equivalents

For the purposes of the *Statement of Cash Flows*, the Corporation includes unrestricted cash less cash overdraft as cash and cash equivalents. The Corporation does not consider any of its investments in repurchase agreements or mutual funds to be cash equivalents, regardless of their original maturities. Those short-term investments are stated at cost, which approximates market value. At July 31, 2005, short-term investments amounted to \$86,000.

Investments

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standard No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the *Statement of Financial Position*. Unrealized gains and losses are included in the change in net assets.

Revenue Recognition

Contributions, subscriptions and membership income, and grants for which donor receives no material benefit in exchange are recorded as revenue in the *Statement of Activities* when received. Other unrestricted revenues are recognized as earned either upon receipt or accrual. State grant support is reported as unrestricted revenue. Expenditures of unrestricted funds are recognized as expenses when expended or upon incurrence of the related liability.

Accounts Receivable - WYES-TV12 and Pledges Receivable

Educational Broadcasting Foundation, in conjunction with another public broadcasting station, WYES-TV12, is engaged in a capital campaign manifested by on-air and mail fund-raising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the station for the construction and equipping of a Teleplex transmitter. Accounts receivable-WYES-TV12 represents pledges collected by WYES-TV12 prior to July 31, 2005. Pledges receivable represents those pledges still outstanding. All of these funds will remain with WYES-TV12 until the purchase of the Teleplex.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

Summary of Significant Accounting Policies (Cont'd)

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Corporation have been summarized on a functional basis in the *Statement of Activities*. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful life of the assets, which range from five to ten years. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

The Corporation has adopted a policy of capitalizing property and equipment with a cost of greater than \$1,000.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Revenue and Refundable Advances

Deferred revenue represents funds received by the station for future production or airing of programs, and grants received for the Public Telecommunications program. This revenue is recognized when the cost associated with the production or airing, or the purchase of equipment related to the station's conversion to a digital format as required by the grant is incurred.

The Corporation records grant awards accounted for as exchange transactions as refundable advances until related services are performed, at which time they are recognized as revenue.

The activity in the deferred revenue and refundable advance account is reported as follows:

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

Summary of Significant Accounting Policies (Cont'd)

Deferred Revenue and Refundable Advances (Cont'd)

Deferred revenue and refundable advances, beginning of year	\$153,907
Grant awards and interest received	748,797
Grant expenditures and bank charges	(242,532)
Other deferred revenue received	1,800
Other deferred revenue recognized	<u>(28,499)</u>
Refundable advances, end of year	<u>\$633,473</u>

Licensed Program Rights

Program series and other syndicated products are recorded at the lower of unamortized cost, based on the gross amount of the related liability, or estimated net realizable value. These programs and products are amortized on a straight-line basis over the period of the license agreement. The unamortized cost of \$12,938 at July 31, 2005 is included in *Prepaid Expenses - Other* in the financial statements.

Program Underwriting

Revenue for program underwriting is recorded on a pro-rata basis for the periods covered.

Commissions

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

Community Service Grants

The Corporation for Public Broadcasting (CPB) is a private, non-profit grantmaking organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

Summary of Significant Accounting Policies (Cont'd)

Community Service Grants (Cont'd)

services. Each CSG may be expended over one or two Federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients. The public broadcaster uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with Community Service Grants awarded in prior years.

The grants are reported on the accompanying financial statements as unrestricted operating funds; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

Income Tax

The Corporation is exempt from Federal income taxes on income other than unrelated business income under the provisions of Section 501(c)(3) of the Internal Revenue Code. Due to unrelated business income net operating loss carry-forwards, the Corporation did not have to make any provision for income taxes for the year ended July 31, 2005.

Reclassifications

Certain 2004 amounts have been restated to conform with 2005 financial statement classifications. Such reclassification had no effect on the changes in net assets for the year ended July 31, 2004.

C. Short-term Investments

Investments at July 31, 2005 consisted of an investment in the Bank One Corporate Cash Sweep Account Treasury Securities Money Market Fund, which invests exclusively in obligations issued by the U.S. Treasury, totaling \$86,000. The fund earns interest at a variable rate on a daily basis.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 (Continued)
JULY 31, 2005

D. Property and Equipment

Property and equipment at July 31, 2005 consists of:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Automotive and mobile units	\$ 146,882	\$ 89,684
Broadcasting equipment	1,285,507	1,191,499
Furniture and fixtures	290,979	247,107
Production equipment	2,356,758	1,969,061
Leasehold improvements	<u>493,077</u>	<u>274,524</u>
<i>Total</i>	<u>\$4,573,203</u>	<u>\$3,771,875</u>

Depreciation expense of \$212,835 is included in program and supporting services for the year ended July 31, 2005. The breakdown of this depreciation by expense category is as follows.

Program Services:	
Programming, production and post-production Broadcasting	\$126,883 <u>20,225</u>
	147,108
Supporting Services:	
Management and general	<u>65,727</u>
<i>Total Depreciation Expense</i>	<u>\$212,835</u>

Property and equipment include certain major items acquired with grants from various governmental agencies. Certain of these agencies maintain a reversionary interest in the items acquired for a period of years subsequent to the grant award.

E. Investment in Joint Venture

The Corporation has a twenty-five percent interest in a joint venture formed to construct and operate a transmission tower. This investment is accounted for using the equity method, in which the Corporation's share of excess (deficient) revenue over expenses from the joint venture is directly reflected in the financial statements, and the investment is adjusted for its share of excess (deficient) revenue over expenses and any additional investment in the joint venture. The following information summarizes the activity of the joint venture through December 31, 2004.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

Investment in Joint Venture (Cont'd)

Current assets and total assets	\$1,412,964
Less: Current liabilities and total liabilities	0
Net assets	<u>\$1,412,964</u>
Revenue	\$ 34,581
Expenses	<u>143,824</u>
Net excess (expenses) over revenue	<u>\$(109,243)</u>
Corporate interest:	
Share of net expenses over revenue	\$(27,311)
Depreciation of Educational Broadcasting Foundation's portion of the joint venture's depreciable assets	<u>(11,795)</u>
Total net excess (expenses) over revenue *	<u>\$(39,106)</u>
* (Since this amount represents the Corporation's cost of operating its broadcasting tower, it is shown as a functional expense under <i>Broadcasting</i> .)	
Equity in net assets (including depreciation)	\$137,664
Advance to joint venture	<u>27,339</u>
Net advances and equity in joint venture	<u>\$165,003</u>

G. Long-term Debt

Long-term debt/Related parties consists of Promissory Note A in the amount of \$1,536,920. This unsecured note, which originally was payable to the Archdiocese of New Orleans, was transferred to Willwoods Community in conjunction with the transfer agreement. The note bore no interest until its maturity on July 31, 1998. Upon maturity, the note became payable in ten yearly installments of \$409,010, plus interest accrued on the unpaid balance at 7% per annum, with the final installment due July 31, 2008. For the year ended July 31, 2005, Willwoods Community forgave \$221,009.

Interest expense was \$221,009 for the year ended July 31, 2005.

The aggregate amount of maturities for long-term indebtedness for each of the five years subsequent to July 31, 2005 is as follows.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

Long-term Debt (Cont'd)

Fiscal year ending July 31,	
2006	\$ 718,900
2007	409,010
2008	409,010
2009	0
2010	<u>0</u>
	<u>\$1,536,920</u>

H. Related Party Transactions

As part of a letter agreement dated May 3, 1994, Willwoods Community entered into a cooperative endeavor on June 15, 1995 with the Louisiana Educational Television Authority (LETA). For a financial consideration, Willwoods transferred to LETA one-half of the voting membership, one-half of the representation on the Board of Educational Broadcasting Foundation, and one-half of the fixed assets of Educational Broadcasting Foundation, Inc. Willwoods Community retained the other one-half.

During the normal course of business, there are invoices for services between funds to Willwoods Community and the Corporation. As of July 31, 2005, the amount owed by Willwoods Community was \$7,428, and by Willwoods Community Management, Inc. was \$1,611 for the year ended July 31, 2005.

As stated in Note G, Willwoods Community forgave debt from the Corporation in the amount of \$221,009 for the year ended July 31, 2005.

The Corporation paid Willwoods Community \$61,100 in management fees for the year ended July 31, 2005.

I. Contributed Services

Contributed professional services were recorded as revenue and expenses in the *Statement of Activities* at the fair value of the support.

No amounts have been reflected in the financial statements for volunteer services. However, many individuals volunteer their time and perform a variety of tasks that assist the Corporation with campaign solicitations and various committee assignments.

In-kind contributions, principally donated professional services and donated facilities, amounted to \$48,605 for the year ended July 31, 2005.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

J. Employee Benefits

The Corporation offers a 401(k) pension plan to its employees [Willwoods Community Employee Profit-Sharing and 401(k) Plan]. Employees electing to participate in this Plan do not have to contribute any portion of their salary, but may elect to contribute up to a 10% maximum. The Corporation may make a matching discretionary contribution which could match up to 50% of the first 3% of the employee's contribution; and may also make a discretionary profit-sharing contribution.

The Plan administrator is Willwoods Community, and the Plan Trustee is Reverend Thomas E. Chambers.

Employer contributions to the plan during the year ended July 31, 2005 were \$19,982.

K. Leases

On July 1, 2000, the Corporation entered into a lease agreement for monthly rent of \$10,200. This lease term is for a period of five years which, on July 1st of each year, will be increased by the CPI up to a maximum of 3%. The lease term may be extended by mutual agreement for two additional five-year terms.

Total rental expense was \$149,039 for 2005.

The future minimum rental payments due under this lease for the next five years are as follows:

July 31,	
2006	\$141,549
2007	\$145,795
2008	\$ 0
2009	\$ 0
2010	\$ 0

L. Concentration of Credit Risk

The Corporation extends unsecured credit to its customers, a significant portion of whom are in the broadcasting business. Financial instruments that potentially subject the Corporation to credit risk include these accounts, which are shown in the financial statements as accounts receivable.

The Corporation maintains its cash deposit accounts at commercial banks. At times, account balances may exceed federally-insured limits. The Corporation has not experienced any losses on these accounts, and management believes the Corporation is not exposed to any significant risk on cash accounts.

EDUCATIONAL BROADCASTING FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JULY 31, 2005

M. Fund-Raising Expense

Total fund-raising expense for the year ended July 31, 2005 was \$33,022.

N. Commitments

As of July 31, 2003, the Corporation signed a Cooperative Endeavor Agreement with the State of Louisiana, the Louisiana Educational Television Authority, the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, the University of New Orleans Research and Technology Foundation, Inc., and the Greater New Orleans Educational Television Foundation (WYES-TV12). This agreement is for the construction of the New Orleans Teleplex transmitter (the "Teleplex") to be located at the University of New Orleans Research and Technology Park II. This Teleplex will allow WLAE-TV to comply with the requirement to convert to a digital signal for broadcasting purposes. The agreement commits the Corporation and WYES-TV12 to contribute an aggregate of \$3,000,000 towards the construction of the Teleplex, and an aggregate of \$1,000,000 toward equipping the Teleplex, as a joint obligation generated from their capital campaigns.

O. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of accounts receivable and pledges receivable from WYES-TV12 restricted for the purchase of a Teleplex building and equipment in the amount of \$1,327,536 as of July 31, 2005.

P. Subsequent Event

Subsequent to the date of the *Statement of Financial Position*, on August 29, 2005 the Corporation incurred severe damages to equipment due to Hurricane Katrina. These damages have been assessed and the Corporation will be made whole with insurance proceeds. Equipment enabling the Corporation to broadcast a signal was damaged and currently no signal is being broadcast. Cable broadcasting has been the only means of delivering programs produced by the Corporation at this time.

SUPPLEMENTARY INFORMATION

EDUCATIONAL BROADCASTING FOUNDATION, INC.
 SCHEDULE OF EXPENSES
 YEAR ENDED JULY 31, 2005
 (With Comparative Totals for Year Ended July 31, 2004)

	<u>Program</u>		
	<u>Post Production</u>	<u>Programming and Production</u>	<u>Broad- casting</u>
Advertising	\$ 1,340	\$ 5,670	\$ 0
Automotive and travel	2,864	5,453	10,970
Bad debt expense	0	0	0
Depreciation	110,498	16,385	20,225
Digital conversion	0	0	0
Donated services	0	0	0
Dues and subscriptions	0	1,485	0
Fringe benefits	16,661	45,665	9,130
Insurance	5,965	35,790	9,693
Interest	0	0	0
Maintenance	6,691	64	55,541
Meetings, conferences, including travel	5,427	4,853	943
Miscellaneous	7,729	28,617	3,168
Office supplies	3,574	108	155
Payroll taxes	13,971	37,812	7,280
Postage and shipping	9,240	205	281
Printing	35	0	0
Professional services	400	279,319	10,614
Program purchases and license fees	0	163,326	0
Rent	11,807	71,332	19,186
Salaries	101,380	623,411	101,888
Supplies	0	0	0
Tape expense	33,700	0	0
Telephone	45	12,460	13,117
Tower	0	0	39,106
Utilities	0	0	101,994
Total Expenses	<u>\$331,327</u>	<u>\$1,331,955</u>	<u>\$403,291</u>

<u>Services</u>		<u>Supporting Services</u>			
<u>Program Information</u>	<u>Grants and Tele-communications Programs</u>	<u>Fund-Raising and Membership Development</u>	<u>Management and General</u>	<u>Total 2005</u>	<u>Total 2004</u>
\$ 0	\$ 0	\$ 0	\$ 220	\$ 7,230	\$ 12,505
83	73	70	2,944	22,457	19,225
0	0	0	111,745	111,745	710
0	0	0	65,727	212,835	210,757
0	211,978	0	0	211,978	86,311
46,299	0	795	0	47,094	41,270
0	0	102	396	1,983	1,171
4,767	0	4,611	11,445	92,279	88,891
2,237	0	3,728	27,216	84,629	78,764
0	0	0	221,009	221,009	227,309
384	0	1,359	17,858	81,897	122,468
0	0	367	0	11,590	23,572
455	0	33,022	16,294	89,285	88,990
0	0	154	3,582	7,573	4,111
3,997	0	3,683	6,472	73,215	62,587
36	0	1,964	2,223	13,949	16,244
2,559	0	12,551	156	15,301	27,099
0	0	0	103,949	394,282	517,933
0	0	0	0	163,326	173,090
2,952	1,476	7,379	34,907	149,039	145,420
55,942	972	50,568	90,580	1,024,741	856,161
0	0	0	0	0	519
0	0	0	0	33,700	34,018
0	0	0	7,593	33,215	28,500
0	0	0	0	39,106	32,210
0	0	0	0	101,994	88,677
<u>\$119,711</u>	<u>\$214,499</u>	<u>\$120,353</u>	<u>\$724,316</u>	<u>\$3,245,452</u>	<u>\$2,988,512</u>

SPILSBURY, HAMILTON, LEGENDRE & PACIERA

CERTIFIED PUBLIC ACCOUNTANTS

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(1905-1985)
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(1932-2003)
LEROY P. LEGENDRE, C.P.A.
(Retired)

MEMBERS OF
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
Educational Broadcasting Foundation, Inc.
New Orleans, Louisiana

We have audited the financial statements of Educational Broadcasting Foundation, Inc. as of and for the year ended July 31, 2005, and have issued our report thereon dated March 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Educational Broadcasting Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course

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

of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Educational Broadcasting Foundation, Inc. in a separate letter dated March 20, 2006.

This report is intended solely for the information and use of the Audit Committee, management, and the U.S. Department of Commerce and is not intended to be and should not be used by anyone other than these specified parties.

Spilbury, Hamilton, Legendre & Paciera

March 20, 2006

SPILSBURY, HAMILTON, LEGENDRE & PACIERA

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March 20, 2006

Reverend Thomas E. Chambers, C.S.C.
Educational Broadcasting Foundation, Inc.
New Orleans, Louisiana

In planning and performing our audit of the financial statements of Educational Broadcasting Foundation, Inc. for the year ended July 31, 2005, we considered the Corporation's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency, and reducing expenses. This letter does not affect our report dated March 20, 2006 on the financial statements of Educational Broadcasting Foundation, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with the Corporation's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows.

RECORD MAINTENANCE

As noted in the prior year, the Corporation was missing documentation (original invoices) that supported additions to property and equipment accounts for the year. Adequate documentation for additions to fixed assets is critical and should be retained without exception. Lacking supporting documentation in this area is of extreme concern because purchases tend to be of relatively high value. Also, concerns regarding proper approval for purchase, obtaining bids for price comparison, and evidence of receipt of the goods in satisfactory condition is supported by proper documentation. We suggest that provisions be implemented to retain supporting documentation for purchases of property and equipment.

We also noted that bank statement records could not be located for the Digital Distribution Fund grant and a signed agreement between the Department of Commerce and the Corporation concerning the PTFP grant equipment purchasing relinquished to the State was never acquired. In order to sup-

port compliance with grant requirements, information concerning bank account deposits and withdrawals should be retained in accounting records and all agreements should be in writing. We recommend accounting personnel responsible for maintaining financial records implement a system to easily identify the activity for all grant accounts and that the grant administrator acquires all written agreements to be held on file by the Corporation.

ALLOCATING DEPARTMENTAL EXPENSES

The Corporation has a variety of departments incurring shared expenses to be allocated accordingly. We discovered that management miscoded a portion of these shared expenses to various departments through the year. In order to properly reflect departmental expenses on the financial statements and tax return, these items should be segregated. Payroll taxes, Medicare, retirement and group insurance expenses should be allocated by a percentage based on each departmental salary expense over total salary expense. We recommend management continuously segregate expenses to each department throughout the year for proper allocation and compare the percentages to annual totals.

ACCOUNTS RECEIVABLE

The accounts receivable subsidiary ledger indicated numerous accounts relating primarily to old balances. To improve control over receivables, we suggest that past due balances be reviewed monthly. Any outstanding balances should be resolved with customers and appropriately cleared from the books. Prompt collection action should be pursued; otherwise old, questionable or unidentified balances should be written off. Through discussions with senior management, an allowance account was created to offset questionable receivable balances. This account should be examined periodically and updated when necessary.

PLEDGES RECEIVABLE

As noted in the previous year, management had not reconciled the pledge receivable due from WYES. We recommend that management reconcile that amount on a periodic basis and make the appropriate entries on the Corporation's books.

GRANT REVENUE

As noted in the prior year, there has been an increased involvement in the area of federal grants. While federal funds are a valuable source of revenue within the community, they impose very specific and stringent reporting requirements. When coding grants to the general ledger, they should be recorded using the gross amount of the grant, and the expenditures should be reported in separate accounts. The revenue and expenses related to grants should not be netted on the books of the Corporation.

FDIC LIMITATIONS

While conducting the audit of cash, we noted the Corporation had cash on deposit in excess of the federally-insured limit in a financial institution. This presents a potential for losses to the Corporation in the event of bank or institutional failure. We have discussed this situation with management and we understand that, due to the large deposits of cash receipts, it is difficult to maintain less than \$100,000 in the grant accounts. We strongly suggest that management closely monitor cash balances and transfer excess balances to other banks, where possible, or set up sweep accounts to reduce the potential for loss of monetary amounts in excess of the federally-insured level.

PHYSICAL INVENTORY

Our discussions with management and our review of the detailed property and equipment records reveal that numerous assets recorded on the Corporation's records have been disposed of or are no longer in use. We believe that this indicates the need for a complete physical inventory of property and equipment. This procedure will provide the Corporation with an accurate inventory which would also provide a strong source of detail and control to establish a future system of safeguards for property and equipment.

ACCOUNTING STAFF

We noted that the Corporation is experiencing significant delays in its accounting and reporting processes due to an understaffed accounting department. Continued problems in receiving timely and current financial information can significantly affect senior management's abilities, such as providing relevant oversight and budgetary control. We suggest the Corporation consider the accounting requirements needed to process financial and budgetary information.

BOARD OF DIRECTORS MINUTES

Our audit procedures disclosed that minutes of the meetings of the Board of Directors were not maintained for all meetings. As a result, there is no assurance regarding the discussion that may have taken place at a meeting of the Board and, likewise, no assurance regarding official actions of the Board that may have had a financial impact. We suggest that, in the future, minutes be promptly prepared and retained electronically and in hard-copy form for all meetings of the Board of Directors.

Educational Broadcasting Foundation, Inc.
March 20, 2006
Page 4

ACCRUED SALARIES AND VACATION

During our audit, we discovered that the calculation worksheet of accrued salaries and vacation was improperly allocating amounts to function rather than department. This caused confusion when attempting to allocate these amounts for financial statement purposes. We recommend that the accounting personnel responsible for calculating accrued wages and vacation reconfigure the worksheet to journalize the amounts by department, which will produce a clear audit trail.

We would be happy to assist you in implementing any of the recommendations contained in this letter, and would like to express our appreciation to the management of Educational Broadcasting Foundation, Inc. and their staff for the assistance and cooperation afforded us during our audit.

Yours truly,

SPILSBURY, HAMILTON, LEGENDRE AND PACIERA
Certified Public Accountants

A Willwoods Community Ministry**Louisiana Public Broadcasting**

May 10, 2006

Father Tom Chambers,

This letter is in response to the management letter our auditors, Spilsbury, Hamilton, Legendre and Pacira, sent to you. I will address each comment individually.

RECORD MAINTENANCE

Accounting will strictly enforce a policy that consists of proper documentation for all purchases. If accounting receives a request for payment without support attached, the bill will not be paid until backup is received. For fixed asset purchases, accounting will keep a separate file specifically for fixed assets. The file will include all information (purchase price, serial numbers) needed to document all assets purchased over \$500 as well as all computer equipment.

All bank statements are currently kept in a file by month, including the separate bank statements for the DDF grant. Due to the TV station's evacuation from our normal offices because of Hurricane Katrina, some of the required information was not readily available. Additionally we are currently in the process of requesting a signed agreement from the Department of Commerce concerning the PTFP grant. The TV station is going to create a grant committee to make sure that proper documentation for all grants is kept up to date. Accounting will be included in the committee and will keep their own records of all grants, as well as all bank account information, paid invoices, and withdrawals related to these grants.

ALLOCATION OF DEPARTMENTAL EXPENSES

On a monthly basis, shared expenses will be allocated to the proper departments using the appropriate percentages. They will be allocated based on each department's percentage over total expenses.

ACCOUNTS RECEIVABLE

Management has setup an Allowance for Doubtful Accounts to segregate our older, uncollected accounts receivables, while still showing the entire accounts receivable balance on the books. Management will periodically review the accounts receivable aging and adjust the allowance as needed.

PLEDGES RECEIVABLE

Accounting will contact WYES on a quarterly basis and properly book the entries that are needed to show a more accurate balance on our books.

Page 2

GRANT REVENUE

Accounting will segregate grant revenue and expenses on the income statement. We will no longer net the two.

FDIC LIMITATIONS

It is not often that the TV station will have amounts in the bank over the \$100,000 FDIC limits. Generally this only occurs in the days shortly after we receive grant monies. Often these monies are expected to be spent in a short period of time, 6 months or less. Before depositing these monies, we do review the stability of the bank and determine if the amounts will be safe in the short term.

PHYSICAL INVENTORIES

To better track our fixed assets, we will investigate using fixed asset software and tracking our assets in-house rather than having the auditors compile the information as part of the audit. Our accounting software, Peachtree, has the capabilities and the integration to make this efficient. Additionally we will keep the fixed assets in a separate file, with all of the related back up.

ACCOUNTING STAFF

Management is considering increasing the hours of its accounting staff to a more full time position.

BOARD OF DIRECTORS MINUTES

Management will insure that minutes are promptly prepared and retained electronically and in hard copy form for all meetings of the Board of Directors.

ACCRUED SALARIES AND VACATION

In the future accounting will allocate and accrued for vacation and payroll in the same manner by department, and thereby show a clearer audit trail.

It is our hope that implementing these changes will make our company run smoother and make our audits easier.

Sincerely,



Mark Coudrain
President
Educational Broadcasting Foundation, Inc