Section 4: Requirements for Financial Accountability

Grantees’ Fiscal Year 2009

Grantees accounting and financial reporting responsibilities

Under the Communications Act of 1934, as amended:

- Public broadcasting entities that receive funds from CPB must establish and maintain adequate accounting records and internal control procedures.

- Grantees receiving Community Service Grants are required to prepare and submit to CPB either an Annual Financial Report (AFR) or an Annual Financial Summary Report (FSR), which reports the amount of non-federal financial support (NFFS) that the grantee has received. In most instances, the grantee is required to have the NFFS information reported in the AFR or FSR examined by an independent accountant, who must attest to its reliability.

- Most grantees are also required to prepare annual financial statements for the public telecommunications entity at least every two years (see below), and to have those statements audited by an independent auditor. General-purpose financial statements of a parent institution that is the licensee will not satisfy this requirement.

Audit Committees

CPB encourages each grantees governing board to establish an audit committee to provide overall financial guidance, review financial reports, and monitor any changes necessary to ensure proper administration and control of funds. The American Institute of Certified Public Accountants (AICPA) has long advocated the formation of audit committees to assist other directors in carrying out their fiduciary responsibilities with respect to financial matters. An audit committee’s specific objectives will vary depending on the entity’s facts and circumstances. Stations licensed to colleges and universities may already have access to audit committees that can perform these functions on behalf of the station grantee.

Report Filing Deadlines

All television and radio station grantees filing the CPB Annual Financial Report (AFR) or the CPB Annual Financial Summary Report (FSR) along with their Audited Financial Statements (if required) must be formally submitted online within five months after the end of the grantees fiscal year.

If a grantee should find it necessary to file an amended report, it must do so by May 31. Contact the OGA at ISIS@cpb.org. Amended reports are subject to the same audit and certification requirements as delineated in these guidelines.
The AFR Signature Page, independent accountants modified attestation language (i.e. Alternate Opinion Languageoptional), and Independent Accountants Qualification Statement (if required) must be submitted along with the AFR or FSR as one complete package.

Click below for instructions on how to complete and/or submit the:

- AFR Signature Page
- Independent Accountants Alternate Opinion Language
- Independent Accountants Qualification Statement
- Audited Financial Statements

Reminder: Grand funds cannot be released until financial reporting requirements have been satisfied.

Penalties for late filing of financial reports

Penalty provisions were established by the Board of Directors of CPB, pursuant to statutory authority and with the concurrence of the stations. The goal is not to impose a hardship on any station, but to effect orderly administrative procedures and the timely accounting required by the Communications Act of 1934, as amended, and other requirements of public accountability on the part of CPB.

A resolution of the Board of Directors dated May 21, 1981, provides as follows:

(1) The CSG for an eligible station which fails to file its certified financial report with CPB five months after its fiscal year ending date will be calculated on the basis of the late-filed report, less one three-hundred-sixty-fifth (1/365) of the eligible grant for each calendar day of delinquency after a station's due date provided, however, that for good cause shown, CPB may waive the foregoing provisions in whole or in part; and

(2) If the report is not filed in sufficient time to enable CPB to certify the income as qualifying for federal matching, the eligible station shall not receive an incentive grant.

CPB publishes new accounting principles edition

In May 2005, CPB published a new accounting principles edition entitled Application of Principles of Accounting and Financial Reporting to Public Telecommunications Entities for use by public broadcasters system wide and by their independent accountants. These Principles are accessible at www.cpb.org/stations/principles. The document describes in detail and presents extensive examples of the basic financial statements that CPB station grantees must prepare for audit by independent accountants and subsequent submission to CPB as a condition of the receipt of funds from CPB regardless of how such entities are owned, operated, or affiliated with other public or private organizations.

Federal law requires CPB to develop these principles of accounting and financial reporting for all public telecommunications entities that receive funds from CPB taking into account organizational differences among various categories of such entities. The most recent prior update was published in 1996.

With help from accountants KPMG, CPB revised and updated the document and consulted with the US General Accounting Office, as the law also requires. The document recognizes the big changes in accounting and financial reporting that accounting standards bodies have adopted since the document was last updated.
All grantees are required to comply with the requirements described in the new edition in fiscal years beginning on or after July 1, 2005. (CPBs Principles do not affect the timetables for mandatory compliance with any requirements promulgated by FASB and GASB, which are established by FASB and GASB.)

In general, grantees must prepare their financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by either the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB) depending on the reporting entity. CPB grantees fall into one of the following categories and generally follow the financial reporting model noted in parentheses:

- Grantees licensed to non-profit community organizations and private colleges and universities (FASB);
- Grantees licensed to public colleges and universities (GASB);
- Grantees licensed to state and local governments (GASB).

**Transition to New Accounting Principles FAQs**

**Q1.** Our financial reporting entity is a hybrid. Our financial statements consolidate the financial position and activities of an organization that would traditionally follow FASB (e.g., a legally-discrete, not-for-profit, fund-raising organization such as a Friends group or university foundation, or a non-governmental organization that staffs and operates the station under an LMA (local management agreement) with those of a governmental unit that would traditionally follow GASB. Which set of standards GASB or FASB must we adopt and follow?

**A1.** In the past, CPB has almost always deferred to the judgment of the grantee and its auditors in making this very important decision. The clear trend in accounting standards, however, is toward adopting and following GASB guidance whenever a significant part of the resources available to the public broadcasting station comes from governmental sources, and particularly when a non-governmental organization providing resources is restricted in any way to using those resources solely on behalf of a governmental unit. GASB Statement No. 39 (issued May 2002 and effective for financial statements for periods beginning after June 15, 2003) indicates that in such circumstances, the governmental unit must include the non-governmental organization as a component unit.

**Q2.** If we adopt and follow GASB guidance, are we then required to submit government-wide or institution-wide financial statements to CPB, instead of the public-broadcasting-entity-only statements that CPB has traditionally required?

**A2.** Grantees must continue to prepare financial statements that discretely display the financial position and activities of the public broadcasting entity, not those of a parent institution or governmental unit alone, and independent auditors must continue to audit and opine on those separately issued statements. This requirement which CPB has not changed in decades applies to all public broadcasting entities, regardless whether other accounting standards may also require the parent institution or governmental unit to include the public broadcasting entity in its separately issued, institution-wide or government-wide financial statements.

**Q3.** When we adopt and follow GASB Statement Nos. 34 (for general governments) or 35 (for public colleges and universities), does CPB require us to prepare and submit all required elements of financial reporting, such as:

- Management Discussion & Analysis, and...
• Required Supplementary Information Other Than MD&A Budgetary Comparison Schedules?

A3. Since the requirements of GASB 34 or 35 became effective, CPB has expected all grantees to prepare and submit all required elements of financial reporting.

Financial statement examination

The independent auditor shall conduct the examination of the grantees financial statements in accordance with generally accepted audit standards (GAAS) as approved by the AICPA. The primary objective of the auditor's examination is to determine whether the financial statements fairly present the entity's financial position and financial activity in accordance with GAAP, applied on a consistent basis with the preceding period. To determine this, the entity's accounting system and related internal control structure are reviewed to ensure that they are operating effectively and that adequate records are being maintained.

The scope of each audit will include an examination of the financial statements and tests of transactions, sufficient to enable the auditor to express an opinion on the financial statements taken as a whole. Generally, the auditor's report will cover the following financial statements:

FASB reporting model for grantees licensed to non-profit community organizations and private colleges and universities

• Statement of Financial Position
• Statement of Activities
• Statement of Cash Flows
• Notes to Financial Statements
• Statement of Functional Expenses (Optional but strongly encouraged for inclusion as a supplemental schedule if not included in the basic financial statements.)

GASB reporting model for grantees licensed to public colleges and universities (see Transition to new accounting principles)

• Management Discussion and Analysis
• Statement of Net Assets (or balance sheet)
• Statement of Revenues, Expenses, and Changes in Fund Net Assets
• Statement of Cash Flows
• Notes to Financial Statements
• Statement of Functional Expenses (Optional but strongly encouraged for inclusion as a supplemental schedule if not included in the basic financial statements.)

GASB reporting model for grantees licensed to state and local governments (see Transition to new accounting principles)

• Management Discussion and Analysis
• Statement of Net Assets (or balance sheet)
• Statement of Revenues, Expenses, and Changes in Fund Net Assets
• Statement of Cash Flows (if required)
• Notes to Financial Statements
• Statement of Functional Expenses (Optional but strongly encouraged for inclusion as a supplemental schedule if not included in the basic financial statements.)
Auditor's report on the financial statements

Various types of audit opinions can be issued on the financial statements, depending upon the circumstances. These types of opinions and the circumstances giving rise to each are -

**Unqualified opinion** - An unqualified opinion states that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

**Explanatory language Added to the Auditor’s Standard Report** - Certain circumstances, while not affecting the auditor's unqualified opinion on the financial statements, may require that the auditor add an explanatory paragraph (or other explanatory language) to the report.

**Qualified opinion** - A qualified opinion states that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with GAAP.

**Adverse opinion** - An adverse opinion states that the financial statements do not present fairly the financial position, results of operations, or cash flows of the entity in conformity with generally accepted accounting principles.

**Disclaimer of opinion** - A disclaimer of opinion states that the auditor does not express an opinion on the financial statements.

Biennial filing of audited financial statements

The grantee must file an AFR or FSR every year. However, the law allows for audited financial statements to be filed every two years (biennially). In such instances, the AFR or FSR must be compared with the subsequently submitted AFS. If this delayed comparison shows that the station's grants were calculated using an overstated NFFS, CPB will adjust the station's grants to the proper amount. CPB has no obligation to adjust a station's grants to an amount greater than was calculated in instances where the reported NFFS was understated. Consequently, CPB encourages its grantees to file their AFS annually since it is in their best interests to do so.

Biennial statements must be filed in even-numbered fiscal years and must cover the twenty-four months since the previous statements were filed and must consist of two separate twelve-month reporting periods, for each of which a separate opinion is expressed or disclaimed in the audit report. Additionally, the grantee is required to file an amended AFR that compares the values previously reported with the values based on the subsequent audited financial statements. The final step will be to re-certify the NFFS by executing a new Signature Page; this requires an attestation by the independent accountant and certification by the Head of Grantee. At the appropriate time, CPB will contact the grantee with instructions for filing the amended AFR or FSR and related Signature Page. Go to Section 2 for information on how and when a grantee may exercise this election.

NFFS examination and attestation

The grantee should begin preparation of the Annual Financial Report (AFR) with the balances reflected in the audited financial statements and proceed with appropriate adjustments based on application of the criteria contained in these Guidelines.
CPB requires an independent accountant to examine the AFR and to issue a written conclusion about the reliability of amounts reported in the AFR as non-federal financial support (NFFS). In accordance with established requirements of the American Institute of Certified Public Accountants (AICPA), such an examination is an attest engagement. An attest engagement is one in which an independent accountant is engaged to issue a written conclusion about the reliability of a written assertion that is the responsibility of another party. CPB requires that grantee AFRs be examined in accordance with attestation standards adopted by the AICPA.

It is recommended that the examination include tests of:

- Support and revenue for qualification as NFFS under the source, form, purpose, and recipient criteria delineated in the Guidelines, Section 3 NFFS Minimums for CSG Eligibility, Statutory Definition and Reporting Criteria.
- Cash receipts, for proper line item classification.
- Allocation methods selected for calculating indirect administrative support. Does the method achieve the objective of distributing costs in proportions reasonably consistent with the nature and extent of the stations use of licensee resources? Go to Section 5.4 How to complete Schedule B for more information.
- Indirect costs, for exclusion of licensee costs not directly benefiting the station (go to Section 5.4 How to complete Schedule B for more information).
- Valuation of contributed services and assets. CPB auditors review these NFFS claims closely to ensure fair value reporting. Fair value can be determined by independent appraisal and independent quotations from other providers of the same or similar services or assets.

All amounts claimed as NFFS must be recognized in the audited financial statements for the current fiscal year. A grantee cannot receive NFFS credit for revenues that have not been recognized in the audited financial statements for the current fiscal year.

An Independent Accountants Report, based on AICPA attestation standards, is an integral part of the AFRs Schedule of Non-federal Financial Support, which is incorporated in the online Signature Page of the AFR. Accountants also may elect to issue a separate attestation on their own business stationery but be certain to use the same or similar attestation language as appears in the body of the “Signature Page.” The independent accountant should so indicate in the checkbox on the online Signature Page and then transmit to CPB an electronic image of the separate attestation, following the instructions in the ISIS Help files. Click here for step-by-step instructions on submitting Alternate Opinion Language. Do not check this box unless a properly executed separate attestation is uploaded as instructed.

Other federal audit requirements

Grantees should be aware that certain federal audit requirements might specify that recipients of federal funds undergo audits. Because the applicability of such audit requirements is fact-specific, each station must determine if it is subject to these audit requirements.

In particular, CPB is asked frequently whether CPB-supported stations are subject to the audit requirements of OMB Circular A -133. Receipt of CPB grant funds does not in and of itself trigger the
audit requirements of OMB Circular A -133. However, each station must review these OMB requirements carefully to determine whether the station is subject to them for some reason other than being a recipient of CPB grant funds. For further guidance, contact CPB's Office of the General Counsel (202-879-9600).

**Acceptable auditors**

Acceptable auditors can be either independent certified public accountants or independent licensed public accountants who are certified or licensed by a regulatory authority of a state. The following three groups of auditors satisfy the criteria specified by the Communications Act and may be used as a guideline in the selection of independent auditors:

1. **Independent Certified Public Accountant**
   - a firm
   - a sole practitioner
   - an internal auditor who works for a different and separate university or organization.
   - an auditor who donates his or her services (e.g. a member of the station's community advisory board or Accountants for the Public Interest).

2. **Independent Licensed Public Accountant**
   - a firm
   - a sole practitioner
   - an internal auditor who works for a different and separate university or organization.
   - an auditor who donates his or her services (e.g. a member of the station's community advisory board or Accountants for the Public Interest).

3. **Independent state audit agency directed by a person who is**
   - Elected by the citizens of the state; or
   - Elected or appointed by and reporting to the state legislature or a committee thereof; or
   - Appointed by the governor and confirmed by and reporting to the state legislature; and who
   - Performs the audit in conformity with auditing standards adopted by CPB.

**In addition,** a person who is within the licensee’s broad organization and independent of the public broadcasting entity’s management, may examine the entity’s financial statements if ALL of the following restrictions apply:

- The person is a certified public accountant or a licensed public accountant qualified to practice in a jurisdiction.
- The person is not in any way responsible for the accounting operations of the station.
- The person is not in any way responsible for, or connected with, establishment of the overhead rates or other factors that govern the amounts of indirect administrative support or non-cash contributions included in the entity’s financial statements.

Independent accountants who are not representatives of an independent CPA firm and who meet these requirements must complete an Accountants Qualification Statement (see below) in order to express
an opinion on a grantees NFFS. Click here for step-by-step instructions on submitting an Accountant’s Qualification Statement.

Auditor independence

The auditor must, at all times during the period of the professional engagement and at the time of expressing an opinion, have been independent of the public broadcasting entity as a promoter, underwriter or voting trustee, a director or officer or in any capacity equivalent to that of a member of management or of an employee (AICPA guidelines). For CPB purposes, a listing of auditors that satisfy the criteria specified by the Communications Act is provided in the section above.

The public broadcasting entity shall not select any auditor to conduct an examination who is not in fact independent, as defined in the AICPA's Codification of Statements on Auditing Standards (CSAS) or as defined by the Communications Act. The CSAS states in part that to be recognized as independent, the auditor must be free from any obligation to or interest in the client, its management, or its owners. For example, an auditor shall not be considered independent if he/she maintains the official accounting records being audited, reports to the person who maintains such records, or has either a direct or indirect interest in the financial affairs of the entity being audited, or of any of the officers or directors of the entity. When an auditor expresses an opinion on financial statements, integrity, both in fact and appearance, is of particular importance. Auditors should avoid any situations that may lead outside parties to question their independence.

The AICPA's CSAS also states the following with regard to lack of independence: "When an accountant is not independent, any procedures s/he might perform would not be in accordance with GAAS, and s/he would be precluded from expressing an opinion on such statements. Accordingly, s/he should disclaim an opinion with respect to the financial statements and should state specifically that s/he is not independent."

Accountants Qualification Statement (purpose and application)

Independent accountants who are not representatives of an independent CPA firm and who meet the requirements noted in the section Acceptable auditors must complete an Accountants Qualification Statement in order to express an opinion on a grantees NFFS. Click here for step-by-step instructions on submitting an Accountant's Qualification Statement

- This requirement is applicable to individuals employed by a state audit agency and internal auditors as described in the section Acceptable auditors.
- Do not file an Accountants Qualification Statement if your NFFS is attested to by a representative of an independent CPA firm.

Disqualification of an auditor

CPB’s Office of Grants Administration conducts standard desk reviews of grantee AFRs and audited financial statements. CPB notifies all grantees if their AFR is determined to be in non-compliance with the Guidelines and where specific adjustments to NFSS are necessary. Persistent errors resulting in NFSS adjustment are grounds for recommendation that an auditor be disqualified from the AFR review and attestation process.