



Corporation
for Public
Broadcasting

Office of the Inspector General

Audit of the Community Service and Other Grants Awarded to KAET-TV (Arizona PBS), Licensed to the Arizona Board of Regents for Arizona State University, Phoenix, Arizona for the Period July 1, 2020 Through June 30, 2022

REPORT NO. AST2308-2407

March 29, 2024

cpboig.oversight.gov
Email: oigemail@cpb.org



Report in Brief

*Audit of Community Service and Other Grants Awarded to KAET-TV (Arizona PBS),
Licensed to the Arizona Board of Regents for Arizona State University, Phoenix, Arizona
for the Period July 1, 2020 through June 30, 2022*

What We Found

KAET-TV complied with Corporation for Public Broadcasting (CPB) requirements for the Fiscal Years 2021 and 2022 grant periods except for:

- overstated NFFS totaling \$1,270,942 resulting in CSG overpayments of \$159,920 (reported as funds put to better use);
- questioned costs of \$32,908;
- providing seven days advance notice of Community Advisory Board (CAB) public meetings, posting the most current CPB Annual Financial Report (AFR) and Audited Financial Statements (AFS) on the station's website, and making its CPB Employment Statistical Report available to the public;
- inaccurate reporting on its AFR due to misclassifying NFFS revenues in AFR Schedule A and underreporting total station expenditures by \$17,237 in AFR Schedule E; and
- fully complying with CPB recordkeeping requirements and financial reporting requirements of Generally Accepted Accounting Principles (GAAP).

In response to the draft report, the station management agreed with our findings. Specifically, the response noted that the station is developing, implementing, and documenting specific processes to ensure future compliance with NFFS reporting, expenditure of CPB grants, Communications Act (Act) and CPB General Provisions requirements, and GAAP requirements. Further, they are enhancing their processes to ensure compliance with the AFR reporting requirements.

What We Recommend

We recommend that CPB require the station to:

- repay \$192,828 (\$159,920 in CSG overpayments and \$32,908 in questioned costs);
- review the prior two-year period for NFFS overstatements related to the exclusion of substantial premiums from membership revenues and recover any related CSG overpayments;
- fully comply with Act and CPB requirements to provide seven days advance notice of upcoming CAB meetings, post the most current CPB AFR and AFS on the station's website, and make its CPB SAS Employment Statistical Report available to the public; and
- identify the corrective actions and controls it will implement to ensure future compliance with all CSG grant and Act requirements, including CPB financial recordkeeping and reporting requirements of GAAP.

Why We Performed This Audit

We performed this audit based on our annual audit plan.

Our objectives were to determine whether the station: a) claimed Non-Federal Financial Support (NFFS) on their AFRs in accordance with CPB's Financial Reporting Guidelines (Guidelines); b) complied with the Act and CPB's grant certification requirements; and c) expended CPB grant funds in accordance with grant certification requirements.

This report contains the conclusions of the Office of the Inspector General. CPB will make the final decision on our findings and recommendations.



Corporation
for Public
Broadcasting

Office of the Inspector General

Date: March 29, 2024

To: Jackie J. Livesay, Deputy General Counsel and Vice President, Compliance
Kathy Merritt, Senior Vice President for Radio, Journalism and CSG Services

From: Kimberly A. Howell, Inspector General

Subject: Audit of the Community Service and Other Grants Awarded to KAET-TV (Arizona PBS), Licensed to the Arizona Board of Regents for Arizona State University, Phoenix, Arizona for the Period July 1, 2020 Through June 30, 2022, Report No. AST2308-2407

Enclosed please find our final report which contains our findings and recommendations. CPB officials must make a final management decision on the findings and recommendations in accordance with established audit resolution procedures.

Accordingly, we request that you provide us with a draft written response to our findings and recommendations within 90 days of the final report. We will review your proposed actions and provide our feedback before you issue a final management decision to the grantee, which is due within 180 days of the final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates so that we can track the implementation of corrective actions needed to close the audit recommendations.

We will post this report to the Office of the Inspector General's website and [Oversight.gov](https://www.oversight.gov) and distribute it to the appropriate Congressional committees as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

cc: Laura Ross, Chair, CPB Board of Directors
Elizabeth Sembler, CPB Board of Directors, Audit and Finance Committee
U.S. Senate Committee on Homeland Security and Governmental Affairs
U.S. House of Representatives Committee on Oversight and Accountability
U.S. Senate Committee on Commerce, Science and Transportation
U.S. House of Representatives Energy and Commerce Committee
U.S. Senate Committee on Appropriations
U.S. Senate Labor-HHS-Education Appropriations Subcommittee
U.S. House of Representatives Committee on Appropriations
U.S. House of Representatives Labor-HHS-Education Appropriations Subcommittee

TABLE OF CONTENTS

Executive Summary	1
Background.....	2
Results of Audit	3
Findings and Recommendations	4
I. Overstated NFFS	4
Schedule A.....	5
Premium Offsets were not Reported Against Membership Revenues.....	5
Ineligible Purpose	6
Endowments – Unrealized and Realized Gains	7
Ineligible Exchange Transactions	8
Ineligible Contribution – Double Counting of Contributions	9
Lack of Documentation.....	9
Schedule B	10
Indirect Administrative Support.....	10
II. Questioned Costs.....	12
III. Communications Act and CPB General Provisions Noncompliance	13
Open Financial Records – AFR and AFS Not Posted to Website	14
Advance Notice of Meetings.....	14
CPB Employment Statistical Report.....	15
IV. AFR Reporting.....	17
Misclassified Revenues.....	17
Underreported Expenditures	20
V. GAAP Compliance	21
Revenue Recognition	21
CPB CSG Revenues.....	22
Underwriting Revenues.....	23
Exhibit A – CPB Grant Payments to Arizona PBS.....	25
Exhibit B – KAET-TV Annual Financial Reports.....	26
Exhibit C – Arizona PBS Summary of Non-Federal Financial Support.....	38
Exhibit D – Scope and Methodology.....	39
Exhibit E – KAET-TV Response to Draft Report	40

EXECUTIVE SUMMARY

We have completed an audit of the Corporation for Public Broadcasting (CPB) grants awarded to KAET-TV (Arizona PBS), licensed to the Arizona Board of Regents for Arizona State University, Phoenix, Arizona. The grants reviewed included television Community Service grants (CSG); Interconnection; Universal Service Support; Coronavirus Aid, Relief and Economic Security Act (CARES Act); American Rescue Plan Act (ARPA); and Ready to Learn grants for the period July 1, 2020 through June 30, 2022.

Our objectives were to determine whether the station: a) claimed Non-Federal Financial Support (NFFS) on their Annual Financial Reports (AFRs) in accordance with CPB's Financial Reporting Guidelines (Guidelines); b) complied with the Communications Act (Act) and CPB's certification requirements; and c) expended CPB grant funds in accordance with grant requirements.

Based on our audit, we found that Arizona PBS complied with CPB grant and Act requirements, except for:

- overstated NFFS totaling \$1,270,942 resulting in CSG overpayments of \$159,920 (reported as funds put to better use);
- questioned costs of \$32,908;
- providing seven days advance notice of Community Advisory Board (CAB) public meetings, posting the most current CPB AFR and Audited Financial Statements (AFS) on the station's website, and making its CPB Employment Statistical Report available to the public;
- inaccurate reporting on its AFR due to misclassifying NFFS revenues in AFR Schedule A and underreporting total station expenditures by \$17,237 in AFR Schedule E; and
- fully complying with CPB recordkeeping requirements and financial reporting requirements of Generally Accepted Accounting Principles (GAAP).

We recommend that CPB management require Arizona PBS to:

- repay \$192,828 (\$159,920 in CSG overpayments and \$32,908 in questioned costs);
- review the prior two-year period for NFFS overstatements related to the exclusion of substantial premiums from membership revenues and recover any related CSG overpayments;
- fully comply with Act and CPB requirements to provide seven days advance notice of upcoming CAB meetings, post the most current CPB AFR and AFS on the station's website, and make its CPB SAS Employment Statistical Report available to the public; and
- identify the corrective actions and controls it will implement to ensure future compliance with all CSG grant and Act requirements, including CPB financial recordkeeping and reporting requirements of GAAP.

In response to the draft report, station management stated that following significant leadership and staff turnover and the relocation of the station from the Cronkite School of Journalism to

Media Enterprise in July 2023, the station has been working diligently to stabilize operations and enhance service to the community. The station advised that they have taken decisive steps to address the findings and recommendations outlined in the report. The station also said it has identified additional resources and is expanding the business team under the new Finance Director.

Station management agreed with our findings on overstated NFFS, questioned costs, Communications Act and CPB General Provisions, CPB AFR reporting, and GAAP compliance. Station management stated that they are committed to having new processes and controls fully implemented by the end of FY 2024 (June 30, 2024) with continuous training for all staff and close collaboration with CPB to ensure accurate NFFS reporting moving forward. Additionally, they will implement controls to ensure compliance with Act, General Provisions, and GAAP requirements. Their written response is summarized after each finding and the complete response is presented as Exhibit E.

Based on station management's response to the draft audit report, we consider recommendations two, three, five, six, eight, and ten unresolved and open pending receipt of corrective actions and CPB's acceptance of those actions. We consider recommendation one and four resolved and open pending recovery of CSG overpayments and questioned costs. We consider recommendations seven and nine resolved but open pending CPB's acceptance of the station's corrective actions.

This report presents the conclusions of the Office of the Inspector General (OIG) and the findings do not necessarily represent CPB's final position on the issues. While we have made recommendations that are appropriate to resolve the findings, CPB officials will make final determinations on our findings and recommendations in accordance with established CPB audit resolution procedures.

We conducted our audit in accordance with *Government Auditing Standards* for attestation examination engagements. Our scope and methodology are discussed in Exhibit D.

BACKGROUND

Arizona PBS is licensed to the Arizona Board of Regents by the Federal Communications Commission. The station is a department of and is operated by Arizona State University (ASU). The Arizona Board of Regents governs the station. The station is located at the Walter Cronkite School of Journalism and Mass Communication in downtown Phoenix. ASU provides facilities and other financial support to the station and acts as a collection and disbursement agent for the station.

The station's website notes that Arizona PBS is one of the nation's leading public media organizations, with four television broadcast channels and multiple digital platforms. The station's signal reaches 80 percent of Arizona homes over four broadcast channels. With approximately one million viewers weekly, the station ranks among the most-viewed public television stations per capita in the United States.

It is the station’s mission to enrich “lives by building community connections through trusted journalism, entertainment, education, and diverse programming.” Arizona PBS focuses on educational outreach and links early childhood educators, school communities and hometown libraries with important resources. After having to limit activities to either virtual or socially distanced during the pandemic, the station started holding in-person events in April 2022. Events include county, state, and federal election debates, educational events including early literacy workshop series and parent support groups, and PBS LearningMedia professional development events.

CPB’s Community Service Grant Program

The Act provides that specific percentages of the appropriated funds CPB receives annually from the United States Treasury must be allocated and distributed to licensees and permittees of public TV and radio stations. After funds are designated as either TV or radio funds, the funds are placed in the appropriate CSG grant pool for distribution to eligible stations.

Each year CPB awards CSG grants to public TV and radio stations based in part on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the TV and radio CSG pools, adjusted by base grants and supplemental grants. The funds that remain are called the Incentive Grant Pools; one is for TV and the other is for radio.

The Incentive Rate of Return (IRR) is separately calculated for television and radio grantees. This is done by dividing the Incentive Grant Pools by the total adjusted NFFS claimed by all television grantees for the television IRR and by all radio grantees for the radio IRR. The IRR is then multiplied by each grantee’s adjusted NFFS in various tiers to calculate the incentive award amount of its total CSG. There is a two-year lag between the reported NFFS and CPB’s calculation of the fiscal year’s (FYs) CSG amount. For example, CPB used the NFFS reported by the station on their FYs 2021 and 2022 AFRs to determine the amount of the TV and radio CSG funds the station was awarded for FYs 2023 and 2024.

As shown in Exhibit A, Arizona PBS received CSG, Interconnection, Universal Service Support, and other grant funds from CPB totaling \$4,505,432 for FYs 2021 and 2022. Arizona PBS reported NFFS of \$12,118,076 and \$12,832,972 for FYs 2021 and 2022, respectively, as shown in Exhibit C. The audited financial statements for the station reported total revenues of \$18,957,077 for FY 2021 and \$18,833,229 for FY 2022. The station’s fiscal year begins on July 1 and ends on June 30.

RESULTS OF AUDIT

In our opinion, Arizona PBS complied with CPB requirements except for the specific requirements as summarized below for the FY’s 2021 and 2022 grant reporting periods as examined in the AFRs presented in Exhibits B and C.

We examined the station's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG Legal Agreement; and c) AFR Signature Page. The CSG Certification of Eligibility includes the station's assertion of compliance with AFR/NFFS reporting in accordance with CPB guidelines; Act requirements for open meetings, open financial records, Equal Employment Opportunity (EEO) reporting, and donor lists; use of CPB funds; and discrete accounting requirements. Station management is responsible for their assertions of compliance. Our responsibility is to express an opinion on management's assertions about the station's compliance based on our examination.

Based on our audit, we found that Arizona PBS complied with CPB grant and Act requirements, except for:

- overstated NFFS totaling \$1,270,942, resulting in CSG overpayments of \$159,920 (reported as funds put to better use);
- questioned costs of \$32,908;
- providing seven days advance notice of Community Advisory Board (CAB) public meetings, posting the most current AFR and Audited Financial Statements (AFS) on the station's website; and making its SAS Employment Statistical Report available to the public;
- inaccurate reporting on its AFR due to misclassifying NFFS revenues in AFR Schedule A and underreporting total station expenditures by \$17,237 in AFR Schedule E; and
- fully complying with CPB recordkeeping requirements and financial reporting requirements of GAAP.

Our audit was conducted in accordance with *Government Auditing Standards* for attestation examination engagements and, accordingly, included examining, on a test basis, evidence about the station's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the station's compliance with specified requirements.

FINDINGS AND RECOMMENDATIONS

I. Overstated NFFS

During our audit, we found that Arizona PBS both overstated and understated various categories of NFFS on its AFRs as itemized in the chart below. The station overstated NFFS by \$1,270,942 in FY 2021. In FY 2022, the station over and understated NFFS resulting in a net understatement of \$214,917. As a result, CPB made CSG overpayments of \$159,920 in FY 2023. We classified the overpayments as funds put to better use for reporting purposes because the funds overpaid to Arizona PBS could have been distributed to other public broadcasting entities.

Overstated NFFS and CSG Overpayments

Condition	Overstated NFFS		Total
	FY 2021	FY 2022	
Schedule A: Direct Revenues			
Premiums Offsets Against Membership	\$556,208	\$0	\$556,208
Ineligible Purpose	\$390,000	(\$390,000)	\$0
Endowments – Unrealized and Realized Gains	\$305,734	\$44,105	\$349,839
Ineligible Contributions – Double Counting Contributions	\$19,000	\$110,000	\$129,000
Ineligible Exchange Transaction	\$0	\$11,647	\$11,647
Lack of Documentation	\$0	\$6,713	\$6,713
Overstated NFFS - Schedule A	\$1,270,942	(\$217,535)	\$1,053,407
Schedule B: Indirect Administrative Support			
Indirect Administrative Support	\$0	\$2,618	\$2,618
Total Overstated NFFS	\$1,270,942	(\$214,917)	\$1,056,025
FY's 2023 and 2024 IRRs	0.1258278200	0.1292529330	
Overpaid CSG Grant Funds¹	\$159,920	(\$27,779)	

Schedule A

Premium Offsets were not Reported Against Membership Revenues

Based on our audit, we found that Arizona PBS overstated net membership NFFS by \$556,208 in FY 2021 and \$527,862 in FY 2022. Further, we found that Arizona PBS did not exclude premiums from the NFFS on their FY 2021 and FY 2022 AFRs as required by CPB Guidelines.² Arizona PBS reported that it provided donors “thank you gifts” (a.k.a. “premiums”) with fair market values (FMVs) totaling \$0 in FYs 2021 and 2022. Arizona PBS entered this amount on line 10.1 of the AFR to exclude the premiums from the NFFS reported to CPB. However, the station’s records indicated that it should have reported \$556,208 and \$527,862 for the fair market value of premiums on its FY 2021 and FY 2022 AFR line 10.1, respectively, instead of \$0.

During the audit, the station agreed with the error and revised and resubmitted its FY 2022 AFR. The revised FY 2022 AFR was approved by CPB. In the revised FY 2022 AFR, the station reported \$527,862 on AFR line 10.1 for the FMV of premiums.

As a result, we found the station overstated its FY 2021 NFFS by \$556,208.

The CPB Guidelines provide information on reporting high-end premiums associated with memberships and subscriptions.

Grantees frequently provide “thank-you gifts” (a.k.a. “premiums”) in exchange for membership contributions. The Internal Revenue Service describes a quid pro quo

¹ In the FY 2022 column overstated NFFS was netted with the understated NFFS adjustment of \$390,000. While this schedule shows net understated NFFS of \$214,917, this amount cannot be used to claim any additional CSG funds, because all available FY 2024 CSG funds have already been awarded for the year.

² In addition, we found in the prior two-year period, FYs 2019 and 2020, the station reported \$0 for the FMV of high-end premiums on AFR line 10.1.

contribution as a payment a donor makes to a charity partly as a contribution and partly for goods or services (i.e. premiums). Thank-you gifts may be anything of value from low-end premiums (e.g. coffee mugs and tee-shirts bearing the stations call letters, name and/or brand) to high-end premiums (e.g. boxed set CDs or DVDs, coffee-table books, travel and lodging, and tickets to performances, dinners or other events).

The IRS issues guidance on charitable contributions, including disclosure statements that must be provided to donors in instances where the premium is not of insubstantial value. The contribution portion that is deductible for federal income tax purposes is limited to the excess of the payment over the fair market value of the premium provided by the charitable organization. For CPB's purposes the portion of the payment that is not considered a contribution by the IRS may not be included as NFFS ...

Financial Reporting Guidelines, Part III – AFR and FSR Line-Item Instructions, Schedule A – Direct Revenue, 10.1 NFFS Exclusion – Fair Market Value of high-end premiums that are not of insubstantial value. (2021)

Based on discussion with station staff, the station did not realize that the FMV of substantial premiums needed to be deducted from NFFS on its AFR and the station had not established any procedures or controls to ensure compliance with this requirement. The station was focused on reconciling the AFR to its AFS and, because the FMV of substantial premiums is not reported on the AFS, station staff did not realize that the amount needed to be included on the AFR. For FY 2022, Arizona PBS corrected the error by revising and resubmitting its AFR.

In FY 2021, the unreported high-end premiums resulted in overreported NFFS of \$556,208. This resulted in a CSG overpayment of \$69,986.

Ineligible Purpose

In FY 2021, Arizona PBS included a contribution from an individual totaling \$390,000 in AFR line 19 that was not intended for public broadcasting. The funds were intended for another department at the institution. The improper classification was identified in FY 2022 by the Arizona State University (ASU) Foundation and a reclassification journal entry was made to remove the funds from the station's financial statements.

The reclassification journal entry in FY 2022 resulted in a reduction in NFFS of \$390,000 in the AFR and we netted this adjustment against the other categories of overstated NFFS found in the FY 2022 AFR.

The CPB Guidelines define contribution revenue and the purpose criteria that must be met to be considered eligible NFFS.

A. Contribution. A contribution is a gift, grant, bequest, donation or appropriation (i.e., the form criterion). For a contribution to be reported as NFFS, it must meet the following criteria...

3. Purpose. The contribution must be provided to the CSG recipient to construct or operate a noncommercial educational broadcast station³, or for the production, acquisition, distribution or dissemination of educational television or radio programs and related activities.

CPB Guidelines, Part II: NFFS, II. Contribution vs. Payment, A. Contribution. (2021)

Based on discussions with station staff, the individual contribution was a planned gift processed by ASU Foundation and recorded to an Arizona PBS designation in error. After the ASU Foundation identified the error, the designation was adjusted and reclassified to the proper recipient.

The inclusion of the contribution that was not related to public broadcasting resulted in overreported NFFS totaling \$390,000 and a FY 2023 CSG overpayment of \$49,073.

Endowments - Unrealized and Realized Gains

Arizona PBS reported \$305,734 and \$44,105 in realized and unrealized gains/losses from endowments as eligible NFFS on Schedule A, Line 10 in its FY 2021 and FY 2022 AFR, respectively. Realized and unrealized gains/losses from endowment revenue are ineligible NFFS and should have been reported on AFR lines 17.C and 17.D, respectively, where they would have been automatically excluded from NFFS.

CPB Guidelines provide that contributions to endowment principal, as well as interest and dividends on endowment funds, are eligible NFFS. Realized and unrealized gains/losses on endowment funds reported on AFR lines 17.C and 17.D, respectively, will be automatically excluded from NFFS. Specifically, the Guidelines provide the following instructions for reporting endowment revenue.

Line 17 - Endowment Revenue

Report all contributions to endowment fund principal regardless of source or form of the amounts contributed. Also, report passive (interest and dividends) derived from endowment funds and realized and unrealized gains or losses from investments held by endowment funds.

A. Contributions on endowment principle

Use this line to report contributions to endowment principal.

B. Interest and Dividends on endowment funds

Use this line to report interest and dividends earned on endowment funds.

C. Realized net investment gains and losses on endowment funds

Use this line to report realized net investment gains and losses on endowment funds. ... The revenue on Line 17C will forward to Line 27 and will be automatically excluded from NFFS.

³ Capital contributions to television stations are excluded, Part II, Section V.

D. Unrealized net investment gains and losses on endowment funds
Use this line to report unrealized net investment gains and losses on endowment funds. ... the revenue reported on Line 17D will forward to Line 27 and will be automatically excluded from NFFS.”

CPB Guidelines, Part III AFR and FSR Line Item Instructions, Schedule A- Direct Revenue, Line 17 – Endowment Revenue. (2021 and 2022)

Station staff stated that the station was unaware of the requirement to exclude realized and unrealized gains on endowment funds from NFFS and the station had not established internal controls to ensure compliance with this requirement.

As a result of reporting ineligible realized and unrealized gains/losses on endowment funds as membership revenue on AFR Line 10, Arizona PBS overstated NFFS by \$305,734 and \$44,105 in FY 2021 and FY 2022, respectively, resulting in a CSG overpayment of \$38,470 in FY 2023 and \$5,701 in FY 2024. The FY 2022 overstated NFFS will be offset against the understated NFFS for ineligible purposes. The net result is the 2023 CSG overpayment of \$38,470.

Ineligible Exchange Transactions

We found that in FY 2022, Arizona PBS recorded the gross contribution for a charitable gift annuity received instead of the net amount. The cash gift totaled \$25,000 and in exchange the donor received a fixed annuity payout for the rest of their life. The net present value of the future payments was \$11,647. The \$11,647 is ineligible for NFFS because it is an exchange transaction with an individual. As such, NFFS was overstated by \$11,647 on AFR Schedule A line 19.

CPB Guidelines note that a state or educational institution are the only eligible sources for exchange transactions.

B. Payment. A payment is a reciprocal transfer of cash, goods and/or services (e.g. exchange transaction) and may be reported as NFFS, if it meets the criteria below...

Source: The payment must be made by a state⁴ or any educational institution⁵.

CPB Guidelines, Part II: NFFS, II. Contribution vs. Payment, B. Payment. (2022)

Based on discussion with station staff, the charitable gift annuity was recorded as a gross contribution instead of netted with the exchange amount due to a clerical error.

In FY 2022, the incorrect reporting of the charitable gift annuity resulted in overreported NFFS totaling \$11,647. This resulted in a CSG overpayment of \$1,505. The overstated NFFS will be

⁴ State includes local governments, state agencies, the District of Columbia, U.S. territories, public schools, and Native American Tribes as defined in the applicable year’s General Provisions.

⁵ Payments provided by educational institutions that are public broadcasting entities (i.e., the licensee of another public broadcasting station) may not be reported as NFFS because public broadcasting entities are ineligible sources.

offset against the understated NFFS for ineligible purposes. The result is there was no CSG overpayment in FY 2024 based on the station's adjusted FY 2022 NFFS.

Ineligible Contribution – Double Counting of Contributions

We found that the station overstated NFFS by \$19,000 and \$110,000 in FY 2021 and FY 2022, respectively, because grant revenues were double counted in preparing the AFR. In preparing the AFR, the station included contribution revenues as eligible NFFS on AFR line 19 when grant funds were received and then again when grant-related expenditures were incurred on AFR line 19.

Contribution revenues must meet the form criteria as noted in the Financial Reporting Guidelines:

A contribution is a gift, grant, bequest, donation, or appropriation (i.e., the form criterion).

CPB Guidelines, Part II: NFFS, II. Contribution vs. Payment, A. Contribution. (2021 and 2022)

Based on discussion with station staff, they noted that grant revenues were double counted in error. They explained that when grants are drawn down, grant revenues and expenditures were recognized. The corresponding grant expenditures were erroneously not netted with the revenues in preparing the AFR to prevent double counting.

Arizona PBS overstated NFFS by \$19,000 and \$110,000 in FY 2021 and FY 2022, respectively, resulting in a CSG overpayment of \$2,391 in FY 2023 and \$14,218 in FY 2024. The FY 2022 overstated NFFS was offset against the understated NFFS for ineligible purposes. The net result is the 2023 CSG overpayment totaling \$2,391.

Lack of Documentation

We found that the station did not provide adequate documentation to support one revenue transaction totaling \$6,713 in FY 2022. We were unable to determine if the funds met the NFFS eligibility criteria.

The *FY 2022 Television Community Service Grants General Provisions and Eligibility Criteria* provide the following recordkeeping requirements.

Section 3. Recordkeeping Requirements

Grantee must comply with the recordkeeping requirements set forth below.

A. Recordkeeping, Certification, and Audit Requirements: The Communications Act mandates recordkeeping and auditing and provides CPB and its representatives access to all records concerning a CSG. Grantee must maintain such records as CPB may in its discretion require to facilitate an effective audit. (47 U.S.C. 396(1)(3)(B), (C), & (D)).

Additional information related to recordkeeping is found in the Principles of Accounting.

B. Records and Documentation: Grantee must retain all CSG records, including documentation sufficient to substantiate its CSG Agreement and Certification of Eligibility, for no less than three years after the end of the Spending Period....

CPB FY 2022 TV CSG General Provisions, Part I. CSG Program, Section 3 Recordkeeping Requirements.

The station was unable to provide adequate documentation for one NFFS revenue transaction to determine NFFS eligibility because they are awaiting responses from the Arizona PBS' external auditors. The station had not established internal controls related to retaining source documentation to support revenues received.

The station overstated NFFS by \$6,713 for this category in its FY 2022 AFR which could result in a CSG overpayment, however, this overstatement was offset by the \$390,000 ineligible purpose category adjustment resulting in no CSG overpayments in FY 2024.

Schedule B

Indirect Administrative Support

We found that Arizona PBS used CPB's Standard Method to calculate indirect administrative support received from its licensee, ASU, in AFR Schedule B. In its FY 2021 calculation, the station correctly reported indirect administrative support. However, in its FY 2022 calculation, the station incorrectly underreported the station's total operating expenses by \$17,237 and depreciation and amortization expenditures by \$39,812, resulting in overstated NFFS totaling \$2,618.

CPB provides the following guidelines for calculating indirect administrative support using CPB's Standard Method:

The line item, "Station's Total Operating Expenses," is automatically populated from AFR Schedule E, Line 8.

If station's total operating expenses include the following indirect expenses, deduct them by entering these costs on the appropriate lines and provide the AFS page number(s) from which the amounts were obtained.

A. Depreciation. Depreciation and amortization.

CPB Guidelines, Part III AFR and FSR Line Item Instructions, Completing AFR Schedule B – Indirect Administrative Support, Worksheet: Standard Method, Step 2: Identify the Base. (2022)

Station staff explained that the station’s financial statements are consolidated with KBAQ, another public broadcasting entity.⁶ In order to properly report Arizona PBS activity on its AFR, the station backed out KBAQ revenues and expenditures. In FY 2022, the station incorrectly excluded KBAQ revenues, rather than expenditures, from station expenditures on AFR Schedule E that populates the station’s total operating expenditures in Schedule B.

In addition, the station erroneously misreported depreciation and amortization expense on its FY 2022 AFR Schedule E. The station reported depreciation from Support Services and erroneously did not include depreciation from Program Services.

In FY 2022, indirect administrative support in Schedule B was overreported by \$2,618, resulting in a CSG overpayment of \$338. The FY 2022 overstated NFFS was offset against the understated NFFS for ineligible purposes. The result is no CSG overpayment in FY 2024 based on the station’s adjusted FY 2022 NFFS.

* * * * *

To summarize, Arizona PBS overstated NFFS in FY 2021 by \$1,270,942 resulting in a FY 2023 CSG overpayment totaling \$159,920.

Recommendations:

We recommend that CPB management require the Arizona PBS to:

- 1) repay \$159,920 in CSG overpayments;
- 2) review the FMV of substantial premiums in the two-year period prior to this audit to identify potential NFFS overstatements and recover the related CSG overpayments; and
- 3) identify the corrective actions and controls it will implement to ensure future compliance with all CPB NFFS reporting requirements, including:
 - a) premium offsets against membership;
 - b) revenues only with eligible purposes;
 - c) only eligible endowment interest and dividend revenues;
 - d) excluding exchange transactions from eligible revenues; and
 - e) reporting indirect administrative support in accordance with CPB guidelines.

KAET-TV Management Response

In response to the draft report, station management agreed with our findings on overstated NFFS and are developing, implementing, and documenting specific processes to ensure compliance with CPB NFFS reporting requirements that will include endowments – unrealized and realized gains, ineligible exchange transactions, ineligible contributions – double counting contributions, and lack of documentation. Station management stated that they are committed to having new processes and controls fully implemented by the end of FY 2024 (June 30, 2024) with

⁶ KBAQ is an FM radio station co-licensed to ASU and Maricopa County Community College.

continuous training for all staff and close collaboration with CPB to ensure accurate reporting moving forward.

Regarding the FMV of substantial premiums, station management noted the discrepancy was rectified in FY 2022 and corrective actions have been established to ensure accurate reporting in future AFR submissions. The station has added another level of review with the Central Finance Department prior to submitting the AFR. Historically, the station has not reported any FMV exclusions on AFR line 10.1 and prior to the audit, CPB did not question this during its review of the AFR.

Regarding the ineligible purpose finding, station management stated that they have identified and corrected the miscommunication leading to funds being deposited into the wrong account. This was due to an isolated error and not indicative of systemic issues. The station is reviewing protocols to prevent similar occurrences in the future.

Finally, the station's response did not specifically address the finding on indirect administrative support.

OIG Review and Comment

Based on the station's response to the draft report, we consider recommendation one resolved but open pending recovery of CSG overpayments. We consider recommendations two and three unresolved and open pending finalization of its specific corrective actions and CPB's acceptance of those actions in its final management decision. We agree with the station's general approach to corrective actions, however the station is still developing new processes and controls to ensure compliance with CPB NFFS reporting requirements for endowments, ineligible exchange transactions, ineligible contributions, and lack of documentation.

II. Questioned Costs

During our audit, we found that the station had not spent its FY 2022 CPB Interconnection (IC) grant totaling \$32,908. The spending period for the grant was from October 1, 2021 through September 30, 2022.

Based on our finding, in October 2023, the station made an adjusting entry to reclassify a previous payment of the FY 2023 PBS dues to the FY 2022 unspent IC grant. The PBS dues were initially paid in August of 2022 from other funds. This adjustment was made 13 months after the spending period for the FY 2022 IC grant had expired on September 30, 2022. As of September 30, 2022, the IC general ledger account did not record the full expenditure of the FY 2022 IC funds.

The FY 2022 CPB CSG Grant Agreement states the spending period for the FY 2022 IC Grant as follows:

Interconnection Grant (IC) Spending Period: 10/01/2021 – 09/30/2022

The station explained in a year end journal entry (6/30/2023) they erroneously allocated the FY 2023 IC grant to pay its FY 2023 PBS dues, instead of charging it against the unused FY 2022 IC grant. The station stated that the FY 2022 IC grant should have been used to pay the FY 2023 dues, however the station did not have any controls in place to ensure grant funds were spent within the grant term periods.

The FY 2022 IC grant was not recorded as being spent during the spending period in the station's general ledger, resulting in questioned costs of \$32,908.

Recommendations:

We recommend that CPB management:

- 4) recover \$32,908 in unspent funds related to the FY 2022 IC grant; and
- 5) require Arizona PBS to identify and implement controls to ensure that CPB grants are fully expended during the grant spending period.

KAET-TV Management Response

In response to the draft report, station management agreed with this finding. They stated that they are developing and documenting processes to ensure proper controls are in place for the expenditure of CPB grants within the designated spending period, with staff training underway.

OIG Review and Comment

Based on the station's response to the draft report, we consider recommendation four resolved but open pending recovery of the question costs. We consider recommendation five unresolved and open pending receipt of the station's specific actions and CPB's acceptance of those actions in its final management decision.

III. Communications Act and CPB General Provisions Noncompliance

Based on our review of Arizona PBS' website, central office public files requested, and other supporting documentation reviewed for our audit period, we found that Arizona PBS was not fully compliant with the Act and CPB General Provisions requirements to ensure required information was made available to the public. Specifically, we found that Arizona PBS did not:

- make its most recent AFR and AFS available to the public on the station's website;
- give advance notice to the public for all meetings of its Community Advisory Board; and
- make its CPB Employment Statistical Report available to the public.

In response to our audit fieldwork, the station took the following corrective actions to comply with CPB General Provisions and Act requirements by:

- posting its most recent AFS on the station’s website, and
- making its CPB Employment Statistical Report available to the public.

Open Financial Records – AFR and AFS Not Posted to Website

During our audit, we found that Arizona PBS did not fully comply with the open financial records requirement to post the most recent AFR and AFS on its website. At the time of our review the station’s FY 2021 AFS was posted on its website but not its most recent FY 2022 AFS. The FY 2022 AFS was issued on January 12, 2023, and we conducted our review on May 4, 2023. Further, the station had not posted the FY 2021 CPB AFR to its website.

The Act requires stations to make available to the public their annual financial and audit reports and other financial information they are required to submit to CPB (47 U.S.C. §396(k)(5) and § 396(l)(3)(b)). CPB General Provisions also require that each Grantee post the following documents on its station website:

1. its most recent audited financial or unaudited financial statement for stations exempt from providing audited financial statements; and
2. its most recent AFR or FSR⁷ (whichever is applicable).

CPB Television CSG General Provisions and Eligibility Criteria, Section 2. Communications Act Requirements, C. Open Financial Records. (October 2021)

The station did not have the most recent AFR and AFS posted when we began our audit and did not have internal controls in place to ensure compliance with the CPB requirements for open financial records. The station promptly posted the AFS during fieldwork and said they postponed posting the FY 2022 AFR and AFS because they were planning to revise and resubmit the FY 2022 AFR.

Arizona PBS was not in full compliance with Act and CPB requirements during our audit period and may be subject to penalties under CPB’s CSG Noncompliance policy.

Advance Notice of Meetings

Our review of meeting notices and agendas found noncompliance with the seven day advance notice requirements for CAB meetings. Specifically, three CAB meetings were held during the audit period with no advance notice to the public. Arizona PBS is an institutional station that is licensed to a state agency and is not required by the Act to have a CAB. However, because the station had a CAB during the audit period, the CAB meetings are required to comply with open meeting requirements.

⁷ FSR is a form used by radio CSG recipients.

Arizona PBS suspended the CAB's operations in 2022. Station officials mentioned that the incoming General Manager will decide on its reinstatement.

The Act, 47 U.S.C. Section 396 (k)(4), requires that stations provide the public with reasonable advance notice of open meetings. Specifically:

Funds may not be distributed pursuant to this subsection to the Public Broadcasting Service or National Public Radio (or any successor organization), or to the licensee or permittee of any public broadcast station, unless the governing body of any such organization, any committee of such governing body, or any advisory body of any such organization, holds open meetings preceded by reasonable notice to the public.

Further, CPB's General Provisions and Eligibility Criteria clarify that stations may satisfy the reasonable notice requirement by doing the following:

Stations may satisfy that requirement by providing at least seven days' advance notice of an Open Meeting, including the time and place of the meeting, by:

1. Posting notice on the station website;
2. Broadcasting notice on-air between 6 a.m. and 11 p.m., as shown by the station's log;
3. Placing notice in the "Legal Notices" section of a local newspaper in general circulation in the station's primary coverage area; or
4. Giving notice through a recorded announcement accessible on the station's phone system.

CPB Television CSG General Provisions and Eligibility Criteria, Section 2. Communications Act Requirements, A. Open Meetings. (October 2021)

Station staff indicated that they were unaware of the advance notice requirement for the CAB meetings and there were no internal controls in place to ensure compliance with CPB requirements for advance notice of CAB meetings. The station indicated that the CAB was disbanded in April 2022.

Arizona PBS was not in full compliance with Act and CPB requirements during our audit period and may be subject to penalties under CPB's CSG Noncompliance policy.

CPB Employment Statistical Report

We found that Arizona PBS did not post its annual CPB Employment Statistical Report, the Station Activity Survey (SAS), Employment Section 6 report, on its website and did not provide us with a copy of the SAS report from its central office records when requested. Arizona PBS included the required employment statistical information in its annual SAS reports submitted to

CPB, but the information was not made available to the public on its website or available at its central office when we inquired about its availability during our fieldwork.

The Communications Act provides:

...The statistical report shall be available to the public at the central office and at every location where more than five full-time employees are regularly assigned to work.

Act, Subpart D – Corporation for Public Broadcasting, Sec. 396, 47 U.S.C. §396(k) Financing Restrictions, (11)(C).

In addition, CPB’s General Provisions provide that each Grantee must:

...2. Make its Employment Statistical Report available for public inspection at its central office and at each location where there are six or more employees...

CPB Television CSG General Provisions and Eligibility Criteria, Section 2. Communications Act Requirements, E. Employment Statistical Report (October 2021)

Station staff mentioned that during the audit period staff responsibilities changed and we received no evidence that the responsibilities for the CPB Employment Statistical Report were reassigned. The station did not have policies and procedures to address this requirement and therefore lacked internal controls to ensure compliance.

The station was not compliant with Act and CPB requirements to make its annual CPB Employment Statistical Report available to the public and may be subject to penalties under CPB’s Non-Compliance Policy.

Recommendations:

We recommend that CPB management require Arizona PBS to identify the corrective actions they will implement to ensure:

- 6) the most recent AFR and AFS are posted to the station’s website;
- 7) if the new general manager reinstates the CAB, the public receives reasonable advance notice of all upcoming CAB meetings at least seven days in advance of the meeting; and
- 8) the CPB Employment Statistical Report is made available to the public.

KAET-TV Management Response

In response to the draft report, station management stated they are implementing processes to ensure compliance with the Communications Act and CPB General Provisions, including the timely posting of the most current CPB AFR and AFS on the station’s website and making the CPB Employment Statistical Report available to the public on the station’s website. Regarding the CAB advance notice of public meetings, they stated that should a CAB be reinstated in

alignment with the station’s strategic plan, they are committed to ensuring the public has advance notice of meetings.

OIG Review and Comment

Based on the station’s response to the draft report, we consider recommendations six and eight unresolved and open pending receipt of corrective actions and CPB’s acceptance of those actions. We consider recommendation seven resolved and open pending CPB acceptance of the station’s response that if the station reinstates the CAB, they are committed to ensuring the public has advance notice of meetings.

IV. AFR Reporting

We found that the station misclassified revenues on its Schedule A and expenditures on its Schedule E of the AFR. In FY 2022 Schedule E under reported CPB expenditures by \$17,237.

Misclassified Revenues

We found the station misclassified revenues in Schedule A of the AFR as follows:

Analysis of Reported NFFS versus Auditor Identified Misclassifications

AFR Category	As Stated on Revised FY 2022 AFR (submitted September 2023)	Auditor Identified Misclassifications	Difference
FY 21			
Program and Production Underwriting from Local Boards and Departments of Education or Other Local Government or Agency Sources (Line 3.1A)	\$0	\$10,838	\$10,838
Program and Production Underwriting from Foundations and Nonprofit Associations (Line 8.1A)	\$268,138	\$262,872	(\$5,266)
Program and Production Underwriting from Business or Industry (Line 9.1A)	\$715,790	\$710,218	(\$5,572)
Memberships and Subscriptions FY 21 (Line 10)	\$3,589,034	\$6,657,070 ⁸	\$3,068,036
Special Fundraising Activities (Line 14A)	\$0	\$52,446	\$52,446
Gifts and Bequests from Major Individual Donors FY 21 (Line 19)	\$5,944,088	\$2,823,606 ⁹	(\$3,120,482)
Totals – FY 21	\$10,517,050	\$10,517,050	\$0

⁸ Amount has not been adjusted for the \$305,734 in ineligible NFFS related to endowment returns as noted in the Overstated NFFS finding.

⁹ Amount has not been adjusted for the \$19,000 in ineligible NFFS related to the double counting of revenues as noted in the Overstated NFFS finding.

AFR Category	As Stated on Revised FY 2022 AFR (submitted September 2023)	Auditor Identified Misclassifications	Difference
FY 22			
Program and Production Underwriting from Foundations and Nonprofit Associations (Line 8.1A)	\$46,053	\$196,053	\$150,000
Grants and contributions Other than Underwriting from Foundations and Nonprofit Associations (Line 8.1B)	\$824,399	\$445,757	(\$378,642)
Memberships and Subscriptions FY 22 (Line 10)	\$3,249,076	\$6,458,072 ¹⁰	\$3,208,996
Special Fundraising Activities (Line 14A)	\$0	\$54,411	\$54,411
Contributions to Endowment Principal (Line 17A)	\$0	\$190,000	\$190,000
Gifts and Bequests from Major Individual Donors FY 22 (Line 19)	\$6,414,630	\$3,189,865 ¹¹	(\$3,224,765)
Totals – FY 22	\$10,534,158	\$10,534,158	\$0

As noted in the above table, the majority of the misstatements related to the misclassification of revenues between membership and major donors on the AFRs. The misclassifications found in other AFR categories were significantly less. We concluded that while revenues were misclassified by the sources of revenues, there was no impact on NFFS except for the exceptions reported in the Overstated NFFS finding.

We found that Arizona PBS misreported contribution revenues related to Memberships and Subscriptions (Line 10), and Gifts and Bequests from Major Individual Donors (Line 19) on its AFR in FY 2021 and FY 2022. Specifically, when Arizona PBS submitted its revised AFR for FY 2022 in September 2023 (which CPB subsequently approved), it reported on Lines 10 and 19 \$3,589,034 and \$5,944,088, respectively, for FY 2021, and \$3,249,076 and \$6,414,630, respectively, in FY 2022.

Arizona PBS used data from a vendor to support the amounts reported on AFR Line 19. We reviewed the support and found that it included CPB CSG funding totaling \$2,538,188 in FY 2021 and \$1,834,316 in FY2022. CPB CSG funds are unallowable as contributions for NFFS. After we raised questions about the CSG contributions, Arizona PBS provided general ledger support that tied to the total reported on AFR Lines 10 and 19 but did not include the CSG contributions. The general ledger support showed that the station should have reported \$6,657,070 and \$2,823,606 on Lines 10 and 19 in its FY 2021 AFR and \$6,458,072 and \$3,189,865 on Lines 10 and 19 in its FY 2022 AFR. We concluded the CPB CSG funds were not included in AFR line 19.

¹⁰ Amount has not been adjusted for the \$44,105 in ineligible NFFS related to endowment returns as noted in the Overstated NFFS finding.

¹¹ Amount has not been adjusted for the \$110,000 in ineligible NFFS related to the double counting of revenues as noted in the Overstated NFFS finding.

In addition, in FY 2021, the station recorded \$10,838 as underwriting revenues from a business or industry on line 9.1A that were from a local government and should have been reported on line 3.1A; \$5,266 as underwriting revenues from a foundation or nonprofit on line 8.1A that were from a for-profit business and should have been reported on line 9.1A; and \$52,446 as membership revenues on AFR line 10 that were vehicle donations and should have been recorded on line 14A.

In FY 2022, the station recorded \$190,000 as grants and contributions other than underwriting from foundations or nonprofits on line 8.1B that were contributions to a quasi-endowment and should have been reported on line 17A; \$150,000 as grants and contributions other than underwriting from foundations or nonprofits on line 8.1B that were underwriting revenues and should have been reported on line 8.1A; \$63,500 recorded as grants and contributions other than underwriting from foundations or nonprofits on line 8.1B that were contributions from individuals and should have been recorded as major donors on line 19; and \$54,411 recorded as membership revenues on AFR line 10 and as grants and contributions other than underwriting from foundations and nonprofits on AFR line 8.1B that were vehicle donations and should have been recorded on line 14A.

CPB's Financial Reporting Guidelines for FY 2022 includes the following guidance for Lines 10 and 19:

Line 10 - Memberships and subscriptions (net of write-offs)

Use this line to report revenues from memberships and subscriptions that are, in aggregate, less than \$1,000 per individual donor for the reporting year. Individual membership contributions of \$1,000 or more are considered major donor gifts and are to be reported on Line 19.

Line 19 - Gifts and Bequests from Major Individual Donors

Use this line to report gifts and bequests from major individual donors, including estates, trusts, etc...

Major individual donors are herein defined as any individual donor who contributes an amount, in aggregate, equal to or greater than \$1,000 for the reporting year. For example, donor Jane Doe gives two \$500 gifts in the same fiscal year; Jane Doe has contributed \$1,000 for the reporting year and is a major donor.

Page 3 of the Guidelines also states:

If a desk review or audit by CPB's Office of Inspector General or a representative reveals any errors in the CSG recipient's AFR or FSR, CPB may require the recipient to correct the errors and return any resulting CSG overpayment. Furthermore, under the CSG Non-Compliance Policy, misreporting may subject the CSG recipient to financial penalties.

3.1 NFFS Eligible Revenues

A. Program and production underwriting

8.1 NFFS Eligible Revenues

A. Program and production underwriting

9.1 NFFS Eligible revenues

A. Program and production underwriting

14 – Special fundraising activities (net)

Line 17 - Endowment Revenue

A. Contributions to endowment principle

CPB Guidelines, Part III: AFR and FSR Line Item Instructions, Completing AFR Schedule A – Direct Revenue. (2021 and 2022)

Based on discussion with station staff, CPB grant funding was originally included on AFR Schedule A Line 19 in error. Station staff indicated that they had originally provided source data from a vendor that provided contribution support services to the ASU Foundation rather than using their own general ledger in an attempt to expedite our request for supporting documentation for amounts reported on its AFR.

After we advised them that the source data included NFFS ineligible CPB CSG grant funds as contributions, the station provided documentation from the station’s general ledger. As part of this resubmission, they self-acknowledged \$324,734 in FY 21 and \$154,105 in FY 22 as ineligible NFFS contributions, which were included in the Overstated NFFS finding.

Station staff stated that the other misclassification of NFFS was in error, and the station had procedures in place to properly report NFFS by category, however, these procedures were not properly applied.

Aside from the self-acknowledged ineligible NFFS, the miscategorized NFFS revenues do not impact eligible NFFS. However, AFR lines 3.1A, 8.1A, 9.1A, 10 and 19 were incorrectly reported in the FY 2021 AFR and AFR lines 8.1A, 8.1B, 10, 14A, 17A, and 19 were incorrectly reported in the FY 2022 AFR.

Underreported Expenditures

We found that the station underreported total expenditures on its FY 2022 AFR Schedule E. The station reported total expenditures of \$17,202,159 when actual station expenditures totaled \$17,219,396. The station underreported total station expenditures by \$17,237.

CPB provides the following line item instructions for completing Schedule E of the AFR:

...The total expenses reported on Schedule E should match the total expenses (operating and non-operating) reported in the grantee's audited financial statements for the reporting year.

CPB Guidelines, Part III AFR and FSR Line Item Instructions, Completing AFR Schedule E – Expenses. (2022)

The station's financial statements are consolidated with KBAQ, an FM station co-licensed to ASU and Maricopa County Community College. To report only Arizona PBS activity on the AFR, KBAQ activity, revenues and expenditures were deducted from the station's reporting. In FY 2022, the station erroneously deducted KBAQ revenues instead of KBAQ expenditures from the consolidated expenditures to calculate Arizona PBS's expenditures. The station had procedures in place to properly report expenditures on its AFR, however, these procedures were not properly applied.

Arizona PBS underreported expenditures on Line 1- Programming and Production in Schedule E of the FY 2022 AFR by \$17,237.

Recommendation:

- 9) We recommend that CPB require Arizona PBS to identify and implement corrective actions to ensure compliance with CPB AFR reporting requirements for Schedule A and Schedule E.

KAET-TV Management Response

In response to the draft report, station management advised that they have been enhancing processes to ensure compliance with CPB AFR reporting requirements, with full implementation underway with the most recent FY 2023 AFR completed. Further, station management has implemented and added another level of review with the Central Finance Department prior to submitting the AFR.

OIG Review and Comment

Based on the station's response to the draft report, we consider recommendation nine resolved and open pending CPB's acceptance of those actions in its final management decision.

V. GAAP Compliance

Revenue Recognition

Based on our review of the station's AFS and AFR reporting, we found two issues where CPB CSG and underwriting revenues were not being recognized in accordance with GAAP and its AFS.

CPB CSG Revenues

We found that Arizona PBS did not recognize revenue from CPB CSG grants in accordance with GAAP in its FY 2022 AFS. Specifically, it did not include CSG grant revenues received from CPB on December 20, 2021 and March 25, 2022 in its FY 2022 statements because they had not been expended yet. These revenues totaled \$1,834,316 and included its FY 2022 CSG grant (\$1,790,643); IC grant (\$32,908); and Universal Services Support Grant (\$10,765).

Arizona PBS Revenues As Presented in the AFS

Revenue	FY21 Actual	FY22 Actual
Grant and Contracts	\$2,900,768	\$3,037,523
Program Underwriting	\$983,928	\$1,063,400
Subscription and Membership Income	\$8,518,789	\$8,953,415
Community Service Grants from the CPB	\$1,946,556	\$0
Indirect Administrative Support from the University	\$2,265,611	\$2,623,492
Indirect Support from Other Agencies	\$421,490	\$479,670
General Appropriation from ASU	\$332,994	\$333,752
Other Gifts and Nonoperating Revenues	\$1,586,411	\$2,341,774
Investment Income	\$530	\$203
Total Revenue	\$18,957,077	\$18,833,229

Arizona PBS normally follows GAAP as promulgated by the Government Accounting Standards Board (GASB). However, GASB has yet to promulgate any standards that address the updated Financial Accounting Standards Board (FASB) pronouncements on contributions. Arizona PBS follows the FASB guidance and CSG grants from nonprofit entities such as CPB are considered contributions for reporting purposes. FASB's Accounting Standards Update 2018-08 (June 2018), page 7, included the following definitions in its Glossary.

Contribution

An unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Those characteristics distinguish contributions from:

- a. Exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximately equal commensurate value...

Also, according to FASB's Accounting Standards Update 2018-08 (June 2018), page 11, paragraph 958-605-25-2:

Contributions Received

Except as provided in paragraphs 958-605-25-16 through 19 (related to contributed services, works of art, historical treasures, and similar items), contributions received shall

be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received...A contribution made and a corresponding contribution received generally are recognized by both the donor and the donee at the same time, that is, when made or received, respectively...

Similarly, Arizona PBS's expected compliance with GAAP was confirmed by Arizona PBS's Independent Auditors in Note 1 on page 18 of their Independent Auditor's Report:

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units and the Financial Reporting Guidelines published by the Corporation for Public Broadcasting (CPB) unless those pronouncements conflict with the Government Accounting Standards Board (GASB) pronouncements...

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

ASU Financial and Arizona PBS staff mentioned that CPB CSG funds were accounted for as exchange transactions because they were not segregated from research-related grants, the majority of grants received by the station and university. Research-related grants contained specific requirements or deliverables, and thus the associated revenues were not recorded until after the grant conditions were met and revenue was earned, as was noted in the station's AFS.

While Arizona PBS's accounting treatment of the CPB CSG grants as exchange transactions was consistent between FY 2021 and FY 2022, that treatment was not consistent with prescribed GAAP treatment for contribution revenues, and also could serve to create the incorrect perception that the station did not receive any CPB CSG revenues during the FY 2022 year. We discussed this matter with the ASU Financial staff and, because Arizona PBS's financial statements are discretely presented, they agreed to treat those revenues as contribution revenues in future statements.

Underwriting Revenues

We found the station recognized underwriting revenues based on when payment was received which was not consistent with the accrual basis of accounting as noted in the station's financial statements.

The station's financial statements state that the financial statements were prepared using the accrual basis of accounting and underwriting revenue is recognized in the period the agreement is executed.

Note 1 of the station's financial statements states the following:

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

Revenue related to program underwriting is recognized as unrestricted operating revenue in the period the agreement is executed.

Arizona PBS (A Department of Arizona State University) Financial Statements and Supplementary Information, Years Ended June 30, 2022 and 2021. Note 1 Summary of Significant Accounting Policies, Measurement Focus, Basis of Accounting and Financial Statements and Revenue Recognition.

Station staff agreed that revenue recognition practices for underwriting revenues were inconsistent with the AFS.

The station's practice for recognizing underwriting revenues was inconsistent with the accrual basis of accounting as noted in the station's financial statements.

Recommendation:

- 10) We recommend that CPB require Arizona PBS to identify and implement corrective actions to comply with financial reporting requirements of GAAP.

KAET-TV Management Response

In response to the draft report, station management stated that they are developing, implementing, and documenting specific processes so that proper controls are in place to ensure compliance with financial reporting requirements of GAAP. They are closely partnering with the Central Finance Department and the station's external auditors to ensure ongoing GAAP compliance.

OIG Review and Comment

Based on the response to the draft report, we consider recommendation ten unresolved and open pending receipt of the station's specific corrective actions and CPB's acceptance of those actions in its final management decision.

**CPB Grant Payments to Arizona PBS
July 1, 2020 – June 30, 2022**

CPB Grants	FY 2021	FY 2022	Totals
<i>CPB CSG:</i>			
Community Service	\$1,946,556	\$1,790,643	\$3,737,199
Interconnection	\$36,820	\$32,908	\$69,728
Universal Service Support	\$11,302	\$10,765	\$22,067
<i>Total CPB CSG</i>	\$1,994,678	\$1,834,316	\$3,828,994
<i>Other CPB Grants:</i>			
American Rescue Act	\$591,632	\$0	\$591,632
Ready to Learn (CPB Grant 34823-EDU)	\$84,806	\$0	\$84,806
<i>Total Other CPB Grants</i>	\$676,438	\$0	\$676,438
Total All CPB Grants	\$2,671,116	\$1,834,316	\$4,505,432

KAET-TV Annual Financial Report For the Fiscal Years Ending June 30, 2021 and 2022

Schedule A
KAET-TV (1706)
Phoenix, AZ

NFFS Excluded?

If you have an NFFS Exclusion, please click the "NFFS X" button, and enter your NFFS data.



Source of Income

	2021 data	2022 data
1. Amounts provided directly by federal government agencies	\$0	\$0
A. Grants for facilities and other capital purposes	\$0	\$0
B. Department of Education	\$0	\$0
C. Department of Health and Human Services	\$0	\$0
D. National Endowment for the Arts and Humanities	\$0	\$0
E. National Science Foundation	\$0	\$0
F. Other Federal Funds (specify)	\$0	\$0
2. Amounts provided by Public Broadcasting Entities	\$2,209,612	\$130,604
A. CPB - Community Service Grants	\$1,946,556	\$0
Variance greater than 25%.		
B. CPB - all other funds from CPB	\$107,483	\$102,732
C. PBS - all payments except copyright royalties and other pass-through payments. See Guidelines for details.	\$155,573	\$27,872
Variance greater than 25%.		
D. NPR - all payments except pass-through payments. See Guidelines for details.	\$0	\$0
E. Public broadcasting stations - all payments	\$0	\$0
F. Other PBE funds (specify)	\$0	\$0
3. Local boards and departments of education or other local government or agency sources	\$0	\$0
3.1 NFFS Eligible	\$0	\$0
A. Program and production underwriting	\$0	\$0
B. Grants and contributions other than underwriting	\$0	\$0
C. Appropriations from the licensee	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
E. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
F. Other income eligible as NFFS (specify)	\$0	\$0
3.2 NFFS Ineligible	\$0	\$0
A. Rental income	\$0	\$0
B. Fees for services	\$0	\$0
C. Licensing fees (not royalties – see instructions for Line 15)	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	\$0	\$0

KAET-TV Annual Financial Report For the Fiscal Years Ending June 30, 2021 and 2022		
E. Other income ineligible for NFFS inclusion	\$0	\$0
4. State boards and departments of education or other state government or agency sources	\$2,793,285	\$2,766,806
4.1 NFFS Eligible	\$0	\$0
A. Program and production underwriting	\$0	\$0
B. Grants and contributions other than underwriting	\$0	\$0
C. Appropriations from the licensee	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
E. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
F. Other income eligible as NFFS (specify)	\$0	\$0
4.2 NFFS Ineligible	\$2,793,285	\$2,766,806
A. Rental income	\$0	\$0
B. Fees for services	\$2,793,285	\$2,766,806
C. Licensing fees (not royalties – see instructions for Line 15)	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	\$0	\$0
E. Other income ineligible for NFFS inclusion	\$0	\$0
5. State colleges and universities	\$299,887	\$93,826
5.1 NFFS Eligible	\$-74,416	\$45,226
Variance greater than 25%.		
A. Program and production underwriting	\$0	\$0
B. Grants and contributions other than underwriting	\$34,863	\$35,286
C. Appropriations from the licensee	\$-109,279	\$9,940
Variance greater than 25%.		
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
E. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
F. Other income eligible as NFFS (specify)	\$0	\$0
5.2 NFFS Ineligible	\$374,303	\$48,600
Variance greater than 25%.		
A. Rental income	\$0	\$0
B. Fees for services	\$255,847	\$48,600
Variance greater than 25%.		
C. Licensing fees (not royalties – see instructions for Line 15)	\$0	\$0

KAET-TV Annual Financial Report For the Fiscal Years Ending June 30, 2021 and 2022		
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	\$118,456	\$0
Variance greater than 25%.		
E. Other income ineligible for NFFS inclusion	\$0	\$0
6. Other state-supported colleges and universities	\$0	\$0
6.1 NFFS Eligible	\$0	\$0
A. Program and production underwriting	\$0	\$0
B. Grants and contributions other than underwriting	\$0	\$0
C. Appropriations from the licensee	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
E. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
F. Other income eligible as NFFS (specify)	\$0	\$0
6.2 NFFS Ineligible	\$0	\$0
A. Rental income	\$0	\$0
B. Fees for services	\$0	\$0
C. Licensing fees (not royalties – see instructions for Line 15)	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	\$0	\$0
E. Other income ineligible for NFFS inclusion	\$0	\$0
7. Private colleges and universities	\$0	\$0
7.1 NFFS Eligible	\$0	\$0
A. Program and production underwriting	\$0	\$0
B. Grants and contributions other than underwriting	\$0	\$0
C. Appropriations from the licensee	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
E. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
F. Other income eligible as NFFS (specify)	\$0	\$0
7.2 NFFS Ineligible	\$0	\$0
A. Rental income	\$0	\$0
B. Fees for services	\$0	\$0
C. Licensing fees (not royalties – see instructions for Line 15)	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	\$0	\$0
E. Other income ineligible for NFFS inclusion	\$0	\$0
8. Foundations and nonprofit associations	\$454,293	\$937,325

KAET-TV Annual Financial Report For the Fiscal Years Ending June 30, 2021 and 2022		
8.1 NFFS Eligible	\$390,918	\$870,452
Variance greater than 25%.		
A. Program and production underwriting	\$268,138	\$46,053
Variance greater than 25%.		
B. Grants and contributions other than underwriting	\$122,780	\$824,399
Variance greater than 25%.		
C. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
D. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
E. Other income eligible as NFFS (specify)	\$0	\$0
8.2 NFFS Ineligible	\$63,375	\$66,873
A. Rental income	\$0	\$0
B. Fees for services	\$63,375	\$66,873
C. Licensing fees (not royalties – see instructions for Line 15)	\$0	\$0
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	\$0	\$0
E. Other income ineligible for NFFS inclusion	\$0	\$0
9. Business and Industry	\$823,268	\$1,433,154
9.1 NFFS Eligible	\$715,790	\$1,174,752
Variance greater than 25%.		
A. Program and production underwriting	\$715,790	\$1,017,347
Variance greater than 25%.		
B. Grants and contributions other than underwriting	\$0	\$157,405
C. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
D. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
E. Other income eligible as NFFS (specify)	\$0	\$0
9.2 NFFS Ineligible	\$107,478	\$258,402
Variance greater than 25%.		
A. Rental income	\$0	\$0
B. Fees for services	\$107,478	\$258,402
Variance greater than 25%.		
C. Licensing fees (not royalties – see instructions for Line 15)	\$0	\$0

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	\$0	\$0
E. Other income ineligible for NFFS inclusion	\$0	\$0
10. Memberships and subscriptions (net of membership bad debt expense)	\$3,589,034	\$3,249,076
10.1 NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	\$0	\$527,862
10.2 NFFS Exclusion – All bad debt expenses from NFFS eligible revenues including but not limited to pledges, underwriting, and membership (unless netted elsewhere in Schedule A)	\$0	\$0
	<u>2021 data</u>	<u>2022 data</u>
10.3 Total number of contributors.	54,855	55,376
11. Revenue from Friends groups less any revenue included on line 10	\$0	\$0
	<u>2021 data</u>	<u>2022 data</u>
11.1 Total number of Friends contributors.	0	0
12. Subsidiaries and other activities unrelated to public broadcasting (See instructions)	\$0	\$0
A. Nonprofit subsidiaries involved in telecommunications activities	\$0	\$0
B. NFFS Ineligible – Nonprofit subsidiaries not involved in telecommunications activities	\$0	\$0
C. NFFS Ineligible – For-profit subsidiaries regardless of the nature of its activities	\$0	\$0
D. NFFS Ineligible – Other activities unrelated to public broadcasting	\$0	\$0
Form of Revenue	<u>2021 data</u>	<u>2022 data</u>
13. Auction revenue (see instructions for Line 13)	\$0	\$0
A. Gross auction revenue	\$0	\$0
B. Direct auction expenses	\$0	\$0
14. Special fundraising activities (see instructions for Line 14)	\$0	\$0
A. Gross special fundraising revenues	\$0	\$0
B. Direct special fundraising expenses	\$0	\$0
15. Passive income	\$0	\$0
A. Interest and dividends (other than on endowment funds)	\$0	\$0
B. Royalties	\$0	\$0
C. PBS or NPR pass-through copyright royalties	\$0	\$0
16. Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	\$-284,220	\$142,796
A. Gains from sales of property and equipment (do not report losses)	\$0	\$0
B. Realized gains/losses on investments (other than endowment funds)	\$0	\$0
C. Unrealized gains/losses on investments and actuarial gains/losses on charitable trusts and gift annuities (other than endowment funds)	\$-284,220	\$142,796
Variance greater than 25%.		
17. Endowment revenue	\$0	\$0

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

—	A. Contributions to endowment principal		\$0	\$0
—	B. Interest and dividends on endowment funds		\$0	\$0
—	C. Realized net investment gains and losses on endowment funds (if this is a negative amount, add a hyphen, e.g., "-1,765")		\$0	\$0
—	D. Unrealized net investment gains and losses on endowment funds (if this is a negative amount, add a hyphen, e.g., "-1,765")		\$0	\$0
—	18. Capital fund contributions from individuals (see instructions)		\$0	\$0
—	A. Facilities and equipment (except funds received from federal or public broadcasting sources)		\$0	\$0
—	B. Other		\$0	\$0
—	19. Gifts and bequests from major individual donors		\$5,944,088	\$6,414,630
		<u>2021 data</u> <u>2022 data</u>		
—	19.1 Total number of major individual donors	891	1,004	
—	20. Other Direct Revenue		\$0	\$0
—	Line 21. Proceeds from the FCC Spectrum Incentive Auction, interest and dividends earned on these funds, channel sharing revenues, and spectrum leases		\$0	\$0
—	A. Proceeds from sale in spectrum auction		\$0	\$0
—	B. Interest and dividends earned on spectrum auction related revenue		\$0	\$0
—	C. Payments from spectrum auction speculators		\$0	\$0
—	D. Channel sharing and spectrum leases revenues		\$0	\$0
—	E. Spectrum repacking funds		\$0	\$0
—	22. Total Revenue (Sum of lines 1 through 12, 13.A, 14.A, and 15 through 21)		\$15,829,247	\$15,168,217
—	Click here to view all NFFS Eligible revenue on Lines 3 through 9.			
—	Click here to view all NFFS Ineligible revenue on Lines 3 through 9.			
—	Adjustments to Revenue	2021 data	2022 data	
—	23. Federal revenue from line 1.		\$0	\$0
—	24. Public broadcasting revenue from line 2.		\$2,209,612	\$130,604
—	Variance greater than 25%.			
—	25. Capital funds exclusion—TV (3.2D, 4.2D, 5.2D, 6.2D, 7.2D, 8.2D, 9.2D, 18A)		\$118,456	\$0
—	Variance greater than 25%.			
—	26. Revenue on line 20 not meeting the source, form, purpose, or recipient criteria		\$0	\$0
—	27. Other automatic subtractions from total revenue		\$2,935,765	\$3,811,339
—	A. Auction expenses – limited to the lesser of lines 13a or 13b		\$0	\$0
—	B. Special fundraising event expenses – limited to the lesser of lines 14a or 14b		\$0	\$0
—	C. Gains from sales of property and equipment – line 16a		\$0	\$0
—	D. Realized gains/losses on investments (other than endowment funds) – line 16b		\$0	\$0

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

E. Unrealized investment and actuarial gains/losses (other than endowment funds) – line 16c	\$-284,220	\$142,796
Variance greater than 25%.		
F. Realized and unrealized net investment gains/losses on endowment funds – line 17c, line 17d	\$0	\$0
G. Rental income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	\$0	\$0
H. Fees for services (3.2B, 4.2B, 5.2B, 6.2B, 7.2B, 8.2B, 9.2B)	\$3,219,985	\$3,140,681
I. Licensing Fees (3.2C, 4.2C, 5.2C, 6.2C, 7.2C, 8.2C, 9.2C)	\$0	\$0
J. Other revenue ineligible as NFFS (3.2E, 4.2E, 5.2E, 6.2E, 7.2E, 8.2E, 9.2E)	\$0	\$0
K. FMV of high-end premiums (Line 10.1)	\$0	\$527,862
L. All bad debt expenses from NFFS eligible revenues including but not limited to pledges, underwriting, and membership (Line 10.2)	\$0	\$0
M. Revenue from subsidiaries and other activities ineligible as NFFS (12.B, 12.C, 12.D)	\$0	\$0
N. Proceeds from spectrum auction and related revenues from line 21.	\$0	\$0
28. Total Direct Nonfederal Financial Support (Line 22 less Lines 23 through 27). (Forwards to line 1 of the Summary of Nonfederal Financial Support)	\$10,565,414	\$11,226,274

Comments

Comment	Name	Date	Status
Schedule B WorkSheet KAET-TV (1706) Phoenix, AZ			

	2021	2022
Step 1 - Compute the Rate - Licensee Indirect Costs/Licensee Direct Costs		
Institutional Support (Enter this amount here only if station benefits from Institutional Support.)	\$201,507,000	\$212,285,000
AFS page or "n/a"	47	49
Physical Plant Support (Enter this amount here only if station benefits from Physical Plant Support.)	\$105,823,000	\$116,116,000
AFS page or "n/a"	47	49
Licensee Indirect Costs	\$307,330,000	\$328,401,000
Licensee Direct Costs		
Total Operating expenses	\$3,035,974,000	\$3,160,041,000
AFS page or "n/a"	47	49
Less: Institutional Support (Enter this amount whether or not the station benefits from Institutional Support.)	\$201,507,000	\$212,285,000
AFS page or "n/a"	47	49
Less: Physical Plant Support (Enter this amount whether or not the station benefits from Physical Plant Support.)	\$105,823,000	\$116,116,000
AFS page or "n/a"	47	49
Licensee's Direct Costs (= Total operating expenses minus both	\$2,728,644,000	\$2,831,640,000

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

	2021	2022
Institutional Support and Physical Plant Support)		
Indirect Cost Rate = (Licensee's Indirect Costs/Licensee's Direct Costs)	%11.263104	%11.597555
Step 2 - Identify the Base (Station's Net Direct Expenses)		
Station's Total Operating Expenses (from Schedule E, Line 8)	\$16,715,939	\$17,202,159
Less: Depreciation and Amortization - from station's AFS (if applicable)	\$243,459	\$245,236
AFS page or "n/a"	n/a	n/a
In-kind contributions and donated property and equipment reported as expenses per AFS (if applicable)	\$421,490	\$479,670
AFS page or "n/a"	n/a	n/a
Indirect Administrative Support (if included in station's total expenses) - per AFS	\$2,265,611	\$2,623,492
AFS page or "n/a"	n/a	n/a
Expenses for non-broadcast activities and UBIT-per AFS (if applicable)	\$0	\$0
AFS page or "n/a"	n/a	n/a
Expenses not supported by licensee - per AFS (Example: expenses of consolidated entities like Friends Groups, foundations, and component units (if applicable))"	\$0	\$0
AFS page or "n/a"	n/a	n/a
Station's Net Direct Expenses	\$13,785,379	\$13,853,761
Step 3: Apply the Rate to the Base (= total support activity benefiting the station)	\$1,552,662	\$1,606,698
Upload the licensee's audited financial statement only. [NOTE: Only PDF files are allowed for upload.]	View Document	1706_KAET_BWA_fy22.pdf

Comments

Comment	Name	Date	Status
Occupancy List KAET-TV (1706) Phoenix, AZ			
	Type of Occupancy	Location	Value
Schedule B Totals KAET-TV (1706) Phoenix, AZ			
		2021 data	2022 data
1. Total support activity benefiting station		\$1,552,662	\$1,606,698
2. Occupancy value		0	\$0
3. Deductions: Fees paid to the licensee for overhead recovery, assessment, etc.		\$0	\$0
4. Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements.		\$0	\$0
5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)		\$1,552,662	\$1,606,698
6. Please enter an institutional type code for your licensee.		SU	SU
Comments			
Comment	Name	Date	Status

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

Schedule C
KAET-TV (1706)
Phoenix, AZ

	2021 data	Donor Code	2022 data
1. PROFESSIONAL SERVICES (must be eligible as NFFS)	\$0		\$0
A. Legal	\$0		\$0
B. Accounting and/or auditing	\$0		\$0
C. Engineering	\$0		\$0
D. Other professionals (see specific line item instructions in Guidelines before completing)	\$0		\$0
2. GENERAL OPERATIONAL SERVICES (must be eligible as NFFS)	\$0		\$0
A. Annual rental value of space (studios, offices, or tower facilities)	\$0		\$0
B. Annual value of land used for locating a station-owned transmission tower	\$0		\$0
C. Station operating expenses	\$0		\$0
D. Other (see specific line item instructions in Guidelines before completing)	\$0		\$0
3. OTHER SERVICES (must be eligible as NFFS)	\$0		\$0
A. ITV or educational radio	\$0		\$0
B. State public broadcasting agencies	\$0		\$0
C. Local advertising	\$0		\$0
D. National advertising	\$0		\$0
4. Total in-kind contributions - services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Nonfederal Financial Support	\$0		\$0
5. IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$421,490		\$479,670
A. Compact discs, records, tapes and cassettes	\$0		\$0
B. Exchange transactions	\$0		\$0
C. Federal or public broadcasting sources	\$0		\$0
D. Fundraising related activities	\$0		\$0
E. ITV or educational radio outside the allowable scope of approved activities	\$0		\$0
F. Local productions	\$0		\$0
G. Program supplements	\$0		\$0
H. Programs that are nationally distributed	\$0		\$0
I. Promotional items	\$0		\$0
J. Regional organization allocations of program services	\$0		\$0
K. State PB agency allocations other than those allowed on line 3(b)	\$0		\$0
L. Services that would not need to be purchased if not donated	\$0		\$0
M. Other	SU \$421,490	SU	\$479,670
Description	Amount		
Direct Salaries and Employee Benefits	\$479,670		
6. Total in-kind contributions - services and other assets (line 4 plus line 5), forwards to Schedule F, line 1c. Must agree with in-kind contributions recognized as revenue in the AFS.	\$421,490		\$479,670

Comments

Comment	Name	Date	Status
---------	------	------	--------

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

Schedule D
KAET-TV (1706)
Phoenix, AZ

	2021 data	Donor Code	2022 data
1. Land (must be eligible as NFFS)	\$0		\$0
2. Building (must be eligible as NFFS)	\$0		\$0
3. Equipment (must be eligible as NFFS)	\$0		\$0
4. Vehicle(s) (must be eligible as NFFS)	\$0		\$0
5. Other (specify) (must be eligible as NFFS)	\$0		\$0
6. Total in-kind contributions - property and equipment eligible as NFFS (sum of lines 1 through 5), forwards to Line 3b. of the Summary of Nonfederal Financial Support	\$0		\$0
7. IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$0		\$0
a) Exchange transactions	\$0		\$0
b) Federal or public broadcasting sources	\$0		\$0
c) TV only—property and equipment that includes new facilities (land and structures), expansion of existing facilities and acquisition of new equipment	\$0		\$0
d) Other (specify)	\$0		\$0
8. Total in-kind contributions - property and equipment (line 6 plus line 7), forwards to Schedule F, line 1d. Must agree with in-kind contributions recognized as revenue in the AFS.	\$0		\$0

Comments

Comment	Name	Date	Status
---------	------	------	--------

Schedule E
KAET-TV (1706)
Phoenix, AZ

EXPENSES

(Operating and non-operating)

PROGRAM SERVICES

	2021 data	2022 data
1. Programming and production	\$7,292,674	\$6,860,481
A. TV CSG	\$1,946,556	\$0
B. TV Interconnection	\$36,820	\$0
C. Other CPB Funds	\$11,302	\$0
D. All non-CPB Funds	\$5,297,996	\$6,860,481
2. Broadcasting and engineering	\$1,242,985	\$1,477,016
A. TV CSG	\$0	\$0
B. TV Interconnection	\$0	\$0
C. Other CPB Funds	\$0	\$0
D. All non-CPB Funds	\$1,242,985	\$1,477,016
3. Program information and promotion	\$1,037,411	\$1,171,876
A. TV CSG	\$0	\$0
B. TV Interconnection	\$0	\$0
C. Other CPB Funds	\$0	\$0
D. All non-CPB Funds	\$1,037,411	\$1,171,876

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

SUPPORT SERVICES	2021 data	2022 data
4. Management and general	\$3,352,195	\$3,982,547
A. TV CSG	\$0	\$0
B. TV Interconnection	\$0	\$0
C. Other CPB Funds	\$0	\$0
D. All non-CPB Funds	\$3,352,195	\$3,982,547
5. Fund raising and membership development	\$2,891,255	\$2,672,762
A. TV CSG	\$0	\$0
B. TV Interconnection	\$0	\$0
C. Other CPB Funds	\$0	\$0
D. All non-CPB Funds	\$2,891,255	\$2,672,762
6. Underwriting and grant solicitation	\$655,960	\$752,429
A. TV CSG	\$0	\$0
B. TV Interconnection	\$0	\$0
C. Other CPB Funds	\$0	\$0
D. All non-CPB Funds	\$655,960	\$752,429
7. Depreciation and amortization (if not allocated to functional categories in lines 1 through 6)	\$243,459	\$285,048
A. TV CSG	\$0	\$0
B. TV Interconnection	\$0	\$0
C. Other CPB Funds	\$0	\$0
D. All non-CPB Funds	\$243,459	\$285,048
8. Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	\$16,715,939	\$17,202,159
A. Total TV CSG (sum of Lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	\$1,946,556	\$0
B. Total TV Interconnection (sum of Lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	\$36,820	\$0
C. Total Other CPB Funds (sum of Lines 1.C, 2.C, 3.C, 4.C, 5.C, 6.C, 7.C)	\$11,302	\$0
D. Total All non-CPB Funds (sum of Lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	\$14,721,261	\$17,202,159

INVESTMENT IN CAPITAL ASSETS

Cost of capital assets purchased or donated

	2021 data	2022 data
9. Total capital assets purchased or donated	\$118,456	\$31,001
9a. Land and buildings	\$0	\$0
9b. Equipment	\$118,456	\$31,001
9c. All other	\$0	\$0
10. Total expenses and investment in capital assets (Sum of lines 8 and 9)	\$16,834,395	\$17,233,160

Additional Information

(Lines 11 + 12 must equal line 8 and Lines 13 + 14 must equal line 9)

	2021 data	2022 data
11. Total expenses (direct only)	\$13,863,352	\$13,824,499
12. Total expenses (indirect and in-kind)	\$2,852,587	\$3,377,660

**KAET-TV Annual Financial Report
For the Fiscal Years Ending June 30, 2021 and 2022**

	2021 data	2022 data
13. Investment in capital assets (direct only)	\$118,456	\$31,001
14. Investment in capital assets (indirect and in-kind)	\$0	\$0

Comments

Comment	Name	Date	Status
Schedule F KAET-TV (1706) Phoenix, AZ			

2022 data

1. Data from AFR

a. Schedule A, Line 22	\$15,168,217
b. Schedule B, Line 5	\$1,606,698
c. Schedule C, Line 6	\$479,670
d. Schedule D, Line 8	\$0
e. Total from AFR	\$17,254,585

Choose Reporting Model

You must choose one of the three reporting models in order to complete Schedule F. After making your selection, click the "Choose" button below, which will display your reporting model. When changing to a different reporting model all data entered in the current reporting model will be lost.

- FASB
 GASB Model A proprietary enterprise-fund financial statements with business-type activities only
 GASB Model B public broadcasting entity-wide statements with mixed governmental and business-type activities

2022 data

2. GASB Model A proprietary enterprise-fund financial statements with business-type activities only

a. Operating revenues	\$4,100,923
b. Non-operating revenues	\$14,732,306
c. Other revenue	\$0
d. Capital grants, gifts and appropriations (if not included above)	\$0
e. Total From AFS, lines 2a-2d	\$18,833,229

Reconciliation

2022 data

3. Difference (line 1 minus line 2)	\$-1,578,644
4. If the amount on line 3 is not equal to \$0, click the "Add" button and list the reconciling items.	\$-1,578,644

Description	Amount
KBAQ Revenue Removal	\$-561,850
Indirect Support Adjustment	\$-1,016,794

Comments

Comment	Name	Date	Status
---------	------	------	--------

**Arizona PBS
 Summary of Non-Federal Financial Support
 For the Fiscal Years Ending June 30, 2021 and 2022
 Certified by Head of Grantee and Independent Accountant's Report**

AFR Line	Arizona PBS Description	FY 2021	FY 2022	Totals
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$10,565,414	\$11,226,274	\$21,791,688
2	Indirect Administrative (Schedule B)	\$1,552,662	\$1,606,698	\$3,159,360
3	In-kind-Contributions			
	In-Kind Contributions (Schedule C)	\$0	\$0	\$0
	In-Kind Contributions (Schedule D)	\$0	\$0	\$0
4	Total Non-Federal Financial Support	\$12,118,076	\$12,832,972	\$24,951,048

Scope and Methodology

We performed an attestation examination to determine KAET-TV's (Arizona PBS) compliance with CPB Financial Reporting Guidelines, provisions of the Communications Act, grant certification requirements, and other grant provisions. The scope of the audit included reviews and tests of the information reported by the grantee on its AFRs that we reconciled to audited financial statements for the fiscal years ending June 30, 2021, and June 30, 2022; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of the NFFS claimed on the station's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting and grant agreements, donor agreements, premium support, and other documentation supporting revenues reported. Specifically, we reviewed eligible NFFS revenue transactions reported on Schedule A of the AFR totaling \$1,337,983 of the \$10,565,414 reported in FY 2021 and \$2,184,485 of the \$11,226,274 reported in FY 2022. We performed analytical procedures on indirect administrative support totaling \$1,552,662 in FY 2021 and \$1,606,698 in FY 2022 on Schedule B of the AFR.

We reviewed the allowability of expenses the station charged to the CSGs, CARES Act, ARPA, and Ready to Learn grants received from CPB during FYs 2021 and 2022. To determine whether the station incurred CSG, CARES Act, ARPA, and Ready to Learn grant expenditures in accordance with grant terms, we reviewed \$2,128,044 of the \$2,203,634 in CPB grant expenses incurred by the station during our audit period. For all the grant expenses reviewed, we examined supporting documentation, including invoices, proof of payments, and other documentation for judgmentally selected transactions.

We reviewed policies, records, and documents supporting the station's compliance with the Act's requirements to provide advance notice of public meetings, make financial and EEO information available to the public, make employment statistics available to the public, and safeguard donor lists. We also reviewed the station's websites to determine their compliance with CPB's transparency requirements. Our procedures included interviewing station staff and the station's independent public accountant.

We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We also gained an understanding of the station's policies and procedures for compliance with certification of eligibility requirements, Communications Act, and CPB grant agreement terms for allowable costs. We used this information to assess risks and plan the nature and extent of our testing to conclude on objectives.

We conducted fieldwork from March 2023 through January 2024. We performed our audit in accordance with the *Government Auditing Standards* for attestation examinations.



ARIZONA STATE UNIVERSITY

555 N. Central Ave. Suite 500 ■ Phoenix, AZ 85004-1252
602.496.8888

William J. Richardson III
Deputy Inspector General
401 Ninth Street, NW
Washington, DC 20004-2129
brichardson@cpb.org

Dear Mr. Richardson,

We appreciate the opportunity to respond to Draft Report No. AST2308-XXXX, Audit of Community Service and Other Grants Awarded to KAET-TV (Arizona PBS) for the period July 1, 2020 through June 30, 2022.

First and foremost, we want to extend our gratitude to our auditors for their professionalism and patience during this audit process, which coincided with a period of transition for our station. Following significant leadership and staff turnover and the relocation of the station from the Cronkite School of Journalism to Media Enterprise in July 2023, we have been working diligently to stabilize operations and enhance our service to the community.

As the new General Manager, I am pleased to relay that we have taken decisive steps to address the findings and recommendations outlined in the report. We have identified additional resources and are expanding the business team under the new Finance Director. Below, we provide responses to the identified issues:

Overstated NFFS –

We are developing, implementing and documenting specific processes to ensure compliance with CPB NFFS reporting requirements which will include Endowments – Unrealized and Realized Gains, Ineligible Exchange Transactions, Ineligible Contributions – Double Counting Contributions and Lack of Documentation. We are committed to having these new processes and controls fully implemented by the end of FY24 (June 30, 2024) with continuous training for all staff and close collaboration with CPB to ensure accurate reporting moving forward.

Regarding the FMV of substantial premiums – As noted in the audit report, the discrepancy regarding the FMV of substantial premiums was rectified in FY22 and corrective actions have been established to ensure accurate reporting in future AFR submissions. It should also be noted that historically, the station has not reported any FMV exclusions in the AFR line 10.1. Prior to this audit, CPB did not question this during its review of the AFR. Additionally, we have added another level of review with Central Finance Department prior to submitting the AFR.

Regarding Ineligible Purpose – We have identified and corrected the miscommunication leading to funds being deposited into the wrong account. This was an isolated error and not indicative of systemic issues. We are reviewing our protocols to prevent similar occurrences from occurring in the future.

 The logo for "Your Arizona Connection" features a stylized mountain range silhouette with a saguaro cactus on the right. The text "YOUR ARIZONA CONNECTION" is written in a bold, sans-serif font, with "starts here" in a smaller font below it.

YOUR
ARIZONA
CONNECTION
starts here

Questions costs –

We are developing and documenting processes to ensure proper controls are in place for the expenditure of CPB grants within the designated spending period, with staff training underway.

Communications Act and CPB General Provisions - Noncompliance –

We are implementing processes to ensure compliance with the Communications Act and CPB General Provisions, including the timely posting of the most current CPB Annual Financial Report and Audited Financial Statements (AFS) on the station's website and making the CPB Employment Statistical Report available to the public via the website.

Regarding the Community Advisory Board (CAB) public meetings advance notice – should a CAB be reinstated in alignment with our strategic plan, we are committed to ensuring the public has advance notice of meetings.

AFR Reporting –

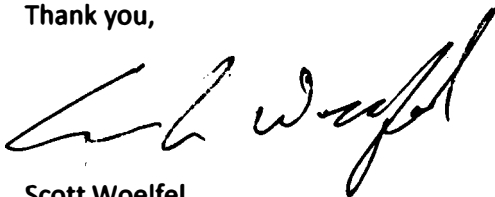
We have been enhancing our processes to ensure compliance with CPB AFR reporting requirements, with full implementation underway with the most recent FY23 AFR reporting completed. We have implemented and added another level of review with Central Finance Department prior to submitting the AFR.

GAAP Compliance –

We are developing, implementing and documenting specific processes so that proper controls are in place to ensure compliance with financial reporting requirements of GAAP. We are closely partnering with Central Finance Department and our external auditors to ensure ongoing GAAP compliance.

We want to express our appreciation to the auditors for their assistance in helping us identify and properly correct these findings. We are fully committed to implementing the recommended corrections and enhancing our operations to better serve our community.

Thank you,



Scott Woelfel
General Manager
Arizona PBS - KAET

Contact CPB OIG

If you have information about fraud, waste, or abuse involving CPB funds, initiatives, or operations, please call, write, or e-mail the Office of the Inspector General or file a complaint through our website. Your report may be made anonymously.

Call: Inspector General Hotline
202-879-9728 or
800-599-2170

Email: oigemail@cpb.org

Write: Inspector General Hotline
Office of the Inspector General
Corporation for Public Broadcasting
401 Ninth Street, NW
Washington, DC 20004-2129

Website: <https://cpboig.oversight.gov/hotline>



On October 1, 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) announced the official launch of [Oversight.gov](https://oversight.gov). This new website provides a “one stop shop” to follow the ongoing oversight work of all Inspectors General that publicly post reports.

The Corporation for Public Broadcasting, like the other OIGs, will continue to post reports to its own website. But with the launch of Oversight.gov, users can now sort, search, and filter the site’s database of public reports from all of CIGIE’s member OIGs to find reports of interest. In addition, the site features a user-friendly map to find reports based on geographic location, and contact information for each OIG’s whistleblower hotline. Users can receive notifications when new reports are added to the site by following CIGIE’s new Twitter account, [@OversightGov](https://twitter.com/OversightGov).