

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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Janice Mueller
State Auditor

December 16, 2005

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

Mr. David G. Walsh
President of the Board of Regents
University of Wisconsin System
Madison, Wisconsin 53706

Dear Senator Roessler, Representative Jeskewitz, and President Walsh:

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 University of Wisconsin System's Board of Regents and is operated by the University of Wisconsin-Extension. WHA Television earned \$15.8 million in revenues during fiscal year 2004-05, 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, 2004, through June 30, 2005. 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, 2005, 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 22.9 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the 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 the 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, 2005, 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. The supplementary information included as 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 8, 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 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.

December 8, 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, 2005. 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 University of Wisconsin System's Board of Regents and prepares its financial statements in accordance with Governmental Accounting Standards Board 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 and endowments 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. Actual depreciation expense is included in the various functional expense categories.

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, 2005 and 2004, is shown in Table A.

Total assets increased 5 percent, while total liabilities decreased 31 percent. This resulted in a 12 percent increase in net assets. The temporarily restricted portion of net assets increased by 106 percent, to \$1,433,000, primarily as a result of increases in a National Endowment for the Humanities (NEH) account. Matching gifts totaling \$360,500 and NEH principal funds of \$197,000 were recognized in fiscal year (FY) 2004-05. Unrestricted net assets increased 10 percent, to \$5,890,000. Unrestricted net assets have fluctuated from a high of \$6,100,000 in FY 1999-2000 to a low of \$4,507,000 in FY 2001-02.

Capital Assets decreased by \$230,000. New capital asset additions totaled \$222,000, while annual depreciation expense decreased the net value by \$452,000. The capital asset additions decreased from \$800,000 in FY 2003-04. WHA Television continues to convert the production facility to high-definition digital technology and has state and federal commitments that will enable significant increases in the addition to capital assets.

Table A
WHA Television Condensed Financial Information
(In Thousands)

	June 30, 2005	June 30, 2004	Change	Percentage Change
Capital Assets	\$ 2,592	\$ 2,822	\$ (230)	(8)%
Other Assets	8,562	7,842	720	9
Total Assets	<u>11,154</u>	<u>10,664</u>	<u>490</u>	5
Current Liabilities	747	1,338	(591)	(44)
Noncurrent Liabilities	492	468	24	5
Total Liabilities	<u>1,239</u>	<u>1,806</u>	<u>(567)</u>	(31)
Net Assets				
Invested in Capital Assets	2,592	2,822	(230)	(8)
Temporarily Restricted	1,433	697	736	106
Unrestricted	5,890	5,338	552	10
Total Net Assets	<u>\$ 9,915</u>	<u>\$ 8,857</u>	<u>\$1,058</u>	12

	FY 2004-05	FY 2003-04	Change	Percentage Change
Operating Revenues	\$ 9,111	\$ 8,392	\$ 719	9%
Operating Expenses	14,710	15,111	(401)	(3)
Net Operating Loss	(5,599)	(6,719)	(1,120)	(17)
Nonoperating Revenue	6,609	6,747	(138)	(2)
Capital Contributions	48	647	(599)	(93)
Change in Net Assets	<u>\$ 1,058</u>	<u>\$ 675</u>	<u>\$ 383</u>	57

Operating revenues increased by 9 percent, and operating expenses decreased by 3 percent, resulting in a 17 percent decrease in the net operating loss to \$5,599,000. The most significant sources of operating revenues in FY 2004-05 were grants and contracts, at \$2,650,000, an increase from the prior year of 4 percent, and membership income, at \$2,069,000, a decrease of 0.5 percent. Major gifts accounted for the largest percentage revenue gain of 62 percent, for a total of \$684,000 in FY 2004-05. The Corporation for Public Broadcasting continues to be the major source of grants and contracts revenue at \$1,534,000, 58 percent of the total.

Operating expenses include \$2,000,000 of donated facilities and administrative support from the University of Wisconsin System, a \$425,000 decrease over the prior year. The university negotiated new indirect cost rates with the federal government in FY 2004-05. WHA Television was included in the Extension and Public Service rate, whereas in prior years a separate rate was calculated for WHA. The change resulted in a 5 percent decrease in the facilities portion of the rate, and a 2 percent increase in the administrative portion. As a result of these changes, \$1,799,000 is reported as management and general expenses in FY 2004-05, compared to \$1,736,000 in FY 2003-04, while \$161,000 is reported as programming and production expenses in FY 2004-05, compared to \$554,000 in FY 2003-04.

Nonoperating revenue decreased 2 percent to \$6,609,000. The decrease in donated facilities and administrative support was partially offset by a \$32,000 increase in investment income and a \$125,000 increase in state general appropriations. There was also no loss on disposal of capital assets in FY 2004-05, while a loss of \$130,000 was reported in FY 2003-04.

Capital contributions decreased 93 percent, to \$48,000. State Building Trust Fund resources were available, but rapid changes in digital technology and a reassessment of WHA's priorities resulted in a delay in meeting the eligibility requirements necessary to recognize revenue in FY 2004-05.

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.



Financial Statements ■

Balance Sheet
June 30, 2005

	Operating Fund	Friends of WHA-TV, Inc.	Total June 30, 2005	Total June 30, 2004 (Memorandum Only)
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 1,547,202	\$ 691,942	\$ 2,239,144	\$ 1,564,460
Investments (Note 2)	3,798,500	181,992	3,980,492	3,354,437
Grants and contracts receivable	106,488	0	106,488	794,774
Accounts and interest receivable, net	79,554	66,049	145,603	160,810
Accounts receivable—ECB (Note 10)	156,856	20,810	177,666	216,557
Contributions receivable from remainder trust (Note 8)	0	31,256	31,256	30,773
Interfund receivable (payable)	973,711	(973,711)	0	0
Prepaid expenses	72,335	11,935	84,270	88,159
Total Current Assets	<u>6,734,646</u>	<u>30,273</u>	<u>6,764,919</u>	<u>6,209,970</u>
Noncurrent Assets:				
Investments (Note 2)	0	1,797,776	1,797,776	1,631,153
Capital assets, net of accumulated depreciation (Notes 3 and 4)	2,591,548	0	2,591,548	2,822,448
Total Noncurrent Assets	<u>2,591,548</u>	<u>1,797,776</u>	<u>4,389,324</u>	<u>4,453,601</u>
TOTAL ASSETS	<u><u>\$ 9,326,194</u></u>	<u><u>\$ 1,828,049</u></u>	<u><u>\$ 11,154,243</u></u>	<u><u>\$ 10,663,571</u></u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 188,107	\$ 246,662	\$ 434,769	\$ 425,289
Accounts payable—ECB (Note 10)	81,749	0	81,749	120,982
Due to the University of Wisconsin System (Note 1G)	94,537	0	94,537	736,173
Deferred support	0	135,674	135,674	55,284
Total Current Liabilities	<u>364,393</u>	<u>382,336</u>	<u>746,729</u>	<u>1,337,728</u>
Noncurrent Liabilities:				
Compensated absences payable (Note 5)	492,346	0	492,346	468,493
Total Noncurrent Liabilities	<u>492,346</u>	<u>0</u>	<u>492,346</u>	<u>468,493</u>
Total Liabilities	<u><u>856,739</u></u>	<u><u>382,336</u></u>	<u><u>1,239,075</u></u>	<u><u>1,806,221</u></u>
Net Assets:				
Invested in capital assets	2,591,548	0	2,591,548	2,822,448
Restricted by grantors and donors (Note 8)	1,402,184	0	1,402,184	665,988
Restricted for remainder trust (Note 8)	0	31,256	31,256	30,773
Unrestricted (Note 9)	4,475,723	1,414,457	5,890,180	5,338,141
Total Net Assets	<u><u>8,469,455</u></u>	<u><u>1,445,713</u></u>	<u><u>9,915,168</u></u>	<u><u>8,857,350</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,326,194</u></u>	<u><u>\$ 1,828,049</u></u>	<u><u>\$ 11,154,243</u></u>	<u><u>\$ 10,663,571</u></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, 2005**

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2004-05	Total FY 2003-04 (Memorandum Only)
OPERATING REVENUES				
Grants and Contracts	\$ 2,649,885	\$ 0	\$ 2,649,885	\$ 2,545,596
Community Service Grant—CPB	1,299,686	0	1,299,686	1,195,835
Underwriting	304,954	0	304,954	417,158
Telecasting, Production, and Other Income	1,368,272	313,128	1,681,400	1,342,598
Membership Income	0	2,068,811	2,068,811	2,079,654
Auction Income	0	422,703	422,703	389,729
Major Gifts	25,500	658,262	683,762	421,359
Total Operating Revenues	5,648,297	3,462,904	9,111,201	8,391,929
OPERATING EXPENSES				
Program Services:				
Programming and production	6,806,285	121,887	6,928,172	7,610,078
Broadcasting	611,950	0	611,950	769,573
Program information	3,079,274	81,040	3,160,314	2,707,666
Total Program Services	<u>10,497,509</u>	<u>202,927</u>	<u>10,700,436</u>	<u>11,087,317</u>
Support Services:				
Management and general	2,581,120	83,608	2,664,728	2,507,081
Fund-raising and membership development	753,025	499,359	1,252,384	1,381,392
Underwriting	92,327	0	92,327	134,743
Total Support Services	<u>3,426,472</u>	<u>582,967</u>	<u>4,009,439</u>	<u>4,023,216</u>
Total Operating Expenses	13,923,981	785,894	14,709,875	15,110,533
OPERATING INCOME (LOSS)	(8,275,684)	2,677,010	(5,598,674)	(6,718,604)
NONOPERATING REVENUES AND EXPENSES				
State General Appropriations	4,198,863	0	4,198,863	4,073,966
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,999,784	0	1,999,784	2,424,535
Investment Income	265,669	144,201	409,870	378,189
Loss on Disposal of Capital Assets	0	0	0	(129,731)
Total Nonoperating Revenues (Expenses)	6,464,316	144,201	6,608,517	6,746,959
Income (Loss) Before Contributions and Transfers	(1,811,368)	2,821,211	1,009,843	28,355
CONTRIBUTIONS AND TRANSFERS				
Capital Contributions	47,975	0	47,975	647,013
Interfund Transfers	2,789,029	(2,789,029)	0	0
CHANGE IN NET ASSETS	1,025,636	32,182	1,057,818	675,368
Total Net Assets—Beginning of the Year	7,443,819	1,413,531	8,857,350	8,181,982
Total Net Assets—End of the Year	<u>\$ 8,469,455</u>	<u>\$ 1,445,713</u>	<u>\$ 9,915,168</u>	<u>\$ 8,857,350</u>

The accompanying notes are an integral part of this statement.

**Statement of Cash Flows
for the Year Ended June 30, 2005**

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2004-05	Total FY 2003-04 (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Grants and Contracts	\$ 3,338,182	\$ 0	\$ 3,338,182	\$ 2,239,787
Receipts from Community Service Grant—CPB	1,299,686	0	1,299,686	1,195,835
Receipts from Contributed Support	357,449	3,550,210	3,907,659	3,547,383
Receipts from Sales and Services	1,405,118	0	1,405,118	1,069,176
Payments to Suppliers	(5,094,004)	(760,113)	(5,854,117)	(4,829,573)
Payments to Employees	(6,986,217)	(60,867)	(7,047,084)	(7,001,808)
Net Cash Provided (Used) by Operating Activities	(5,679,786)	2,729,230	(2,950,556)	(3,779,200)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Receipts from State Government	4,198,863	0	4,198,863	4,073,966
Interfund Transfers	2,742,129	(2,742,129)	0	0
Net Cash Provided (Used) by Noncapital Financing Activities	6,940,992	(2,742,129)	4,198,863	4,073,966
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Contributions	47,975	0	47,975	647,013
Purchases of Capital Assets	(221,637)	0	(221,637)	(800,273)
Net Cash Used for Capital and Related Financing Activities	(173,662)	0	(173,662)	(153,260)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (Purchases) and Sales of Investments	(524,341)	(72,314)	(596,655)	165,687
Interest Income	149,117	47,577	196,694	154,730
Net Cash Provided (Used) by Investing Activities	(375,224)	(24,737)	(399,961)	320,417
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	712,320	(37,636)	674,684	461,923
Balances—Beginning of the Year	834,882	729,578	1,564,460	1,102,537
Balances—End of the Year	<u>\$ 1,547,202</u>	<u>\$ 691,942</u>	<u>\$ 2,239,144</u>	<u>\$ 1,564,460</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2004-05	Total FY 2003-04 (Memorandum Only)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (8,275,684)	\$ 2,677,010	\$ (5,598,674)	\$ (6,718,604)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation expense	452,537	0	452,537	506,164
Donated facilities and administrative support from the University of Wisconsin System expense	1,999,784	0	1,999,784	2,424,535
Change in assets and liabilities:				
Receivables, net	753,532	5,522	759,054	(340,129)
Prepaid expenses	(805)	4,694	3,889	(4,189)
Accounts and other payables	33,880	(39,780)	(5,900)	295,283
Due to the University of Wisconsin System	(641,636)	0	(641,636)	57,359
Deferred support	(1,394)	81,784	80,390	381
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,679,786)</u>	<u>\$ 2,729,230</u>	<u>\$ (2,950,556)</u>	<u>\$ (3,779,200)</u>

Noncash Activities:

The net increase (decrease) in the fair value of investments was \$85,769 for the operating fund and \$(53,039) for the Friends of WHA-TV, Inc. The increase in the present value of the Friends' interest in the remainder trust was \$483.

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 University of Wisconsin System's Board of Regents 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 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 Director of Wisconsin Public Television 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 eligibility requirements and do not affect when 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.

The percentage-of-completion method is used to account for revenues and expenses of independently funded program production. Revenue is recognized based on the ratio of costs incurred to the estimated total costs at completion.

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 for 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-market value based on quoted market prices. State Investment Fund shares are valued at amortized cost, which approximates fair 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 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 years' rates of pay.

J. Prior-Year Financial Statements

The financial information shown for fiscal year (FY) 2003-04 in the accompanying financial statements presents summarized totals and is included only to provide a basis for comparison with FY 2004-05.

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 and 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 invested in two different pools of University of Wisconsin funds, the Intermediate Term Fund, which invests entirely in fixed-income securities, and the Long Term Fund, which primarily invests in fixed-income and equity securities. These two funds are managed by the University of Wisconsin System, with oversight and authorization of the investment policies and guidelines by its Board of Regents, and 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 of Wisconsin funds. A cash deposit balance is maintained at one financial institution. Current investments consist of money market accounts at three financial institutions, which are classified as deposits for purposes of this disclosure. Noncurrent investments consist of fixed-income funds and equity mutual funds.

GASB Statement Number 40, *Deposit and Investment Risk Disclosures*, was issued in March 2003. The provisions of this statement are effective for financial statements beginning in FY 2004-05. GASB Statement Number 40 updates the custodial credit risk disclosure requirements of GASB Statement Number 3 and addresses other investment risks, including credit, concentration of credit, interest rate, and foreign currency risks.

A. Deposits

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. The Friends do not have a deposit policy for custodial credit risk. Deposits up to \$100,000 maintained by the Friends are insured by the Federal Deposit Insurance Corporation. At June 30, 2005, the Friends' bank balance was \$736,914, of which \$636,914 was uninsured and uncollateralized. The bank balances of the three money market accounts were \$182,283, of which \$1,474 was uninsured and uncollateralized.

B. Investments

Investment balances for WHA Television's operating fund as of June 30, 2005, were as follows:

	<u>Fair Value</u>
UW Intermediate Term Fund	\$2,933,980
UW Long Term Fund	<u>864,520</u>
Total	<u>\$3,798,500</u>

Investment balances for the Friends as of June 30, 2005, are as follows:

	<u>Fair Value</u>
Fixed-Income Funds	\$ 678,570
Equity Mutual Funds	1,112,922
Bequest Deposit in Transit	<u>6,284</u>
Total Noncurrent Investments on the Balance Sheet	<u>\$1,797,776</u>

The investments of WHA Television and the Friends are exposed to the following risks.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University of Wisconsin System's investment guidelines prohibit security transactions that involve a counterparty rated below AA by Standard & Poor's and/or Moody's. In addition, all securities held must have a minimum quality rating of investment grade (BBB/Baa by Standard & Poor's and/or Moody's) with an average portfolio quality of at least AA as rated by Standard & Poor's and/or Moody's. The Friends' investment policy also requires that investments have a minimum quality rating of investment grade. As of June 30, 2005, the UW Intermediate and Long Term Funds and the Friends' fixed income investments listed in the preceding tables were all unrated.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University of Wisconsin System's investment guidelines mandate that the Intermediate and Long Term Funds must maintain an effective modified

duration within one year of the effective modified duration of the underlying portfolios' benchmark indices. The Friends do not have an investment policy for interest rate risk. As of June 30, 2005, the fixed income investments of WHA Television and the Friends had the following modified durations:

<u>Investment</u>	<u>Market Value</u>	<u>Modified Duration (in Years)</u>
Intermediate Term Fund	\$2,933,980	2.97
Vanguard Intermediate Term Investment Grade Funds	321,518	4.99
Vanguard Short Term Investment Grade Fund	131,393	1.84
Vanguard Short Term Bond Index Fund	126,553	2.45
Vanguard Long Term Bond Index Fund	94,280	11.20
Vanguard Total Bond Market Index Fund	<u>4,825</u>	4.16
Total Fixed-Income Investments	<u>\$3,612,549</u>	

In addition, as of June 30, 2005, 18.2 percent of the UW Long Term Fund, in which WHA Television had an investment of \$864,520, was invested in fixed-income securities that had a modified duration of 4.49 years.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University of Wisconsin System's investment guidelines limit the Long Term Fund's fixed-income and equity exposure to no more than 20 percent in foreign investments. The Friends do not have an investment policy for foreign currency risk. As of June 30, 2005, WHA Television's exposure to foreign currency risk is through its investment of \$864,520 in the Long Term Fund. In addition, the Friends' investments include \$227,821 in an international stock mutual fund and two other mutual funds totaling \$308,508, in which about 10 percent of the holdings included foreign securities.

3. CAPITAL ASSETS

The change in book value from July 1, 2004, to June 30, 2005, is summarized as follows:

	<u>Beginning Balance</u>	<u>FY 2004-05</u>		<u>Ending Balance</u>
		<u>Increases</u>	<u>Decreases</u>	
Capital Assets:				
Equipment	\$10,532,726	\$ 221,637	\$(82,929)	\$10,671,434
Less Accumulated Depreciation for:				
Equipment	<u>(7,710,278)</u>	<u>(452,537)</u>	<u>82,929</u>	<u>(8,079,886)</u>
Total Capital Assets, Net	<u>\$ 2,822,448</u>	<u>\$(230,900)</u>	<u>\$ 0</u>	<u>\$ 2,591,548</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$239,513
Broadcasting	<u>213,024</u>
Total Depreciation Expense	<u>\$452,537</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 1994-95 through FY 2004-05. The depreciated value of equipment subject to a priority lien is \$1,644,451 as of June 30, 2005.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$468,493	\$101,350	\$(77,497)	\$492,346

In addition, another \$28,674 is due within one year and 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 \$159,607 and occupancy costs of \$46,943 for FY 2004-05. 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 2004-05 totaled \$1,793,234.

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, www.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 \$659,632 for FY 2004-05. 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

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 restricted net assets balance as of June 30, 2005, was \$1,402,184.

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, 2005, was \$31,256 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, an increase of \$483, 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 Board of Directors of the Friends has designated \$771,269 of the unrestricted net assets that represents endowment funds for future program production and acquisition.

10. RELATED ENTITIES**A. Educational Communications Board Radio Network**

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 System's 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 System's 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.

B. The University of Wisconsin Foundation

The Foundation is the official not-for-profit fundraising corporation for the University of Wisconsin-Madison and several other units of the University of Wisconsin System, including the University of Wisconsin-Extension. It receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the University of Wisconsin. As of June 30, 2005, the market value of endowments and accumulated interest held by the Foundation for WHA Television was \$419,194. The accumulated interest is available to be transferred to the university and spent by WHA Television. Accumulated interest totaled \$90,097 as of June 30, 2005. WHA Television transferred and spent \$109,435 from the Foundation in FY 2004-05. Only the actual transfers from the Foundation are reflected in WHA Television's financial statements.

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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, 2005, and have issued our report thereon dated December 8, 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 operation 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's 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.

December 8, 2005

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director