

An Audit

WHA Radio

2003-2004 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

Audit Prepared by

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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February 12, 2003

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

Mr. Guy A. Gottschalk
President of the Board of Regents
University of Wisconsin System
Madison, Wisconsin 53706

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

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 received \$8.8 million in revenues during fiscal year 2001-02, 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 fiscal years 2001-02 and 2000-01. We were able to issue an unqualified independent auditor's report on these statements. A new financial reporting model was implemented for fiscal year 2001-02 that changed the presentation of the financial statements. An important feature of the new model is Management's Discussion and Analysis, which is prepared by management of WHA Radio and provides an overview of the financial statements and an analysis of financial results.

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 Radio

We have audited the accompanying balance sheet of WHA Radio as of June 30, 2002 and 2001, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years 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 audits. We did not audit the financial statements of the Wisconsin Public Radio Association, Inc., of which net assets of \$592,559 are contractually committed to WHA Radio as of June 30, 2002, and are reflected in the accompanying financial data contained in Note 9. Net assets and revenues of the Wisconsin Public Radio Association, Inc., included in the accompanying financial statements represent 15.7 percent and 16.2 percent of the total assets as of June 30, 2002 and 2001, respectively, and 12.5 percent and 12.7 percent of the total revenues for FY 2001-02 and FY 2000-01, respectively. 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 audits in accordance with auditing standards generally accepted in the United States 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 audits 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, 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 audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only WHA Radio and are not intended to present fairly the financial position of the State of Wisconsin or the University of Wisconsin System, the results of their operations, and their cash flows in conformity with accounting principles generally accepted in the United States.


In our opinion, based upon our audits 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, 2002 and 2001, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As described in Note 12, WHA Radio implemented a new financial reporting model for fiscal year 2001-02, as required by the provisions of Governmental Accounting Standards Board 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*.

Our audits were 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 7, 2003, 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 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.

February 7, 2003

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, 2002. 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. For fiscal year 2001-02, WHA Radio 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. The current-year financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements. The prior-year amounts have been reformatted to conform with the current-year presentation. The financial statements presented in prior years focused on the accountability of fund groups, while these statements focus on the financial condition of WHA Radio as a whole.

The Balance Sheet includes all assets and liabilities. Over time, increases or decreases in net assets are an indicator of 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 on an accrual basis. 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 will result in operating deficits because the financial reporting model classifies State General Appropriations and donated services as nonoperating revenues. The utilization 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 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 for the fiscal years ended June 30, 2002 and 2001, is as follows:

WHA Radio Condensed Financial Information (in thousands)

	<u>FY 2001-02</u>	<u>FY 2000-01</u>	<u>Change</u>	<u>Percentage Change</u>
Capital Assets	\$ 254	\$ 260	\$ (6)	(2%)
Other Assets	<u>3,532</u>	<u>3,048</u>	<u>484</u>	16%
Total Assets	<u>3,786</u>	<u>3,308</u>	<u>478</u>	14%
Current Liabilities	878	821	57	7%
Noncurrent Liabilities	<u>312</u>	<u>290</u>	<u>22</u>	8%
Total Liabilities	<u>1,190</u>	<u>1,111</u>	<u>79</u>	7%
Invested in Capital Assets	254	260	(6)	(2%)
Unrestricted	<u>2,342</u>	<u>1,937</u>	<u>405</u>	21%
Total Net Assets	<u>\$2,596</u>	<u>\$2,197</u>	<u>\$399</u>	18%
Operating Revenues	\$5,592	\$5,209	\$383	7%
Operating Expenses	<u>8,370</u>	<u>7,972</u>	<u>398</u>	5%
Net Operating (Loss)	(2,778)	(2,763)	(15)	1%
Nonoperating Income	<u>3,177</u>	<u>2,991</u>	<u>186</u>	6%
Change in Net Assets	<u>\$ 399</u>	<u>\$ 228</u>	<u>\$171</u>	75%

Total Assets increased 14 percent, while Total Liabilities increased 7 percent. This resulted in an 18 percent increase in net assets. The increase in Total Assets is primarily in the form of Cash and Investments, which increased by over \$286,000, or 25 percent.

New capital asset additions totaled \$53,000. Based on a useful life of 15 years for transmission equipment and 8 years for production equipment, annual capital purchases of \$92,000 would be required in order to maintain the current equipment level.

Operating Revenues grew at a faster rate, 7 percent, than Operating Expenses, 5 percent, but the net operating loss increased to \$2,778,000, representing a 1 percent increase. The most significant sources of operating revenues during FY 2001-02 are Grants and Contracts of \$3,167,000, an increase of 12 percent, and Donations from the Wisconsin Public Radio Association (WPRA) of \$1,099,000, an increase of 6 percent. The Educational Communications Board (ECB), a partner with WHA Radio in providing statewide services, was the largest source for Grants and Contracts at \$2,490,000, representing a 9 percent increase.

Operating Expenses increased \$398,000, with \$221,000 occurring in Program Services and the balance in Support Services. Operating Expenses include \$1,334,000 of Donated Facilities and Administrative Support from the University, a \$60,000 increase over the prior year. \$1,089,000 is reported as Management and General expenses.

Nonoperating income increases totaling \$186,000 include increases in Investment Income of \$84,000, Donated Facilities and Administrative Support of \$60,000, and State General Appropriation of \$41,000. The State General Appropriation increase of \$41,000 covered approximately 10 percent of the operating expense increase of \$398,000.

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, WI 53706.

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WHA Radio
A Public Telecommunications Entity
Operated by the University of Wisconsin-Extension
Balance Sheet
June 30, 2002 and 2001

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Assets		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 0	\$ 679,761
Investments (Note 2)	1,421,657	455,405
Grants and contracts receivable	397,693	440,810
Accounts and interest receivable, net	25,359	21,326
Accounts receivable—ECB (Note 9)	1,050,063	874,260
Net assets of WPRA (Note 9)	592,559	537,469
Prepaid expenses	44,787	39,074
Total Current Assets	<u>3,532,118</u>	<u>3,048,105</u>
Noncurrent Assets:		
Capital assets, net of accumulated depreciation (Notes 3 and 4)	<u>254,007</u>	<u>260,449</u>
Total Noncurrent Assets	<u>254,007</u>	<u>260,449</u>
Total Assets	<u>\$ 3,786,125</u>	<u>\$ 3,308,554</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 35,317	\$ 61,362
Due to the University of Wisconsin System	721,424	649,435
Deferred support (Note 5)	121,252	110,397
Total Current Liabilities	<u>877,993</u>	<u>821,194</u>
Noncurrent Liabilities:		
Compensated absences payable	<u>312,158</u>	<u>290,267</u>
Total Noncurrent Liabilities	<u>312,158</u>	<u>290,267</u>
Total Liabilities	<u>1,190,151</u>	<u>1,111,461</u>
Net Assets:		
Invested in capital assets	254,007	260,449
Unrestricted	2,341,967	1,936,644
Total Net Assets	<u>2,595,974</u>	<u>2,197,093</u>
Total Liabilities and Net Assets	<u>\$ 3,786,125</u>	<u>\$ 3,308,554</u>

The accompanying notes are an integral part of this statement.

WHA Radio
A Public Telecommunications Entity
Operated by the University of Wisconsin-Extension
Statement of Revenues, Expenses, and Changes in Net Assets
for the Years Ended June 30, 2002 and 2001

	Fiscal Year <u>2001-02</u>	Fiscal Year <u>2000-01</u>
Operating Revenues		
Grants and Contracts	\$ 3,167,194	\$ 2,835,716
Community Service Grant—CPB	487,840	519,100
Underwriting	622,392	535,869
Telecasting, Production, and Other Income	216,012	281,185
Donations from WPRA (Note 9)	1,098,962	1,037,535
Total Operating Revenues	<u>5,592,400</u>	<u>5,209,405</u>
Operating Expenses		
Program Services:		
Programming and production	5,241,451	5,062,413
Broadcasting	293,466	228,053
Program information	174,160	197,718
Total Program Services	<u>5,709,077</u>	<u>5,488,184</u>
Support Services:		
Management and general	1,786,683	1,616,668
Fund-raising and membership development	506,690	485,131
Underwriting	367,850	382,272
Total Support Services	<u>2,661,223</u>	<u>2,484,071</u>
Total Operating Expenses	<u>8,370,300</u>	<u>7,972,255</u>
Operating Loss	<u>(2,777,900)</u>	<u>(2,762,850)</u>
Nonoperating Revenues and Expenses		
State General Appropriations	1,672,033	1,631,659
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,334,185	1,274,461
In-kind Contributions (Note 7)	55,868	54,542
Investment Income	114,695	30,631
Total Nonoperating Income	<u>3,176,781</u>	<u>2,991,293</u>
Change in Net Assets	398,881	228,443
Total Net Assets—Beginning of the Year	<u>2,197,093</u>	<u>1,968,650</u>
Total Net Assets—End of the Year	<u>\$ 2,595,974</u>	<u>\$ 2,197,093</u>

The accompanying notes are an integral part of this statement.

WHA Radio
A Public Telecommunications Entity
Operated by the University of Wisconsin-Extension
Statement of Cash Flows
for the Years Ended June 30, 2002 and 2001

	Fiscal Year <u>2001-02</u>	Fiscal Year <u>2000-01</u>
Cash Flows from Operating Activities		
Receipts from Grants and Contracts	\$ 3,641,722	\$ 3,635,765
Receipts from Contributed Support	1,217,074	1,262,628
Receipts from Sales and Services	213,586	292,306
Payments to Suppliers	(1,696,442)	(1,754,825)
Payments to Employees	(4,755,909)	(4,606,890)
Net Cash Used by Operating Activities	<u>(1,379,969)</u>	<u>(1,171,016)</u>
Cash Flows from Noncapital Financing Activities		
Receipts from State Government	<u>1,655,941</u>	<u>1,613,528</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,655,941</u>	<u>1,613,528</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of Capital Assets	<u>(52,684)</u>	<u>(115,465)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(52,684)</u>	<u>(115,465)</u>
Cash Flows from Investing Activities		
Net (Purchases) and Sales of Investments	(980,806)	283,546
Interest Income	132,847	60,547
Equity in Resources Held by WPRA	(55,090)	(46,901)
Net Cash Provided (Used) by Investing Activities	<u>(903,049)</u>	<u>297,192</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(679,761)	624,239
Cash and Cash Equivalents		
Balances—Beginning of the Year	<u>679,761</u>	<u>55,522</u>
Balances—End of the Year	<u>\$ 0</u>	<u>\$ 679,761</u>

The accompanying notes are an integral part of this statement.

WHA Radio
A Public Telecommunications Entity
Operated by the University of Wisconsin-Extension
Statement of Cash Flows
for the Years Ended June 30, 2002 and 2001

	Fiscal Year <u>2001-02</u>	Fiscal Year <u>2000-01</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	\$ (2,777,900)	\$ (2,762,850)
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation expense	59,126	56,440
Donated facilities and administrative support from the University of Wisconsin		
System expense	1,334,185	1,274,461
Miscellaneous non-cash operating expenses	71,960	72,673
Change in assets and liabilities:		
Receivables, net	(140,317)	245,871
Prepaid expenses	(5,713)	(7,365)
Accounts and other payables	(26,045)	3,336
Due to the University of Wisconsin System	71,989	(108,112)
Deferred support	10,855	30,513
Compensated absences payable	21,891	24,017
Net Cash Used by Operating Activities	<u>\$ (1,379,969)</u>	<u>\$ (1,171,016)</u>

Noncash Investing Activities:

The fair value of investments decreased \$29,125 during FY 2001-02 and increased \$28,611 during FY 2000-01.

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 licensed to the Board of Regents of the University of Wisconsin System and is operated by the University of Wisconsin-Extension. The financial statements include the accounts of the Wisconsin Public Radio Association, Inc. (WPRA). WPRA is a not-for-profit corporation that solicits funds in the name of, and with the approval of, WHA Radio and the Wisconsin Educational Communications Board. By agreement, 24 percent of receipts and expenses of WPRA are attributed to WHA Radio. 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 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.

Contributions and grants that are unrestricted are recorded as support in the statement of revenues, expenses, and changes in net assets when WHA Radio is entitled to them. Restricted revenues are recorded as support in the statement of revenues, expenses, and changes in net assets when the purpose for which the resource was provided has been accomplished. 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. 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 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 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 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.

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, 2002 and 2001, the fair value of these pool shares was 99.81 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 from (to) the University of Wisconsin System

Substantially all contributions and grant funds received by WHA Radio are deposited with the University of Wisconsin System until the related expenses are incurred. In addition, expenses related to certain contributions and grants may be incurred by the University of Wisconsin System prior to receipt of funding from the granting agency. The receivable or payable that results is reflected in the balance sheet.

H. Deferred Support

The unexpended portion of restricted grants is deferred to future periods and 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 current rates of pay.

2. DEPOSITS AND INVESTMENTS

WHA Radio's cash balances are deposited with the State of Wisconsin Treasurer and are invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and Wisconsin Statutes. 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, which are intermediate-term and long-term investment pools of University of Wisconsin funds 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.

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. WHA Radio maintained a cash balance of \$679,761 at June 30, 2001, in the State Investment Fund, which is not required to be categorized for credit risk under GASB Statement Number 3. WHA Radio did not have a deposit with the State Investment Fund at June 30, 2002.

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 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, 2002 and 2001, are as follows:

	<u>June 30, 2002</u>		<u>June 30, 2001</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Intermediate-term Pooled Bond Funds	\$1,393,100	\$1,387,432	\$423,470	\$398,650
Long-term Pooled Bond and Equity Funds	<u>28,557</u>	<u>29,862</u>	<u>31,935</u>	<u>23,266</u>
Total	<u>\$1,421,657</u>	<u>\$1,417,294</u>	<u>\$455,405</u>	<u>\$421,916</u>

3. CAPITAL ASSETS

The change in book value from July 1, 2001, to June 30, 2002, is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Production equipment	\$606,162	\$ 0	\$(80,617)	\$525,545
Transmission equipment	<u>342,804</u>	<u>52,684</u>	<u>0</u>	<u>395,488</u>
Total capital assets at historical cost	<u>948,966</u>	<u>52,684</u>	<u>(80,617)</u>	<u>921,033</u>
Less Accumulated Depreciation for:				
Production equipment	(423,059)	(41,399)	80,617	(383,841)
Transmission equipment	<u>(265,458)</u>	<u>(17,727)</u>	<u>0</u>	<u>(283,185)</u>
Total accumulated depreciation	<u>(688,517)</u>	<u>(59,126)</u>	<u>80,617</u>	<u>(667,026)</u>
Total Capital Assets, Net	<u>\$260,449</u>	<u>\$(6,442)</u>	<u>\$ 0</u>	<u>\$254,007</u>

Depreciation expense was charged to functions as follows for FY 2001-02:

Programming and Production	\$41,399
Broadcast	<u>17,727</u>
Total Depreciation Expense	<u>\$59,126</u>

The change in book value from July 1, 2000, to June 30, 2001, is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Production equipment	\$490,697	\$115,465	\$ 0	\$606,162
Transmission equipment	<u>342,804</u>	<u>0</u>	<u>0</u>	<u>342,804</u>
Total capital assets at historical cost	<u>833,501</u>	<u>115,465</u>	<u>0</u>	<u>948,966</u>
Less Accumulated Depreciation for:				
Production equipment	(381,655)	(41,404)	0	(423,059)
Transmission equipment	<u>(250,422)</u>	<u>(15,036)</u>	<u>0</u>	<u>(265,458)</u>
Total accumulated depreciation	<u>(632,077)</u>	<u>(56,440)</u>	<u>0</u>	<u>(688,517)</u>
Total Capital Assets, Net	<u>\$201,424</u>	<u>\$ 59,025</u>	<u>\$ 0</u>	<u>\$260,449</u>

Depreciation expense was charged to functions as follows for FY 2000-01:

Programming and Production	\$41,404
Broadcast	<u>15,036</u>
Total Depreciation Expense	<u>\$56,440</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, during which time the federal government retains priority reversionary interest in the equipment. WHA Radio received one NTIA capital equipment grant during FY 2000-01. No grant was received during the current reporting period. The depreciated value of equipment purchased with NTIA funds was \$120,895 as of June 30, 2002, and \$83,674 as of June 30, 2001.

5. CHANGES IN DEFERRED SUPPORT

Deferred support incurred the following activities for FY 2001-02 and FY 2000-01:

	<u>FY 2001-02</u>	<u>FY 2000-01</u>
Beginning-of-Year Balance	\$110,397	\$ 79,884
(-) Prior-Year Earned	(72,502)	(45,446)
+ Additions	<u>83,357</u>	<u>75,959</u>
End-of-Year Balance	<u>\$121,252</u>	<u>\$110,397</u>

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 \$174,254 and \$166,453, and occupancy costs of \$89,767 and \$85,749 for FY 2001-02 and FY 2000-01, respectively. 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 \$1,070,164 in FY 2001-02 and \$1,022,259 in FY 2000-01.

7. IN-KIND CONTRIBUTIONS

In-kind contributions of \$55,868 in FY 2001-02 and \$54,542 in FY 2000-01 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

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 Radio's contribution to the plan was \$143,335 in FY 2001-02 and \$143,453 in FY 2000-01. 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 not-for-profit corporation that solicits funds for public radio and provides 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 Radio. WHA Radio and ECB Radio have access to WPRA's net resources and retain an ongoing equity interest. WHA Radio's equity interest in WPRA is calculated in accordance with an affiliation agreement that currently provides WHA Radio with 24 percent of WPRA net resources. This agreement is renegotiated annually based upon fund drive results.

WHA Radio includes in revenue the entire amount of WPRA net resources to which it is entitled each year. WHA Radio also recognizes WPRA expenses made on its behalf as both a contribution and an expense. A summary of amounts related to WPRA included in the accompanying financial statements for FY 2001-02 and FY 2000-01 follows:

	<u>FY 2001-02</u>	<u>FY 2000-01</u>
Equity in Resources held by WPRA	\$ <u>592,559</u>	\$ <u>537,469</u>
Contributed Support	<u>\$1,098,962</u>	<u>\$1,037,535</u>
Expenses:		
Programming and production	\$ 231,096	\$ 279,234
Management and general	25,456	24,030
Fund-raising and membership development	<u>119,593</u>	<u>122,409</u>
Total Expenses	<u>\$ 376,145</u>	<u>\$ 425,673</u>

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data for FY 2001-02 and FY 2000-01 follows:

	<u>FY 2001-02</u>	<u>FY 2000-01</u>
Revenues	\$4,588,198	\$4,267,199
Expenses	<u>(4,349,465)</u>	<u>(4,131,351)</u>
Excess Revenues over Expenses	<u>\$ 238,733</u>	<u>\$ 135,848</u>

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Current Assets	\$ 986,950	\$ 759,706
Endowment	197,429	236,497
Long-term Investments	105,097	70,373
Current Liabilities	(280,347)	(296,180)
Restricted Fund Balance	<u>(84,260)</u>	<u>(75,071)</u>
Net Assets Contractually Committed for Distribution to WHA Radio and ECB Radio	<u>\$ 924,869</u>	<u>\$ 695,325</u>

10. ALLOCATION OF WLSU LICENSEE

In September 1996, the University of Wisconsin-La Crosse transferred primary administration of radio station WLSU-FM to the University of Wisconsin-Extension. WLSU-FM is qualified for Community Service Grant assistance from the Corporation for Public Broadcasting. WLSU-FM and WHA Radio are both licensed to the University of Wisconsin Board of Regents. Financial transactions for WLSU-FM that had previously occurred through the University of Wisconsin-La Crosse are now 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 revenues, direct expenses, and related allocable indirect expenses has been identified in the following tables for FY 2001-02 and FY 2000-01. The remaining revenues and expenses are attributable to WHA Radio and include any unallocated amounts of WLSU-FM.

	<u>FY 2001-02</u>		
	<u>Total</u>	<u>WLSU-FM</u>	<u>WHA-Radio</u>
Operating Revenues			
Grants and Contracts	\$3,167,194	\$ 6,632	\$3,160,562
Community Service Grant—CPB	487,840	91,597	396,243
Underwriting	622,392	54,087	568,305
Telecasting, Production, and Other Income	216,012	0	216,012
Donations from WPRA	<u>1,098,962</u>	<u>76,136</u>	<u>1,022,826</u>
Total Operating Revenues	<u>5,592,400</u>	<u>228,452</u>	<u>5,363,948</u>
Operating Expenses			
Program Services:			
Programming and production	5,241,451	252,070	4,989,381
Broadcasting	293,466	22,512	270,954
Program information	<u>174,160</u>	<u>20,180</u>	<u>153,980</u>
Total Program Services	<u>5,709,077</u>	<u>294,762</u>	<u>5,414,315</u>
Support Services:			
Management and general	1,786,683	72,800	1,713,883
Fund-raising and membership development	506,690	0	506,690
Underwriting	<u>367,850</u>	<u>55,797</u>	<u>312,053</u>
Total Support Services	<u>2,661,223</u>	<u>128,597</u>	<u>2,532,626</u>
Total Operating Expenses	<u>8,370,300</u>	<u>423,359</u>	<u>7,946,941</u>
Operating Income (Loss)	<u>(2,777,900)</u>	<u>(194,907)</u>	<u>(2,582,993)</u>
Nonoperating Revenues (Expenses)			
State General Appropriations	1,672,033	169,387	1,502,646
Donated Facilities and Administrative Support from the University of Wisconsin System	1,334,185	50,660	1,283,525
In-kind Contributions	55,868	0	55,868
Investment Income	<u>114,695</u>	<u>0</u>	<u>114,695</u>
Total Nonoperating Income (Loss)	<u>3,176,781</u>	<u>220,047</u>	<u>2,956,734</u>
Change in Net Assets	<u>\$ 398,881</u>	<u>\$ 25,140</u>	<u>\$ 373,741</u>

	<u>FY 2000-01</u>		
	<u>Total</u>	<u>WLSU-FM</u>	<u>WHA-Radio</u>
Operating Revenues			
Grants and Contracts	\$2,835,716	\$ 0	\$2,835,716
Community Service Grant—CPB	519,100	97,306	421,794
Underwriting	535,869	0	535,869
Telecasting, Production, and Other Income	281,185	0	281,185
Donations from WPRA	<u>1,037,535</u>	<u>114,381</u>	<u>923,154</u>
Total Operating Revenues	<u>5,209,405</u>	<u>211,687</u>	<u>4,997,718</u>
Operating Expenses			
Program Services:			
Programming and production	5,062,413	231,529	4,830,884
Broadcasting	228,053	17,027	211,026
Program information	<u>197,718</u>	<u>14,643</u>	<u>183,075</u>
Total Program Services	<u>5,488,184</u>	<u>263,199</u>	<u>5,224,985</u>
Support Services:			
Management and general	1,616,668	63,028	1,553,640
Fund-raising and membership development	485,131	51,673	433,458
Underwriting	<u>382,272</u>	<u>0</u>	<u>382,272</u>
Total Support Services	<u>2,484,071</u>	<u>114,701</u>	<u>2,369,370</u>
Total Operating Expenses	<u>7,972,255</u>	<u>377,900</u>	<u>7,594,355</u>
Operating Loss	<u>(2,762,850)</u>	<u>(166,213)</u>	<u>(2,596,637)</u>
Nonoperating Revenues (Expenses)			
State General Appropriations	1,631,659	150,976	1,480,683
Donated Facilities and Administrative Support from the University of Wisconsin System	1,274,461	41,955	1,232,506
In-kind Contributions	54,542	0	54,542
Investment Income	<u>30,631</u>	<u>0</u>	<u>30,631</u>
Total Nonoperating Income	<u>2,991,293</u>	<u>192,931</u>	<u>2,798,362</u>
Change in Net Assets	<u>\$ 228,443</u>	<u>\$ 26,718</u>	<u>\$ 201,725</u>

11. PRIOR-PERIOD CORRECTIONS

While there was no effect on net assets, the FY 2000-01 financial data have been restated for the following reasons:

- A receivable of \$38,560 from a WPRA grant was not recognized at the end of FY 2000-01. Because of this omission, a liability to the University of Wisconsin System in the same amount was also not recognized.
- A revenue accrual of \$99,579 had been incorrectly reported as a decrease in deferred support, rather than as an increase in grants and contracts receivable.

12. CHANGE IN ACCOUNTING PRINCIPLE

WHA Radio implemented a new financial reporting model for FY 2001-02, as required by the provisions of 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*. Financial statement presentation changed to reclassify revenues and expenses into operating and nonoperating revenues and expenses. In addition, cash flow presentation changed to the direct method, and management added a discussion and analysis for operations. The FY 2000-01 information was also reformatted to conform with the new financial reporting model; there was no effect on total net assets or the change in net assets.

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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 Radio as of and for the year ended June 30, 2002 and 2001, and have issued our report thereon dated February 7, 2003. 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 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, but not in accordance with the additional requirements of *Government Auditing Standards*.

COMPLIANCE

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 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 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 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.

February 7, 2003

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director