

An Audit

WHA Television

2005-2006 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

Audit Prepared by

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STATE OF WISCONSIN

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Janice Mueller
State Auditor

January 27, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Mr. Toby E. Marcovich
President of the Board of Regents
University of Wisconsin System
Madison, Wisconsin 53706

Dear Senator Roessler, Representative Jeskewitz, and Mr. Marcovich:

We have completed a financial audit of WHA Television, as requested by the University of Wisconsin-Extension to fulfill the audit requirements of the Corporation for Public Broadcasting. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels.

WHA Television is licensed to the Board of Regents of the University of Wisconsin System and is operated by the University of Wisconsin-Extension. WHA Television earned \$15.9 million in revenues during fiscal year 2003-04, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains the financial statements and related notes for the period July 1, 2003 through June 30, 2004. We were able to issue an unqualified independent auditor's report on these statements.

We appreciate the courtesy and cooperation extended to us by University of Wisconsin-Extension staff during the audit.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ss

Audit Opinion ■

Independent Auditor's Report on the Financial Statements of WHA Television

We have audited the accompanying balance sheet of WHA Television as of June 30, 2004, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the management of WHA Television. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Friends of WHA-TV, Inc., which represent 16.4 percent of the total assets and 21.1 percent of the total revenues. The financial statements of the Friends of WHA-TV, Inc., were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Friends of WHA-TV, Inc., is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Friends of WHA-TV, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the additional requirements of *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as

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well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only WHA Television and do not purport to, and do not, present fairly the financial positions of the State of Wisconsin or the University of Wisconsin System, the changes in their financial positions, and their cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the operating fund of WHA Television and the Friends of WHA-TV, Inc., as of June 30, 2004, and the respective changes in their financial positions and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of WHA Television. Management's Discussion and Analysis on pages 5 through 8 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2005, on our consideration of WHA Television's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and our tests of other matters. The purpose of that report is to describe the scope of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

January 19, 2005

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director

Management's Discussion and Analysis ■

Prepared by WHA Television Management

This section of the WHA Television annual financial report presents management's discussion and analysis of the financial performance of WHA Television during the fiscal year ended June 30, 2004. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of WHA Television management.

Using the Annual Financial Statements

WHA Television is licensed to the Board of Regents of the University of Wisconsin System and prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) statements. The financial statements include WHA's Operating Fund and the accounts of the Friends of WHA-TV, Inc., a not-for-profit corporation that solicits funds for WHA Television.

The Balance Sheet includes all assets and liabilities. Assets and liabilities are subtotaled by current and noncurrent. Current assets will be used within one year to satisfy obligations, while current liabilities will be liquidated within one year. The difference between assets and liabilities is reported as net assets. Restricted net assets reflect unspent balances of purpose-restricted grants, contracts, and contributions. Over time, increases or decreases in net assets are an indicator of changes in WHA Television's financial health. The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities are reported as either operating or nonoperating. WHA Television's dependence on State General Appropriations and Donated Facilities and Administrative Support from the

University of Wisconsin System will result in operating deficits because the financial reporting model classifies State General Appropriations and donated services as nonoperating revenues. The use of capital assets is reflected in the financial statements as depreciation expense, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and it helps to measure the ability to meet financial obligations as they mature.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Noteworthy Financial Activity

Condensed financial information relating to WHA Television as of and for the fiscal years ended June 30, 2004 and 2003, is shown in Table A.

Total assets increased 11 percent, while total liabilities increased 24 percent. This resulted in an 8 percent increase in net assets. Cash and Investments, totaling \$6,550,000, increased by \$508,000, with the Operating Fund's Cash and Investments portion increasing 16 percent to \$4,010,000. The current ratio that compares current assets to current liabilities decreased from 5.1 to 4.6.

Capital Assets increased by \$164,000. New capital asset additions totaled \$800,000, while annual depreciation expense decreased the net value by \$506,000. The capital asset additions increased from \$198,000 in fiscal year 2002-03 as WHA begins converting the production facility to high definition digital technology.

Operating revenues decreased by 7 percent, and operating expenses decreased by 5 percent, resulting in a 3 percent decrease in the net operating loss to \$6,719,000. The most significant sources of operating revenues in FY 2003-04 were Grants and Contracts at \$2,546,000, a decrease from the prior year of 27 percent, and Membership Income at \$2,080,000, a decrease of 2 percent. Decreased Grants and Contracts revenue is offset by a concomitant decrease in operating expenses. Grants and Contracts revenue is dependent upon successfully competing against other broadcasting and nonprofit entities. There can be a large variance from year to year in the amount reported. For example, the Corporation for Public Broadcasting (CPB) was the source of 61 percent of the Grants and Contracts revenue at \$1,554,000, but this decreased by \$693,000 compared to the prior year.

Operating expenses include \$2,425,000 of Donated Facilities and Administrative Support from the University of Wisconsin System, a \$103,000 decrease from the prior year. \$1,736,000 is reported as a Management and General expense. Program Information expense decreased by 16 percent to \$2,708,000, and Programming and Production expense decreased by 6 percent to \$7,610,000.

Table A
WHA Television Condensed Financial Information
(In Thousands)

	June 30, 2004	June 30, 2003	Change	Percentage Change
Capital Assets	\$ 2,822	\$2,658	\$ 164	6%
Other Assets	7,842	6,977	865	12
Total Assets	<u>10,664</u>	<u>9,635</u>	<u>1,029</u>	11
Current Liabilities	1,338	1,031	307	30
Noncurrent Liabilities	468	422	46	11
Total Liabilities	<u>1,806</u>	<u>1,453</u>	<u>353</u>	24
Net Assets				
Invested in Capital Assets	2,822	2,658	164	6
Temporarily Restricted	697	638	59	9
Unrestricted	5,338	4,886	452	9
Total Net Assets	<u>\$ 8,857</u>	<u>\$8,182</u>	<u>\$ 675</u>	8

	FY 2003-04	FY 2002-03	Change	Percentage Change
Operating Revenues	\$ 8,392	\$ 9,050	\$ (658)	(7)%
Operating Expenses	15,111	15,949	(838)	(5)
Net Operating Loss	(6,719)	(6,899)	180	(3)
Nonoperating Revenue	6,747	6,867	(120)	(2)
Capital Contributions	647	170	477	281
Change in Net Assets	<u>\$ 675</u>	<u>\$ 138</u>	<u>\$ 537</u>	389

Nonoperating revenue remained flat at \$6,747,000. Decreases in State General Appropriations and Donated Facilities and Administrative Support were offset by a \$193,000 increase in Investment Income. Investment Income increased in fiscal year 2003-04 because of the market improvement.

Capital Contributions increased with funding received from the State Building Trust Fund and a matching grant from the U.S. Department of Commerce for digital production equipment.

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This financial report is designed to provide a general overview of the University of Wisconsin-Extension's finances related to public television. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to UWEX Division of Broadcasting and Media Innovations in care of the Director of Business Services, 821 University Avenue, Madison, Wisconsin 53706.

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Financial Statements ■

Balance Sheet
June 30, 2004

	Operating Fund	Friends of WHA-TV, Inc.	Total June 30, 2004	Restated Total June 30, 2003
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 834,882	\$ 729,578	\$ 1,564,460	\$ 1,102,537
Investments (Note 2)	3,174,760	179,677	3,354,437	3,233,618
Grants and contracts receivable	794,774	0	794,774	493,727
Accounts and interest receivable, net	85,886	74,924	160,810	175,342
Accounts receivable—ECB (Note 10)	198,617	17,940	216,557	148,556
Contributions receivable from remainder trust	0	30,773	30,773	33,673
Interfund receivable (payable)	926,811	(926,811)	0	0
Prepaid expenses	71,530	16,629	88,159	83,970
Total Current Assets	6,087,260	122,710	6,209,970	5,271,423
Noncurrent Assets:				
Investments (Note 2)	0	1,631,153	1,631,153	1,705,687
Capital assets, net of accumulated depreciation (Notes 3 and 4)	2,822,448	0	2,822,448	2,658,070
Total Noncurrent Assets	2,822,448	1,631,153	4,453,601	4,363,757
TOTAL ASSETS	\$ 8,909,708	\$ 1,753,863	\$ 10,663,571	\$ 9,635,180
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 259,829	\$ 286,442	\$ 546,271	\$ 297,553
Due to the University of Wisconsin System	736,173	0	736,173	678,814
Deferred support	1,394	53,890	55,284	54,903
Total Current Liabilities	997,396	340,332	1,337,728	1,031,270
Noncurrent Liabilities:				
Compensated absences payable (Note 5)	468,493	0	468,493	421,928
Total Noncurrent Liabilities	468,493	0	468,493	421,928
Total Liabilities	1,465,889	340,332	1,806,221	1,453,198
Net Assets:				
Invested in capital assets	2,822,448	0	2,822,448	2,658,070
Restricted by grantors and donors (Note 8)	665,988	0	665,988	604,262
Restricted for remainder trust (Note 8)	0	30,773	30,773	33,673
Unrestricted (Note 9)	3,955,383	1,382,758	5,338,141	4,885,977
Total Net Assets	7,443,819	1,413,531	8,857,350	8,181,982
TOTAL LIABILITIES AND NET ASSETS	\$ 8,909,708	\$ 1,753,863	\$ 10,663,571	\$ 9,635,180

The accompanying notes are an integral part of this statement.

**Statement of Revenues, Expenses, and Changes in Net Assets
for the Year Ended June 30, 2004**

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2003-04	Restated Total FY 2002-03
OPERATING REVENUES				
Grants and Contracts	\$ 2,545,596	\$ 0	\$ 2,545,596	\$ 3,498,227
Community Service Grant—CPB	1,195,835	0	1,195,835	1,061,457
Underwriting	417,158	0	417,158	377,115
Telecasting, Production, and Other Income	1,076,791	265,807	1,342,598	1,541,542
Membership Income	0	2,079,654	2,079,654	2,128,299
Auction Income	0	389,729	389,729	443,792
Major Gifts	10,000	411,359	421,359	0
Total Operating Revenues	5,245,380	3,146,549	8,391,929	9,050,432
OPERATING EXPENSES				
Program Services:				
Programming and production	7,466,970	143,108	7,610,078	8,088,838
Broadcasting	769,573	0	769,573	634,465
Program information	2,616,902	90,764	2,707,666	3,217,805
Total Program Services	<u>10,853,445</u>	<u>233,872</u>	<u>11,087,317</u>	<u>11,941,108</u>
Support Services:				
Management and general	2,425,976	81,105	2,507,081	2,554,031
Fundraising and membership development	815,934	565,458	1,381,392	1,358,380
Underwriting	134,743	0	134,743	95,205
Total Support Services	<u>3,376,653</u>	<u>646,563</u>	<u>4,023,216</u>	<u>4,007,616</u>
Total Operating Expenses	14,230,098	880,435	15,110,533	15,948,724
OPERATING INCOME (LOSS)	(8,984,718)	2,266,114	(6,718,604)	(6,898,292)
NONOPERATING REVENUES AND EXPENSES				
State General Appropriations	4,073,966	0	4,073,966	4,153,086
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	2,424,535	0	2,424,535	2,528,316
Investment Income	164,699	213,490	378,189	185,185
Loss on Disposal of Capital Assets	(129,731)	0	(129,731)	0
Total Nonoperating Revenues (Expenses)	6,533,469	213,490	6,746,959	6,866,587
Income (Loss) Before Contributions and Transfers	(2,451,249)	2,479,604	28,355	(31,705)
CONTRIBUTIONS AND TRANSFERS				
Capital Contributions	647,013	0	647,013	169,778
Interfund Transfers	2,472,850	(2,472,850)	0	0
CHANGE IN NET ASSETS	668,614	6,754	675,368	138,073
Total Net Assets—Beginning of the Year, Restated (Note 11)	6,775,205	1,406,777	8,181,982	8,043,909
Total Net Assets—End of the Year	<u>\$ 7,443,819</u>	<u>\$ 1,413,531</u>	<u>\$ 8,857,350</u>	<u>\$ 8,181,982</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2004

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2003-04	Restated Total FY 2002-03
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Grants and Contracts	\$ 3,435,622	\$ 0	\$ 3,435,622	\$ 5,311,318
Receipts from Contributed Support	421,429	3,125,954	3,547,383	3,866,184
Receipts from Sales and Services	1,069,176	0	1,069,176	885,432
Payments to Suppliers	(4,066,377)	(763,196)	(4,829,573)	(6,572,631)
Payments to Employees	(6,969,626)	(32,182)	(7,001,808)	(7,532,448)
Net Cash Provided (Used) by Operating Activities	(6,109,776)	2,330,576	(3,779,200)	(4,042,145)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Receipts from State Government	4,073,966	0	4,073,966	4,153,086
Interfund Transfers	2,597,307	(2,597,307)	0	0
Net Cash Provided (Used) by Noncapital Financing Activities	6,671,273	(2,597,307)	4,073,966	4,153,086
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Contributions	647,013	0	647,013	169,778
Purchases of Capital Assets	(800,273)	0	(800,273)	(198,585)
Net Cash Used for Capital and Related Financing Activities	(153,260)	0	(153,260)	(28,807)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (Purchases) and Sales of Investments	(126,503)	292,190	165,687	301,229
Interest Income	110,998	43,732	154,730	237,226
Net Cash Provided (Used) by Investing Activities	(15,505)	335,922	320,417	538,455
NET INCREASE IN CASH AND CASH EQUIVALENTS	392,732	69,191	461,923	620,589
Balances—Beginning of the Year	442,150	660,387	1,102,537	481,948
Balances—End of the Year	<u>\$ 834,882</u>	<u>\$ 729,578</u>	<u>\$ 1,564,460</u>	<u>\$ 1,102,537</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2003-04	Restated Total FY 2002-03
RECONCILIATION OF OPERATING INCOME (LOSS)				
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (8,984,718)	\$ 2,266,114	\$ (6,718,604)	\$ (6,898,292)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation expense	506,164	0	506,164	610,241
Donated facilities and administrative support from the University of Wisconsin System expense	2,424,535	0	2,424,535	2,528,316
Change in assets and liabilities:				
Receivables, net	(319,176)	(20,953)	(340,129)	4,023,793
Prepaid expenses	1,098	(5,287)	(4,189)	678
Accounts and other payables	204,939	90,344	295,283	(2,459)
Due to the University of Wisconsin System	57,359	0	57,359	(1,293,131)
Deferred support	23	358	381	(3,011,291)
Net Cash Provided (Used) by Operating Activities	\$ (6,109,776)	\$ 2,330,576	\$ (3,779,200)	\$ (4,042,145)

Noncash Activities:

The net increase in the fair value of investments was \$21,114 for the operating fund and \$92,777 for the Friends of WHA-TV, Inc.

The decrease in the present value of the Friends' interest in the remainder trust was \$2,900.

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

WHA Television is licensed to the Board of Regents of the University of Wisconsin System and is operated by the University of Wisconsin-Extension. WHA Television is presented as the Operating Fund in the foregoing financial statements. The financial statements also include the accounts of the Friends of WHA-TV, Inc. (the Friends). The Friends is a not-for-profit corporation that solicits funds in the name of, and with the approval of, WHA Television. Funds are distributed by the Friends to WHA Television in amounts determined by the Board of the Friends (of which the WHA Television Manager is a member). The timing and the purpose for which such distributions are to be used are controlled by the Friends. All significant inter-organization accounts and transactions have been eliminated.

Copies of the separately issued financial statements of the Friends may be obtained by contacting the Executive Director of the Friends of WHA-TV, Inc. at 821 University Avenue, Madison, WI 53706.

B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). WHA Television has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. GASB allows governmental entities that previously used the American Institute of

Certified Public Accountants' not-for-profit model to use enterprise fund accounting and financial reporting. Enterprise fund financial statements are presented 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.

Revenues from government-mandated or voluntary nonexchange transactions, such as contributions and grants, are recognized when all applicable eligibility requirements are met. Eligibility requirements are established by the provider of the funds and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies. Restrictions that specify the purpose for which resources are required to be used are not considered an eligibility requirement and do not affect when a nonexchange revenue is recognized.

Contributions, gifts, and grants that do not have eligibility requirements are reported as revenue when WHA Television is entitled to the funds. Contributed membership fees of the Friends are nonrefundable and are recorded as revenue in the year earned; pledged Friends contributions that are expected to be collected within one year are recorded as revenue at the net realizable value. There are no pledges due in more than one year. Contributions, gifts, and grants with eligibility requirements, such as expense-driven grants, are recognized when the eligibility requirements are met. Noncash contributions are recognized as revenues in the period of receipt.

Expenses are shown in the functional categories contained in the Statement of Revenues, Expenses, and Changes in Net Assets. Expenses that relate to more than one category are allocated to the respective categories, using estimates as necessary. Restricted resources are first applied when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating revenues are directly related to programming, production, and development activities. Nonoperating revenues are indirectly associated with programming, production, and development activities, such as investment income. Certain significant revenue streams relied upon by operations are reported as nonoperating revenue, as defined by GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, including state general appropriations and donated facilities and administrative support from the University of Wisconsin System.

C. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

D. Cash and Cash Equivalents

Cash and cash equivalents in WHA Television's operating fund include cash balances deposited with the State and shares in the State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the Friends fund include cash deposits with one financial institution.

E. Valuation of Investments

All investments of WHA Television and the Friends are carried at fair value based on quoted market prices. State Investment Fund shares are valued at amortized cost, which approximates fair value. As of June 30, 2004, the fair value of these pool shares was 99.88 percent of carrying value.

F. Capital Assets

Items classified as capital assets are recorded at cost or, for donated property, at the estimated fair-market value at date of receipt. A capital asset is defined as any single asset that has an acquisition cost of \$5,000 or more and a useful life of more than one year, whether purchased outright or acquired through a capital lease or through donation. Capital assets also include certain constructed or fabricated items and certain component parts. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for capital assets are based on standards for the public broadcasting industry developed by the Public Broadcasting Service and range from 4 to 15 years. Expenses for repairs and maintenance are charged to operating expenses as incurred.

G. Due to the University of Wisconsin System

Expenses related to certain WHA Television grants and contracts may be incurred by the University of Wisconsin System prior to receipt of funding from the granting agency. In addition, all cash received by WHA Television from grants and contracts is deposited with the University of Wisconsin System. The difference between expenses and cash received is reported as a payable, Due to the University of Wisconsin System, on the Balance Sheet.

H. Deferred Support

Payments received but not yet earned for restricted grants with eligibility requirements are reported as a liability on the Balance Sheet until the eligibility requirements have been met.

I. Compensated Absences for Employees

Unused, earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System are also accrued with a resulting liability. The liability and the expense for compensated absences are based on the subsequent year's rates of pay.

J. Prior-Year Financial Statements

The financial information shown for FY 2002-03 in the accompanying financial statements presents summarized totals and is included only to provide a basis for comparison with FY 2003-04. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. (Also see Note 11 for prior-period statements.)

2. DEPOSITS AND INVESTMENTS

The cash balances of WHA Television's operating fund are deposited with the State and are invested in the State Investment Fund, a short-term investment pool of state and local funds. The fund is managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company.

The investment balances of WHA Television's operating fund are deposited with the University of Wisconsin System and are invested in the University Trust Funds, an intermediate-term pool and long-term pool of University of Wisconsin funds. The University Trust Fund is managed by the University of Wisconsin System with oversight by its Board of Regents. The Trust Funds are not registered with the Securities and Exchange Commission as an investment company.

The Friends' cash and investment activities are managed separately from the cash and investment activities of the State Investment Fund and the University Trust Funds. A cash deposit balance is maintained at one financial institution. Current investments consist of money market accounts at three financial institutions. Noncurrent investments consist of money market funds, fixed-income funds, and equity mutual funds.

A. Deposits

GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of credit risk assumed. These risk categories are: 1) insured or collateralized, with securities held by the entity or its agent in the entity's name; 2) collateralized, with securities held by the financial institution's trust department or agent in the entity's name; and 3) uninsured or uncollateralized. At June 30, 2004, the operating fund's deposit balance of \$834,882 was in a pooled fund, which is not required to be categorized for credit risk under GASB Statement 3.

Deposits up to \$100,000 maintained by the Friends are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2004, \$100,000 of the cash deposit balance was insured and, therefore, is classified in risk category 1; \$656,552 was uninsured and uncollateralized and, therefore, is classified in risk category 3. The money market deposit balances do not exceed the FDIC limit and, therefore, are classified in risk category 1.

B. Investments

GASB Statement 3 requires investments to be categorized to indicate the level of risk assumed. These risk categories are: 1) insured or registered, or securities held by the entity or its agent in the entity's name; 2) uninsured and unregistered, with securities held by a counterparty or its agent in the entity's name; and 3) uninsured or unregistered, or securities held by a counterparty or its agent, but not in the entity's name. All investments of WHA Television's operating fund and the Friends are in pooled investment funds and, therefore, are not required to be categorized for credit risk under GASB Statement 3.

Detail for investment balances for WHA Television's operating fund as of June 30, 2004, follows:

	<u>Fair Value</u>
Intermediate-Term Pooled Bond Funds	\$2,048,562
Long-Term Pooled Bond and Equity Funds	<u>1,126,198</u>
Total	<u>\$3,174,760</u>

Detail for investment balances for the Friends as of June 30, 2004, follows:

	<u>Fair Value</u>
Money Market Funds	\$ 179,677
Fixed-Income Funds	616,576
Equity Mutual Funds	<u>1,014,577</u>
Total	<u>\$1,810,830</u>

3. CAPITAL ASSETS

The change in book value from July 1, 2003, to June 30, 2004, is summarized as follows:

	Beginning Balance	FY 2003-04		Ending Balance
		Increases	Decreases	
Capital Assets:				
Equipment	\$10,981,626	\$800,273	\$(1,249,173)	\$10,532,726
Less Accumulated Depreciation for:				
Equipment	<u>(8,323,556)</u>	<u>(506,164)</u>	<u>1,119,442</u>	<u>(7,710,278)</u>
Total Capital Assets, Net	<u>\$ 2,658,070</u>	<u>\$294,109</u>	<u>\$ (129,731)</u>	<u>\$ 2,822,448</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$295,134
Broadcasting	<u>211,030</u>
Total Depreciation Expense	<u>\$506,164</u>

The Friends own furniture and fixtures with a historical cost of \$20,000, which is fully depreciated. Since the beginning and ending balances are fully depreciated, there is no effect on the Balance Sheet.

4. CAPITAL ASSET LIEN

Federal grant funds received from the National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years from the date of award completion, during which time the federal government retains priority reversionary interest in the equipment. WHA Television was awarded five NTIA capital equipment grants from FY 1993-94 through FY 2003-04. The depreciated value of equipment subject to a priority lien is \$1,819,285 as of June 30, 2004.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Compensated Absences	\$421,928	\$88,759	\$(42,194)	\$468,493	\$22,842

Amounts due within one year are included in the Accounts Payable and Accrued Expenses balance on the Balance Sheet.

6. DONATED FACILITIES AND ADMINISTRATIVE SUPPORT FROM THE UNIVERSITY OF WISCONSIN SYSTEM

Donated facilities from the University of Wisconsin System consist of physical plant operating costs of \$468,505 and occupancy costs of \$241,322 for FY 2003-04. Such contributions are recorded at the University of Wisconsin System's cost of providing them. Administrative support from the University of Wisconsin System consists of allocated financial and administrative costs incurred by the University of Wisconsin System on behalf of WHA Television. Administrative support provided in FY 2003-04 totaled \$1,714,708.

7. EMPLOYEE RETIREMENT PLAN

Permanent and qualifying limited-term employees of WHA Television are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, Wisconsin 53707-7931

The report is also available on the Department of Employee Trust Funds' Web site, *etf.wi.gov*.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. The liquidation of the State's prior service liability resulted in credits being granted to state agencies for amounts already paid in 2003. In addition, state agencies will be required to make future contributions to fund the bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. WHA Television's contribution to the plan, including employer and employee contributions, was \$640,862 for FY 2003-04. The relative position of WHA Television in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

8. RESTRICTED NET ASSETS

During the year ended June 30, 1999, the Friends received an interest in a charitable remainder trust, which provides for the payment of distributions to the donor and the donor's spouse until their deaths. At the end of the trust's term, the remaining assets are available for the Friends' use. The present value of the estimated future benefits as of June 30, 2004, is \$30,773 and is calculated using a discount rate of 7 percent and applicable mortality rate tables. The change in the present value of the future benefits to be received by the Friends, a decline of \$2,900, is recorded in the telecasting, production, and other income account on the Statement of Revenues, Expenses, and Changes in Net Assets.

Restricted Net Assets for WHA Television's operating fund are reported when constraints placed on net assets are externally imposed, such as by donors or grantors. The operating fund's restricted net assets include purpose restrictions placed by donors on grants or gifts. Unrestricted net assets may be used at the operating fund's discretion. The balance as of June 30, 2004 is \$665,988.

9. DESIGNATION OF UNRESTRICTED NET ASSETS

The Board of Directors of the Friends has designated \$689,034 of the unrestricted net assets that represents endowment funds for future program production and acquisition.

10. RELATED ENTITIES

The Educational Communications Board Television Network is a public telecommunications entity operated by the Wisconsin Educational Communications Board (ECB). In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the University of Wisconsin Board of Regents developed partnerships called Wisconsin Public Television and Wisconsin Public Radio to manage and operate their licenses. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Television and Wisconsin Public Radio), and

financial commitments of the partners. The Directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the University of Wisconsin Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from the affiliated parties are separately disclosed on the Balance Sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

11. PRIOR-PERIOD RESTATEMENTS

In the past, WHA Television's operating fund recognized revenues from grants and contracts that were restricted for specified uses as the funds were expended. A receivable and a corresponding deferred support liability were established for the total amount awarded for grants and contracts. However, according to GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which was effective for FY 2000-01, revenue recognition for nonexchange transactions, such as revenue received from grants and contracts, should be recognized when all applicable eligibility requirements are met. Eligibility requirements are established by the provider of the funds and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies. Restrictions that specify the purpose for which resources are required to be used are not considered an eligibility requirement and do not affect when a nonexchange revenue is recognized.

Many of the grants and contracts received by WHA Television's operating fund require it to use the funds only for allowable costs and, therefore, revenue should be recognized as costs are incurred, which is consistent with past treatment. However, in FYs 2000-01 through 2002-03, the operating fund also should have recognized revenues for grants that either did not have any eligibility requirements or had a contingency that had been met. WHA Television's operating fund had only recognized revenues for these grants to the extent that expenses had been incurred. As a result, the FY 2002-03 financial statement totals have been restated to increase Grants and Contracts revenue by \$178,320, decrease Grants and Contracts Receivable and Accounts Receivable from ECB by \$1,036,031, and decrease Deferred Support by \$1,640,292. The cumulative effect of the error for years prior to FY 2002-03 is reflected as a restatement of the beginning net asset balance as of July 1, 2002, by an increase of \$425,941. The net effect of the prior-period restatement is to increase the net asset balance as of June 30, 2003, by \$604,261.

The FY 2002-03 financial data also have been restated because Donated Facilities and Administrative Support from the University of Wisconsin System revenue and related expenses were overstated by \$53,749 and because certain capital contributions were incorrectly classified as grants and contracts revenue. The following accounts have been changed to correct this error:

- Donated Facilities and Administrative Support from the University of Wisconsin System was decreased by \$53,749;
- Programming and Production expense was decreased by \$12,274;
- Program Information expense was decreased by \$1,731;
- Management and General expense was decreased by \$38,485;
- Fundraising and Membership Development was decreased by \$1,259; and
- Capital Contributions was increased and Grants and Contracts revenue was decreased by \$112,376.

There was no effect on total net assets or the change in net assets.

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Report on Control and Compliance ■

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of WHA Television as of and for the year ended June 30, 2004, and have issued our report thereon dated January 19, 2005. We did not audit the financial statements of the Friends of WHA-TV, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Friends of WHA-TV, Inc., is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Friends of WHA-TV, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the additional requirements of *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered WHA Television's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

This independent auditor's report is intended for the information and use of the University of Wisconsin-Extension, the University of Wisconsin System Board of Regents, the Wisconsin Legislature, and the Corporation for Public Broadcasting. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on internal control over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

January 19, 2005

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director