

An Audit

WHA Radio

2005-2006 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

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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 Radio, 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 Radio is licensed to the Board of Regents of the University of Wisconsin System and is operated by the University of Wisconsin-Extension. WHA Radio earned \$8.7 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 Radio

We have audited the accompanying balance sheet of WHA Radio 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 Radio. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Wisconsin Public Radio Association, Inc., of which net assets of \$867,443 are allocated to WHA Radio and are reflected in the accompanying financial data contained in Note 9. Assets and revenues of the Wisconsin Public Radio Association, Inc. included in the accompanying financial statements represent 29.1 percent of WHA Radio's total assets and 13.8 percent of WHA Radio's total revenue. The financial statements of the Wisconsin Public Radio Association, 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 Wisconsin Public Radio Association, 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 Wisconsin Public Radio Association, 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 Radio 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 financial position of WHA Radio as of June 30, 2004, and the changes in its 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 Radio. Management's Discussion and Analysis on pages 5 through 7 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.

As discussed in Note 11, the presentation of Wisconsin Public Radio Association, Inc.'s balances and activities allocated to WHA Radio was changed as the result of a reassessment of the relationship between the Association and WHA Radio under Governmental Accounting Standards Board Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, which became effective for fiscal year 2003-04.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2005, on our consideration of WHA Radio'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 our testing of internal control over financial reporting and compliance and the results 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 Radio Management

This section of the WHA Radio annual financial report presents management's discussion and analysis of the financial performance of WHA Radio 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 Radio management.

Using the Annual Financial Statements

WHA Radio 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 also include WHA Radio's allocated share of the accounts of the Wisconsin Public Radio Association, Inc., a not-for-profit corporation that solicits funds for WHA Radio and the Educational Communications Board (ECB).

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 Radio's financial health. The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. WHA

Radio'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 Radio as of and for the fiscal years ended June 30, 2004 and 2003, is shown in Table A.

Total assets increased 1 percent, while total liabilities decreased 12 percent. This resulted in a 8 percent increase in net assets. The largest current asset increase occurred with Cash and Cash Equivalents, which increased \$261,000 to \$931,000. Current and Noncurrent Investments decreased \$223,000 to \$1,726,000. The largest liability decrease of \$219,000 was in the amount due to the University of Wisconsin System, which totaled \$728,000 at year-end. Capital assets, net of accumulated depreciation, decreased 8 percent to \$391,000.

Operating revenues and expenses were essentially flat, with a 2 percent decrease in revenues and a 1 percent decrease in expenses. Grants and contracts are the single largest source of operating revenues at \$2,859,000 in FY 2003-04. The ECB was the source of \$2,316,000 of grants and contracts revenue in FY 2003-04.

Capital contributions decreased 68 percent from \$151,000 to \$48,000. Capital contributions revenue can vary significantly from year to year because it is highly dependent upon receipt of one-time funding from state and federal organizations in competition with other state and broadcast entities.

Table A

WHA Radio Condensed Financial Information
(In Thousands)

	June 30, 2004	June 30, 2003 ¹	Change	Percentage Change
Capital Assets	\$ 391	\$ 427	\$ (36)	(8)%
Other Assets	3,848	3,760	88	2
Total Assets	<u>4,239</u>	<u>4,187</u>	<u>52</u>	1
Current Liabilities	881	1,060	(179)	(17)
Noncurrent Liabilities	326	314	12	4
Total Liabilities	<u>1,207</u>	<u>1,374</u>	<u>(167)</u>	(12)
Net Assets				
Invested in Capital Assets	391	427	(36)	(8)
Restricted by Grantors	167	158	9	6
Unrestricted	2,474	2,229	245	11
Total Net Assets	<u>\$3,032</u>	<u>\$2,814</u>	<u>\$218</u>	8
	FY 2003-04	FY 2002-03	Change	Percentage Change
Operating Revenues	\$5,395	\$5,515	\$(120)	(2)
Operating Expenses	8,490	8,555	(65)	(1)
Net Operating Loss	(3,095)	(3,040)	55	2
Nonoperating Revenue	3,265	3,249	16	1
Capital Contributions	48	151	(103)	(68)
Change in Net Assets	<u>\$ 218</u>	<u>\$ 360</u>	<u>\$(142)</u>	(39)

¹ Certain FY 2002-03 amounts have been restated to reflect prior-period restatements and have been reclassified for comparative purposes to conform with presentation of current year amounts.

This financial report is designed to provide a general overview of the University of Wisconsin-Extension's finances related to public radio. 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, 2004

ASSETS

Current Assets:	
Cash and cash equivalents (Note 2)	\$ 931,293
Investments (Note 2)	1,383,960
Contributions receivable, net	63,984
Accounts and interest receivable, net	32,707
Accounts receivable—ECB (Note 9)	1,040,836
Prepaid expenses	50,023
Inventory	<u>2,694</u>
Total Current Assets	<u>3,505,497</u>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation (Notes 3 and 4)	390,903
Investments (Note 2)	<u>342,309</u>
Total Noncurrent Assets	<u>733,212</u>
TOTAL ASSETS	<u><u>\$ 4,238,709</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued expenses	\$ 150,785
Due to the University of Wisconsin System	728,415
Deferred support	<u>1,972</u>
Total Current Liabilities	<u>881,172</u>
Noncurrent Liabilities:	
Compensated absences payable (Note 5)	<u>325,895</u>
Total Noncurrent Liabilities	<u>325,895</u>
Total Liabilities	<u>1,207,067</u>
Net Assets:	
Invested in capital assets	390,903
Restricted by grantors and donors (Note 1J)	167,139
Unrestricted	<u>2,473,600</u>
Total Net Assets	<u>3,031,642</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,238,709</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, 2004

OPERATING REVENUES

Grants and Contracts	\$ 2,858,589
Community Service Grant—CPB	549,770
Underwriting	631,204
Telecasting, Production, and Other Income	250,178
Membership Income	<u>1,105,252</u>
Total Operating Revenues	<u>5,394,993</u>

OPERATING EXPENSES

Program Services:	
Programming and production	5,015,468
Broadcasting	407,876
Program information	<u>246,952</u>
Total Program Services	<u>5,670,296</u>
Support Services:	
Management and general	1,932,468
Fundraising and membership development	555,205
Underwriting	<u>332,208</u>
Total Support Services	<u>2,819,881</u>
Total Operating Expenses	<u>8,490,177</u>
OPERATING LOSS	<u>(3,095,184)</u>

NONOPERATING REVENUES AND EXPENSES

State General Appropriations	1,772,155
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,345,952
In-Kind Contributions (Note 7)	61,570
Investment Income	<u>85,719</u>
Total Nonoperating Revenues	<u>3,265,396</u>
Income Before Contributions and Transfers	170,212

CONTRIBUTIONS AND TRANSFERS

Capital Contributions	<u>48,077</u>
CHANGE IN NET ASSETS	218,289
Total Net Assets—Beginning of the Year, Restated (Note 11)	<u>2,813,353</u>
Total Net Assets—End of the Year	<u>\$ 3,031,642</u>

The accompanying notes are an integral part of this statement.

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

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Grants and Contracts	\$ 3,344,367
Receipts from Contributed Support	1,748,379
Receipts from Sales and Services	259,876
Payments to Suppliers	(2,071,565)
Payments to Employees	(5,075,311)
Net Cash Used for Operating Activities	<u>(1,794,254)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipts from State Government	<u>1,772,155</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,772,155</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Contributions	48,077
Purchases of Capital Assets	<u>(66,826)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(18,749)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net (Purchases) and Sales of Investments	216,744
Interest Income	<u>85,581</u>
Net Cash Provided by Investing Activities	<u>302,325</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	261,477
Balances—Beginning of the Year, Restated (Note 11)	<u>669,816</u>
Balances—End of the Year	<u>\$ 931,293</u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED FOR OPERATING ACTIVITIES**

Operating Loss	\$ (3,095,184)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation expense	103,273
Donated facilities and administrative support from the University of Wisconsin System expense	1,345,952
Miscellaneous noncash operating expenses	61,570
Change in assets and liabilities:	
Receivables, net	(41,379)
Prepaid expenses	(1,110)
Accounts and other payables	52,273
Due to the University of Wisconsin System	(218,657)
Deferred support	(992)
Net Cash Used for Operating Activities	<u><u>\$ (1,794,254)</u></u>

Noncash Activities:

The amount of in-kind contributions was \$61,570.

The fair value of investments decreased \$10,908.

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

WHA Radio is a public telecommunications entity operated by the University of Wisconsin-Extension and consists of seven FM stations and 1 AM station that are licensed to the University of Wisconsin Board of Regents. WHA Radio's financial statements include its allocated share of the assets, liabilities, revenues, and expenses of the Wisconsin Public Radio Association, Inc. (WPRA), a not-for-profit corporation that collects funds for Wisconsin Public Radio and provides support to WHA Radio and the Educational Communications Board. All significant inter-organization accounts and transactions have been eliminated. See Note 9 for further information regarding WPRA.

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 Radio 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 Radio is entitled to the funds. Pledged WPRA 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 if 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 and expenses are directly related to programming, production, and development activities. Nonoperating revenues and expenses 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 include cash balances deposited with the State; shares in the State Investment Fund, a short-term investment pool of state and local funds; and WHA Radio’s allocated share of

WPRA's cash and cash equivalents, which include cash deposits and highly liquid investments with an original maturity of three months or less.

E. Valuation of Investments

All investments of WHA Radio 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 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 Radio 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 Radio 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. Restricted Net Assets

Restricted net assets are reported when constraints placed on net assets are externally imposed, such as by donors or grantors. WHA Radio's restricted net assets include purpose restrictions placed by donors on contributed support or gifts. Unrestricted net assets may be used at WHA Radio's discretion.

2. DEPOSITS AND INVESTMENTS

WHA Radio's cash balances are deposited with the State and are invested in the State Investment Fund, a short-term 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.

WHA Radio's investment balances 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 Funds are 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.

WPRA's cash and investment activities are managed separately from the cash and investment activities of the State Investment Fund and the University Trust Funds. WPRA cash balances are held in deposit and in money market accounts and certificates of deposit at several financial institutions. WPRA investments are managed by asset management or private trust companies and consist of certificates of deposit, 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, WHA Radio's deposit balance of \$156,717 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 WPRA are insured by the Federal Deposit Insurance Corporation. At June 30, 2004, the carrying amount of WHA Radio's share of WPRA's deposits with financial institutions was \$822,913 and the bank balance was \$205,314. Of the

bank balance, \$117,079 was insured and, therefore, classified in risk category 1; \$88,235 was uninsured and uncollateralized and, therefore, 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 Radio and WPRA 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 Radio as of June 30, 2004, are as follows:

	<u>Fair Value</u>
Certificates of Deposit	\$ 48,337
Fixed-Income Funds	46,706
Equity Mutual Funds	274,934
Intermediate-Term Pooled Bond Funds	1,326,764
Long-Term Pooled Bond and Equity Funds	<u>29,528</u>
Total	<u>\$1,726,269</u>

3. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Equipment	\$1,156,828	\$ 66,826	\$(34,218)	\$1,189,436
Less Accumulated Depreciation for:				
Equipment	<u>(729,478)</u>	<u>(103,273)</u>	<u>34,218</u>	<u>(798,533)</u>
Total Capital Assets, Net	<u>\$ 427,350</u>	<u>\$(36,447)</u>	<u>\$ 0</u>	<u>\$ 390,903</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$ 69,880
Broadcasting	<u>33,393</u>
Total Depreciation Expense	<u>\$103,273</u>

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 Radio was awarded three NTIA capital equipment grants from FY 2000-01 through FY 2003-04. The depreciated value of equipment subject to a priority lien was \$199,079 as of June 30, 2004.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the fiscal year ended June 30, 2004, 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	\$313,677	\$51,723	\$(39,505)	\$325,895	\$16,563

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 \$175,791 and occupancy costs of \$90,559 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 and certain other expenses incurred by the University of Wisconsin System on behalf of WHA Radio. Administrative support totaled \$1,079,602 in FY 2003-04.

7. IN-KIND CONTRIBUTIONS

In-kind contributions of \$61,570 in FY 2003-04 consisted primarily of donated professional services relating to the programming and production functions. In-kind contributions and donated professional services are recognized as revenue and expenses on the Statement of Revenues, Expenses, and Changes in Net Assets in the period received and used. Donated professional services

are recorded at the fee typically charged by the professional for the same type of service. All other donated services are recorded at fair-market value, when clearly measurable, or at the cost of providing the service.

8. EMPLOYEE RETIREMENT PLAN

Permanent and qualifying limited-term employees of WHA Radio 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 Radio's contribution to the plan, including employer and employee contributions, was \$447,325 in FY 2003-04. The relative position of WHA Radio in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

9. RELATED ENTITIES

A. Educational Communications Board Radio Network

The Educational Communications Board Radio Network is a public telecommunications entity operated by the 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 Radio and Wisconsin Public Television 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 Radio and Wisconsin Public Television), and financial commitments of the partners. The directors of Wisconsin Public Radio and Wisconsin Public Television 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 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. Wisconsin Public Radio Association, Inc. (WPRA)

WPRA is a publicly supported not-for-profit corporation whose purpose is to administer various fundraising and membership duties of Wisconsin Public Radio and to provide support to WHA Radio and the ECB Radio Network. WPRA solicits funds in the name of, and with the approval of, both WHA Radio and ECB. Under an affiliation agreement, WHA Radio and ECB staff, along with the WPRA Board of Directors, approve WPRA's budget. WHA Radio and ECB have access to WPRA's net resources and retain an ongoing allocated interest in WPRA's net assets. WHA Radio's and the ECB Radio Network's allocated interest in WPRA are calculated in accordance with the affiliation agreement, which currently provides WHA with 24 percent of WPRA net resources and ECB with 76 percent. This agreement is renegotiated annually based upon membership proportion.

WHA Radio includes its allocated share of WPRA assets, liabilities, revenues, and expenses in its financial statements. A summary of amounts related to WPRA included in the accompanying financial statements prior to inter-organization eliminations follows:

	<u>June 30, 2004</u>
Cash and Cash Equivalents	\$ 774,576
Investments	369,977
Receivables and Other Current Assets	<u>86,836</u>
Total Assets	1,231,389
Accounts Payable	<u>(363,946)</u>
Net Assets	<u>\$ 867,443</u>

	Fiscal Year Ended <u>June 30, 2004</u>
Contributed Support and Revenue	\$1,205,844
Expenses:	
Programming and production	38,220
Program information	10,250
Management and general	32,688
Fundraising	<u>103,128</u>
Total Expenses	<u>184,286</u>
Change in Net Assets	<u>\$1,021,558</u>

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data follows. Copies of WPRA's separately issued financial statements may be obtained by contacting the Financial Manager of the Wisconsin Public Radio Association, Inc. at 821 University Avenue, Madison, Wisconsin, 53706.

	<u>June 30, 2004</u>
Cash and Cash Equivalents	\$1,261,590
Investments	755,967
Receivables and Other Current Assets	<u>361,819</u>
Total Assets	2,379,376
Accounts Payable	<u>(416,921)</u>
Net Assets	<u>\$1,962,455</u>

	Fiscal Year Ended <u>June 30, 2004</u>
Contributed Support and Revenue	\$4,913,628
Expenses:	
Programming and production	156,279
Program information	42,710
Management and general	136,202
Fundraising	429,700
Payments to WHA and ECB	<u>3,649,718</u>
Total Expenses	<u>4,414,609</u>
Change in Net Assets	<u>\$ 499,019</u>

10. ALLOCATION OF WLSU-FM

WLSU-FM is qualified for Community Service Grant assistance from the Corporation for Public Broadcasting. Beginning in FY 2002-03, its affiliated Music Network stations, WUEC-FM and WVSS-FM, were also combined with WLSU-FM for purposes of applying for Community Service Grant assistance. WLSU-FM and WHA Radio and their affiliates are licensed to

the University of Wisconsin Board of Regents. Financial transactions for WLSU-FM and its affiliated stations are included as a part of WHA Radio's financial statements.

The portion of WHA Radio's statement of financial activity attributable to WLSU-FM's and its affiliates' revenues, direct expenses, and related allocable indirect expenses has been identified in the following table for FY 2003-04. The remaining revenues and expenses are attributable to WHA-AM and its affiliated Ideas Network stations and include any unallocated amounts of WLSU-FM.

FY 2003-04

	<u>WHA-AM and affiliates</u>	<u>WLSU-FM and affiliates</u>	<u>WHA Radio Total</u>
Operating Revenues			
Grants and Contracts	\$2,854,759	\$ 3,830	\$2,858,589
Community Service Grant—CPB	449,308	100,462	549,770
Underwriting	517,899	113,305	631,204
Telecasting, Production, and Other Income	250,178	0	250,178
Membership Income	<u>948,425</u>	<u>156,827</u>	<u>1,105,252</u>
Total Operating Revenues	<u>5,020,569</u>	<u>374,424</u>	<u>5,394,993</u>
Operating Expenses			
Program Services:			
Programming and production	4,590,711	424,757	5,015,468
Broadcasting	379,790	28,086	407,876
Program information	<u>222,785</u>	<u>24,167</u>	<u>246,952</u>
Total Program Services	<u>5,193,286</u>	<u>477,010</u>	<u>5,670,296</u>
Support Services:			
Management and general	1,840,970	91,498	1,932,468
Fundraising and membership development	543,890	11,315	555,205
Underwriting	<u>274,358</u>	<u>57,850</u>	<u>332,208</u>
Total Support Services	<u>2,659,218</u>	<u>160,663</u>	<u>2,819,881</u>
Total Operating Expenses	<u>7,852,504</u>	<u>637,673</u>	<u>8,490,177</u>
Operating Loss	<u>(2,831,935)</u>	<u>(263,249)</u>	<u>(3,095,184)</u>
Nonoperating Revenues (Expenses)			
State General Appropriations	1,580,431	191,724	1,772,155
Donated Facilities and Administrative Support from the University of Wisconsin System	1,272,840	73,112	1,345,952
In-Kind Contributions	61,570	0	61,570
Investment Income	<u>85,719</u>	<u>0</u>	<u>85,719</u>
Total Nonoperating Revenues	<u>3,000,560</u>	<u>264,836</u>	<u>3,265,396</u>
Capital Contributions	<u>41,395</u>	<u>6,682</u>	<u>48,077</u>
Change in Net Assets	<u>\$ 210,020</u>	<u>\$ 8,269</u>	<u>\$ 218,289</u>

11. RESTATEMENT OF BEGINNING NET ASSET BALANCE

As discussed in Note 9B, WHA Radio includes its allocated share of WPRA assets, liabilities, revenues, and expenses in its financial statements. In prior years, only WHA Radio's net equity in WPRA resources was reflected in the Balance Sheet. Presentation of WHA Radio's allocated share of assets and liabilities was determined to be preferred as a result of a reassessment of the relationship between WPRA and Wisconsin Public Radio (WHA Radio and the ECB Radio Network) under GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, which became effective for FY 2003-04. The beginning net asset balance was adjusted to include WHA Radio's allocated share of \$14,987 in WPRA program-restricted net assets that previously was not included in WHA Radio's net equity in WPRA resources. WHA Radio's allocated share of the program-restricted net assets is reported as restricted net assets in the Balance Sheet.

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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 Radio 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 Wisconsin Public Radio Association, 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 Wisconsin Public Radio Association, 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 Wisconsin Public Radio Association, 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 Radio'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 Radio'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