

**03-17
December 2003**

An Audit

WHA Television

2003-2004 Joint Legislative Audit Committee Members

Senate Members:

Carol A. Roessler, Co-chairperson
Robert Cowles
Alberta Darling
Jeffrey Plale
Julie Lassa

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
Dean Kaufert
David Cullen
Mark Pocan

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to Leg.Audit.Info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab/windex.htm.

State Auditor - Janice Mueller

Audit Prepared by

Diann Allsen, Director and Contact Person
Rachel Heim
Barry Kasten

CONTENTS

Letter of Transmittal	1
Audit Opinion	3
Independent Auditor's Report on the Financial Statements of WHA Television	
Management's Discussion and Analysis	5
Financial Statements	9
Balance Sheet as of June 30, 2003	10
Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2003	11
Statement of Cash Flows for the Year Ended June 30, 2003	12
Notes to the Financial Statements	15
Report on Compliance and Control	23
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

December 19, 2003

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 received \$16.0 million in revenues during fiscal year 2002-03, 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, 2002 through June 30, 2003. 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,

A handwritten signature in cursive script that reads "Janice Mueller".

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 as of June 30, 2003, 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 15.5 percent of the total assets and 19.8 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

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 position of the operating fund of WHA Television and the Friends of WHA-TV, Inc., as of June 30, 2003, and the respective changes in financial position 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 December 9, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 9, 2003

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, 2003. 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. For fiscal year (FY) 2001-02, WHA Television implemented GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, which materially affected the presentation of the financial statements. These financial statements differ significantly in both the form and the accounting principles used from financial statements prior to FY 2001-02. The financial statements presented in prior years focused on the accountability of fund groups, while these statements focus on the financial condition of WHA Television as a whole.

The Balance Sheet includes all assets and liabilities. Over time, increases or decreases in net assets are an indicator of 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 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, 2003 and 2002, is shown in Table A.

Total Assets decreased 23 percent, while Total Liabilities decreased 50 percent. This resulted in a 1 percent decrease in net assets. Cash and Investments, totaling \$6,042,000, increased by \$276,000, with the Operating Fund's Cash and Investments portion increasing 5 percent to \$3,448,000. Grants Receivable was approximately \$1,530,000 at June 30, 2003, a 64 percent decrease from the prior year, but much of the Grants Receivable asset is offset by a Deferred Support liability. Deferred Support decreased by \$1,797,000, to approximately \$1,695,000. There is a direct relationship between Grants Receivable and Deferred Support. Deferred Support represents the unfulfilled portion of the grant. It appears on the Balance Sheet as a liability until the related expenses have been incurred. Typically, payment on the restricted grants receivable will not occur until after the work has been performed and expenses incurred.

Capital Assets decreased by \$412,000. New capital asset additions totaled \$198,000, while annual depreciation expense decreased the net value by \$610,000. The capital asset additions in FY 2002-03 were significantly less than the \$1,278,000 of additions in FY 2001-02, when WHA Television was completing the acquisition of digital transmission equipment required for broadcasting a digital signal as mandated by the Federal Communications Commission.

Table A
WHA Television Condensed Financial Information
(In Thousands)

	June 30, 2003	June 30, 2002	Change	Percentage Change
Capital Assets	\$ 2,658	\$ 3,070	\$ (412)	(13)%
Other Assets	8,013	10,734	(2,721)	(25)
Total Assets	<u>10,671</u>	<u>13,804</u>	<u>(3,133)</u>	<u>(23)</u>
Current Liabilities	2,672	5,697	(3,025)	(53)
Noncurrent Liabilities	422	489	(67)	(14)
Total Liabilities	<u>3,094</u>	<u>6,186</u>	<u>(3,092)</u>	<u>(50)</u>
Net Assets				
Invested in Capital Assets	2,658	3,070	(412)	(13)
Temporarily Restricted	34	41	(7)	(17)
Unrestricted	4,886	4,507	379	8
Total Net Assets	<u>\$ 7,578</u>	<u>\$ 7,618</u>	<u>\$ (40)</u>	<u>(1)</u>

	FY 2002-03	FY 2001-02	Change	Percentage Change
Operating Revenues	\$ 8,984	\$ 9,466	\$ (482)	(5)%
Operating Expenses	16,002	16,657	(655)	(4)
Net Operating (Loss)	<u>(7,018)</u>	<u>(7,191)</u>	<u>173</u>	<u>(2)</u>
Nonoperating Revenue	6,921	6,651	270	4
Capital Contributions	57	725	(668)	(92)
Change in Net Assets	<u>\$ (40)</u>	<u>\$ 185</u>	<u>\$ (225)</u>	<u>(122)</u>

Operating Revenues decreased by 5 percent, and Operating Expenses decreased by 4 percent, resulting in a 2 percent decrease in the net operating loss to \$7,018,000. The most significant sources of operating revenues in FY 2002-03 were Grants and Contracts at \$3,432,000, a decrease from the prior year of 6 percent, and Membership Income at \$2,128,000, a decrease of 3 percent. Decreased Grants and Contracts revenue is offset by a concomitant decrease in operating expenses. The Corporation for Public Broadcasting (CPB) was the source of 65 percent of the

Grants and Contracts revenue, at \$2,247,000. Deferred Support (the unexpended portion of restricted grants) from CPB was \$1,865,000 as of June 30, 2002, and was \$744,000 as of June 30, 2003.

Operating Expenses include \$2,582,000 of Donated Facilities and Administrative Support from the University of Wisconsin System, a \$220,000 decrease over the prior year. \$1,826,000 is reported as a Management and General expense. Programming and Production expense decreased by 9 percent to \$8,101,000. Much of the decrease can be attributed to the closing of the Green Bay Teleproduction Center at the beginning of FY 2002-03. Broadcasting expense increased \$414,000 as depreciation for the digital transmission equipment began in FY 2002-03.

Nonoperating Revenue increases totaling \$270,000 include an Investment Income increase of \$285,000, a Donated Facilities and Administrative Support decrease of \$220,000, and a State General Appropriations increase of \$205,000. The major components of the State General Appropriations increase were fringe benefits of \$130,000 and pay plan increases partially offset by budget cuts of \$75,000.

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, WI 53706.

■ ■ ■ ■

Financial Statements ■

Balance Sheet June 30, 2003

	Operating Fund	Friends of WHA-TV, Inc.	Total June 30, 2003	Restated Total June 30, 2002
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 442,150	\$ 660,387	\$ 1,102,537	\$ 481,948
Investments (Note 2)	3,006,043	227,575	3,233,618	3,497,480
Grants and contracts receivable	1,529,572	0	1,529,572	4,290,253
Accounts and interest receivable, net	109,588	69,011	178,599	131,054
Accounts receivable—ECB (Note 10)	145,485	0	145,485	421,219
Restricted contributions receivable	0	33,673	33,673	40,987
Interfund receivable (payable)	1,051,268	(1,051,268)	0	0
Prepaid expenses	72,628	11,342	83,970	84,648
Total Current Assets	<u>6,356,734</u>	<u>(49,280)</u>	<u>6,307,454</u>	<u>8,947,589</u>
Noncurrent Assets:				
Investments (Note 2)	0	1,705,687	1,705,687	1,786,673
Capital assets, net of accumulated depreciation (Notes 3 and 4)	2,658,070	0	2,658,070	3,069,726
Total Noncurrent Assets	<u>2,658,070</u>	<u>1,705,687</u>	<u>4,363,757</u>	<u>4,856,399</u>
TOTAL ASSETS	<u>\$ 9,014,804</u>	<u>\$ 1,656,407</u>	<u>\$ 10,671,211</u>	<u>\$ 13,803,988</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 101,455	\$ 196,098	\$ 297,553	\$ 233,041
Due to the University of Wisconsin System	678,814	0	678,814	1,971,945
Deferred support	1,641,664	53,532	1,695,196	3,492,136
Total Current Liabilities	<u>2,421,933</u>	<u>249,630</u>	<u>2,671,563</u>	<u>5,697,122</u>
Noncurrent Liabilities:				
Compensated absences payable (Note 5)	421,928	0	421,928	488,899
Total Noncurrent Liabilities	<u>421,928</u>	<u>0</u>	<u>421,928</u>	<u>488,899</u>
Total Liabilities	<u>2,843,861</u>	<u>249,630</u>	<u>3,093,491</u>	<u>6,186,021</u>
Net Assets:				
Invested in capital assets	2,658,070	0	2,658,070	3,069,726
Temporarily restricted (Note 8)	0	33,673	33,673	40,987
Unrestricted (Note 9)	3,512,873	1,373,104	4,885,977	4,507,254
Total Net Assets	<u>6,170,943</u>	<u>1,406,777</u>	<u>7,577,720</u>	<u>7,617,967</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,014,804</u>	<u>\$ 1,656,407</u>	<u>\$ 10,671,211</u>	<u>\$ 13,803,988</u>

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, 2003

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2002-03	Restated Total FY 2001-02
OPERATING REVENUES				
Grants and Contracts	\$ 3,432,283	\$ 0	\$ 3,432,283	\$ 3,646,048
Community Service Grant—CPB	1,061,457	0	1,061,457	1,052,521
Underwriting	377,115	0	377,115	462,131
Telecasting, Production, and Other Income	1,019,540	522,002	1,541,542	1,709,377
Membership Income	0	2,128,299	2,128,299	2,196,158
Auction Income	0	443,792	443,792	400,036
Total Operating Revenues	5,890,395	3,094,093	8,984,488	9,466,271
OPERATING EXPENSES				
Program Services:				
Programming and production	7,834,349	266,763	8,101,112	8,888,850
Broadcasting	634,465	0	634,465	219,971
Program information	3,142,279	77,257	3,219,536	3,271,296
Total Program Services	11,611,093	344,020	11,955,113	12,380,117
Support Services:				
Management and general	2,523,690	68,826	2,592,516	2,769,575
Fund-raising and membership development	790,797	568,842	1,359,639	1,387,327
Underwriting	95,205	0	95,205	120,417
Total Support Services	3,409,692	637,668	4,047,360	4,277,319
Total Operating Expenses	15,020,785	981,688	16,002,473	16,657,436
OPERATING INCOME (LOSS)	(9,130,390)	2,112,405	(7,017,985)	(7,191,165)
NONOPERATING REVENUES AND EXPENSES				
State General Appropriations	4,153,086	0	4,153,086	3,948,407
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	2,582,065	0	2,582,065	2,802,405
Investment income	121,639	63,546	185,185	(99,693)
Total Nonoperating Revenues (Expenses)	6,856,790	63,546	6,920,336	6,651,119
Income (Loss) Before Contributions and Transfers	(2,273,600)	2,175,951	(97,649)	(540,046)
CONTRIBUTIONS AND TRANSFERS				
Capital Contributions	57,402	0	57,402	725,153
Interfund Donations	2,407,230	(2,407,230)	0	0
CHANGE IN NET ASSETS	191,032	(231,279)	(40,247)	185,107
Total Net Assets—Beginning of the Year	5,979,911	1,638,056	7,617,967	7,432,860
Total Net Assets—End of the Year	<u>\$ 6,170,943</u>	<u>\$ 1,406,777</u>	<u>\$ 7,577,720</u>	<u>\$ 7,617,967</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2003

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2002-03	Restated Total FY 2001-02
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Grants and Contracts	\$ 5,423,694	\$ 0	\$ 5,423,694	\$ 4,621,706
Receipts from Contributed Support	727,213	3,138,971	3,866,184	3,795,500
Receipts from Sales and Services	885,432	0	885,432	1,176,680
Payments to Suppliers	(5,734,417)	(838,214)	(6,572,631)	(5,163,032)
Payments to Employees	(7,475,417)	(57,031)	(7,532,448)	(8,161,823)
Net Cash Provided (Used) by Operating Activities	(6,173,495)	2,243,726	(3,929,769)	(3,730,969)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Receipts from State Government	4,153,086	0	4,153,086	3,937,475
Interfund Transfers	2,206,305	(2,206,305)	0	0
Net Cash Provided (Used) by Noncapital Financing Activities	6,359,391	(2,206,305)	4,153,086	3,937,475
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Contributions	57,402	0	57,402	725,153
Purchases of Capital Assets	(198,585)	0	(198,585)	(1,073,834)
Net Cash Used for Capital and Related Financing Activities	(141,183)	0	(141,183)	(348,681)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (Purchases) and Sales of Investments	209,854	91,375	301,229	405,719
Interest Income	187,583	49,643	237,226	105,919
Net Cash Provided by Investing Activities	397,437	141,018	538,455	511,638
NET INCREASE IN CASH AND CASH EQUIVALENTS	442,150	178,439	620,589	369,463
Balances—Beginning of the Year	0	481,948	481,948	112,485
Balances—End of the Year	<u>\$ 442,150</u>	<u>\$ 660,387</u>	<u>\$ 1,102,537</u>	<u>\$ 481,948</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2002-03	Restated Total FY 2001-02
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (9,130,390)	\$ 2,112,405	\$ (7,017,985)	\$ (7,191,165)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation expense	610,241	0	610,241	392,253
Donated facilities and administrative support from the University of Wisconsin System expense	2,582,065	0	2,582,065	2,802,405
Miscellaneous non-cash operating expenses	0	0	0	10,932
Change in assets and liabilities:				
Receivables, net	2,961,746	26,016	2,987,762	(676,237)
Prepaid expenses	158	520	678	(10,347)
Accounts and other payables	(88,382)	85,923	(2,459)	(83,303)
Due to the University of Wisconsin System	(1,293,131)	0	(1,293,131)	220,641
Deferred support	(1,815,802)	18,862	(1,796,940)	803,852
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,173,495)</u>	<u>\$ 2,243,726</u>	<u>\$ (3,929,769)</u>	<u>\$ (3,730,969)</u>

Noncash Activities:

The net increase (decrease) in the fair value of investments was \$(18,836) for the operating fund and \$201,123 for the Friends of WHA-TV, Inc. The decrease in the present value of the Friends' interest in the remainder trust was \$7,314.

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.

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 AICPA 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.

Unrestricted operating and nonoperating revenues are recorded in the statement of revenues, expenses, and changes in net assets when WHA Television is entitled to them. Restricted operating and nonoperating revenues are recorded when the purpose for which the resource was provided has been accomplished. Contributed membership fees of the Friends are non-refundable 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. Non-cash 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 interest revenue. 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 Treasurer 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, 2003, the fair value of these pool shares was 99.86 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

The unexpended portion of restricted grants is reported as a liability on the Balance Sheet until the related expenses have been incurred.

I. Employee Compensated Absences

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 2001-02 in the accompanying financial statements presents summarized totals and is included only to provide a basis for comparison with FY 2002-03. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation (see Note 11).

2. DEPOSITS AND INVESTMENTS

The cash balances of WHA Television's operating fund are deposited with the State of Wisconsin Treasurer 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. 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, 2003, the deposit balance of \$442,150 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. At June 30, 2003, \$100,000 of the bank balance was insured and, therefore, is classified in risk category 1; \$550,387 was uninsured and uncollateralized and, therefore, is classified in risk category 3.

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 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, 2003, follows:

	<u>Fair Value</u>
Intermediate-Term Pooled Bond Funds	\$2,153,817
Long-Term Pooled Bond and Equity Funds	<u>852,226</u>
Total	<u>\$3,006,043</u>

Detail for investment balances for the Friends as of June 30, 2003, follows:

	<u>Fair Value</u>
Money Market Funds	\$ 227,575
Fixed-Income Funds	605,519
Equity Mutual Funds	<u>1,100,168</u>
Total	<u>\$1,933,262</u>

3. CAPITAL ASSETS

The change in book value from July 1, 2002, to June 30, 2003, is summarized as follows:

	<u>Beginning Balance</u>	<u>FY 2002-03</u>		<u>Ending Balance</u>
		<u>Increases</u>	<u>Decreases</u>	
Capital Assets:				
Equipment	\$10,836,011	\$198,585	\$(52,970)	\$10,981,626
Less Accumulated Depreciation for:				
Equipment	<u>(7,766,285)</u>	<u>(610,241)</u>	<u>52,970</u>	<u>(8,323,556)</u>
Total Capital Assets, Net	<u>\$ 3,069,726</u>	<u>\$(411,656)</u>	<u>\$ 0</u>	<u>\$ 2,658,070</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$272,726
Broadcast	<u>337,515</u>
Total Depreciation Expense	<u>\$610,241</u>

The Friends own furniture and fixtures with a historical cost of \$25,900, 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, during which time the federal government retains priority reversionary interest in the equipment. WHA Television received six NTIA capital equipment grants from FY 1991-92 through FY 2000-01. No grant was received during the current reporting period. The depreciated value of equipment subject to a priority lien is \$1,575,415 as of June 30, 2003.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Compensated Absences	\$488,899	\$70,857	\$(137,828)	\$421,928	\$28,842

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 \$498,945 and occupancy costs of \$257,002 for FY 2002-03. 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 2002-03 totaled \$1,826,118.

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, WI 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. 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 was \$674,622 for FY 2002-03. 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. TEMPORARILY 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, 2003, is \$33,673 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 \$7,314, is recorded in the telecasting, production, and other income account on the Statement of Revenues, Expenses, and Changes in Net Assets.

9. DESIGNATION OF UNRESTRICTED NET ASSETS

The management of the Friends has designated \$634,690 of the unrestricted fund balance 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 CORRECTIONS

In the past, WHA Television recognized State General Appropriations and Grants and Contracts revenues and established related receivables to correspond to the accrual of compensated absence expenses. However, according to GASB Statement Number 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which was effective for FY 2000-01, recognition of State General Appropriations should correspond to the government's fiscal period during which the appropriation will be made. Similarly, recognition of Grants and Contracts revenue should correspond to the period during which the grant is awarded. As a result, the FY 2001-02 financial data have been restated to eliminate the State General Appropriations of \$38,554, Grants and Contracts revenue of \$8,988, Grants Receivable of \$70,126, and Due from the University of Wisconsin System of \$361,185 related to the accrual of compensated absence expenses during FY 2001-02. The cumulative effect of the error for years prior to FY 2001-02 is reflected as a restatement of the beginning net asset balance as of July 1, 2001, by a decrease of \$383,769.

The FY 2001-02 financial data have also been restated because equipment purchases were incorrectly added twice to the capital asset account. As a result, programming and production expense was increased by \$152,953, and capital assets, net of accumulated depreciation was reduced by \$152,953.

The net effect of all of the prior-period corrections is to reduce the net asset balance as of June 30, 2002, by \$584,264.

Report on Compliance and Control ■

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

We have audited the financial statements of WHA Television as of and for the year ended June 30, 2003, and have issued our report thereon dated December 9, 2003. 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*.

COMPLIANCE

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

This independent auditor's report is intended for the information and use of the Wisconsin Legislature, the University of Wisconsin System Board of Regents, the University of Wisconsin-Extension, 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 compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

December 9, 2003

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director