

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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December 19, 2003

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

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

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

We have completed a financial audit of WHA 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 \$8.9 million in revenues during fiscal year 2002-03, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains the financial statements and related notes for fiscal years 2002-03 and 2001-02. We were able to issue an unqualified independent auditor's report on these statements.

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

Respectfully submitted,

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

Janice Mueller
State Auditor

JM/DA/ss

Audit Opinion ■

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

We have audited the accompanying balance sheet of WHA Radio as of June 30, 2003 and 2002, 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 \$706,829 are contractually committed to WHA Radio as of June 30, 2003, 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 16.9 percent and 16.1 percent of the total assets as of June 30, 2003 and 2002, respectively, and 12.8 percent and 12.5 percent of the total revenues for FY 2002-03 and FY 2001-02, 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 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 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 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 opinions.

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 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, 2003 and 2002, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 December 9, 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.

December 9, 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, 2003. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of WHA 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 (FY) 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. These financial statements differ significantly, in both the form and the accounting principles used, from financial statements prior to FY 2001-02. The financial statements presented in prior years focused on the accountability of fund groups, while these statements focus on the financial condition of WHA 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. 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 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, 2003 and 2002, is shown in Table A.

Total Assets increased 14 percent, while Total Liabilities increased 11 percent. This resulted in a 15 percent increase in net assets. The largest current asset increases occurred with Investments, which increased \$259,000 to \$1,680,000, and with net assets of the Wisconsin Public Radio Association, Inc. (WPRA), which increased \$114,000 to \$707,000. The largest liability increase of \$98,000 was in the amount due to the University of Wisconsin System, which totaled \$947,000 at year-end. The 68 percent increase in Capital Assets was primarily the result of receiving one-time funding for equipment from the State Building Trust Fund of \$151,000, and a grant from the United States Department of Commerce of \$57,000.

Operating revenues and expenses were essentially flat, with a 1 percent decrease in revenues and a 2 percent increase in expenses. The most significant expense increase of \$77,000, or a 26 percent increase from the prior year, occurred in broadcasting as the result of building new transmitters in River Falls, Menomonie, and La Crosse. There was also a \$118,000 increase in fund-raising expense, but it occurred because expenses on behalf of WHA Radio made by WPRA were re-categorized in FY 2002-03. Amounts previously reported as Program Services expense are now reported as Fund-raising expense.

Nonoperating revenue changes include an Investment Income decrease of \$28,000, despite a \$259,000 increase in Investments. State General Appropriations increased \$74,000. The major components of the increase were fringe benefits of \$36,000 and pay plan increases partially offset by budget cuts of \$34,000.

Table A

WHA Radio Condensed Financial Information
(In Thousands)

	June 30, 2003	June 30, 2002	Change	Percentage Change
Capital Assets	\$ 427	\$ 254	\$ 173	68%
Other Assets	3,762	3,435	327	10
Total Assets	<u>4,189</u>	<u>3,689</u>	<u>500</u>	14
Current Liabilities	1,077	943	134	14
Noncurrent Liabilities	314	312	2	0
Total Liabilities	<u>1,391</u>	<u>1,255</u>	<u>136</u>	11
Net Assets				
Invested in Capital Assets	427	254	173	68
Unrestricted	2,371	2,180	191	9
Total Net Assets	<u>\$2,798</u>	<u>\$2,434</u>	<u>\$364</u>	15

	FY 2002-03	FY 2001-02	Change	Percentage Change
Operating Revenues	\$5,546	\$5,592	\$(46)	(1)
Operating Expenses	8,573	8,370	203	2
Net Operating (Loss)	(3,027)	(2,778)	(249)	9
Nonoperating Revenue	3,241	3,172	69	2
Capital Contributions	151	0	151	
Change in Net Assets	<u>\$ 365</u>	<u>\$ 394</u>	<u>\$(29)</u>	(7)

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.

Financial Statements ■

Balance Sheet

June 30, 2003 and 2002

	June 30, 2003	Restated June 30, 2002
ASSETS		
Current Assets:		
Investments (Note 2)	\$ 1,680,471	\$ 1,421,657
Grants and contracts receivable	327,038	300,446
Accounts and interest receivable, net	26,973	25,359
Accounts receivable—ECB (Note 9)	979,347	1,050,063
Net assets of WPRA (Note 9)	706,829	592,559
Prepaid expenses	41,659	44,787
Total Current Assets	<u>3,762,317</u>	<u>3,434,871</u>
Noncurrent Assets:		
Capital assets, net of accumulated depreciation (Notes 3 and 4)	<u>427,350</u>	<u>254,007</u>
Total Noncurrent Assets	<u>427,350</u>	<u>254,007</u>
TOTAL ASSETS	<u>\$ 4,189,667</u>	<u>\$ 3,688,878</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 98,929	\$ 35,317
Due to the University of Wisconsin System	947,072	848,724
Deferred support	31,623	59,051
Total Current Liabilities	<u>1,077,624</u>	<u>943,092</u>
Noncurrent Liabilities:		
Compensated absences payable (Note 5)	<u>313,677</u>	<u>312,158</u>
Total Noncurrent Liabilities	<u>313,677</u>	<u>312,158</u>
Total Liabilities	<u>1,391,301</u>	<u>1,255,250</u>
Net Assets:		
Invested in capital assets	427,350	254,007
Unrestricted	2,371,016	2,179,621
Total Net Assets	<u>2,798,366</u>	<u>2,433,628</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,189,667</u>	<u>\$ 3,688,878</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended June 30, 2003 and 2002

	Fiscal Year 2002-03	Restated Fiscal Year 2001-02
OPERATING REVENUES		
Grants and Contracts	\$ 3,022,852	\$ 3,167,194
Community Service Grant—CPB	518,055	487,840
Underwriting	652,864	622,392
Telecasting, Production, and Other Income	207,740	216,012
Donations from WPRA (Note 9)	1,144,336	1,098,962
Total Operating Revenues	5,545,847	5,592,400
OPERATING EXPENSES		
Program Services:		
Programming and production	5,260,538	5,241,451
Broadcasting	370,482	293,466
Program information	140,656	174,160
Total Program Services	5,771,676	5,709,077
Support Services:		
Management and general	1,841,175	1,786,683
Fund-raising and membership development	624,672	506,690
Underwriting	335,754	367,850
Total Support Services	2,801,601	2,661,223
Total Operating Expenses	8,573,277	8,370,300
OPERATING LOSS	(3,027,430)	(2,777,900)
NONOPERATING REVENUES AND EXPENSES		
State General Appropriations	1,741,263	1,667,532
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,356,607	1,334,185
In-Kind Contributions (Note 7)	56,954	55,868
Investment Income	86,605	114,695
Total Nonoperating Revenues (Expenses)	3,241,429	3,172,280
Income (Loss) Before Contributions and Transfers	213,999	394,380
CONTRIBUTIONS AND TRANSFERS		
Capital Contributions	150,739	0
CHANGE IN NET ASSETS	364,738	394,380
Total Net Assets—Beginning of the Year	2,433,628	2,039,248
Total Net Assets—End of the Year	<u>\$ 2,798,366</u>	<u>\$ 2,433,628</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Years Ended June 30, 2003 and 2002

	Fiscal Year 2002-03	Restated Fiscal Year 2001-02
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Grants and Contracts	\$ 3,620,467	\$ 3,639,390
Receipts from Contributed Support	1,409,056	1,217,074
Receipts from Sales and Services	206,180	213,586
Payments to Suppliers	(1,516,392)	(1,696,442)
Payments to Employees	(5,057,547)	(4,753,577)
Net Cash Used for Operating Activities	(1,338,236)	(1,379,969)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from State Government	1,741,263	1,655,941
Net Cash Provided by Noncapital Financing Activities	1,741,263	1,655,941
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	150,739	0
Purchases of Capital Assets	(267,233)	(52,684)
Net Cash Used for Capital and Related Financing Activities	(116,494)	(52,684)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Purchases) and Sales of Investments	(255,853)	(980,806)
Interest Income	83,590	132,847
Equity in Resources Held by WPRA	(114,270)	(55,090)
Net Cash Used for Investing Activities	(286,533)	(903,049)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	0	(679,761)
Balances—Beginning of the Year	0	679,761
Balances—End of the Year	\$ 0	\$ 0

The accompanying notes are an integral part of this statement.

	Fiscal Year 2002-03	Restated Fiscal Year 2001-02
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating Loss	\$ (3,027,430)	\$ (2,777,900)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation expense	93,890	59,126
Donated facilities and administrative support from the University of Wisconsin System expense	1,356,607	1,334,185
Miscellaneous non-cash operating expenses	56,954	67,459
Change in assets and liabilities:		
Receivables, net	42,564	(142,649)
Prepaid expenses	3,128	(5,713)
Accounts and other payables	65,131	(4,154)
Due to the University of Wisconsin System	98,348	76,490
Deferred support	(27,428)	13,187
Net Cash Used for Operating Activities	\$ (1,338,236)	\$ (1,379,969)

Noncash Activities:

The amount of in-kind contributions was \$56,954 in FY 2002-03 and \$55,868 in FY 2001-02.

The fair value of investments decreased \$673 during FY 2002-03 and decreased \$29,125 during FY 2001-02.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The financial statements include WHA Radio and five affiliates, which are licensed to the Board of Regents of the University of Wisconsin System. WHA Radio is operated by the University of Wisconsin-Extension. The financial statements also 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.

Unrestricted operating and nonoperating revenues are recorded in the statement of revenues, expenses, and changes in net assets when WHA Radio is entitled to them. Restricted operating and nonoperating revenues are recorded 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 are directly related to programming, production, and development activities. Nonoperating revenues are indirectly associated with programming, production, and development activities, such as interest revenue. Certain significant revenue streams relied upon by operations are reported as nonoperating revenue, as defined by GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, including state general appropriations and donated facilities and administrative support from the University of Wisconsin System.

C. Accounting Estimates

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

D. Cash and Cash Equivalents

Cash and cash equivalents 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.

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

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

I. Employee Compensated Absences

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

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, 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 did not have a deposit with the State Investment Fund at June 30, 2003, or June 30, 2002.

WHA Radio's investment balances are deposited with the University of Wisconsin System and 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.

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, 2003 and 2002, are as follows:

	June 30, 2003 <u>Fair Value</u>	June 30, 2002 <u>Fair Value</u>
Intermediate-Term Pooled Bond Funds	\$1,653,594	\$1,393,100
Long-Term Pooled Bond and Equity Funds	<u>26,877</u>	<u>28,557</u>
Total	<u>\$1,680,471</u>	<u>\$1,421,657</u>

3. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Equipment	\$921,033	\$267,233	\$(31,438)	\$1,156,828
Less Accumulated Depreciation for:				
Equipment	<u>(667,026)</u>	<u>(93,890)</u>	<u>31,438</u>	<u>(729,478)</u>
Total Capital Assets, Net	<u>\$254,007</u>	<u>\$173,343</u>	<u>\$ 0</u>	<u>\$ 427,350</u>

Depreciation expense was charged to functions as follows for FY 2002-03:

Programming and Production	\$74,926
Broadcast	<u>18,964</u>
Total Depreciation Expense	<u>\$93,890</u>

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:				
Equipment	\$948,966	\$52,684	\$(80,617)	\$921,033
Less Accumulated Depreciation for:				
Equipment	<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>

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 two NTIA capital equipment grants from FY 2000-01 through FY 2002-03. The depreciated value of equipment subject to a priority lien was \$181,119 as of June 30, 2003, and \$120,895 as of June 30, 2002.

5. NONCURRENT LIABILITIES

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Compensated Absences	\$312,158	\$57,722	\$(56,203)	\$313,677	\$20,765

Noncurrent liability activity for the fiscal year ended June 30, 2002, 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	\$290,267	\$36,658	\$(14,767)	\$312,158	\$9,654

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 \$177,182 and \$174,254, and occupancy costs of \$91,276 and \$89,767 for FY 2002-03 and FY 2001-02, 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 \$1,088,149 in FY 2002-03 and \$1,070,164 in FY 2001-02.

7. IN-KIND CONTRIBUTIONS

In-kind contributions of \$56,954 in FY 2002-03 and \$55,868 in FY 2001-02 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. 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 \$460,722 in FY 2002-03 and \$448,727 in FY 2001-02. 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 2002-03 and FY 2001-02 follows:

	<u>FY 2002-03</u>	<u>FY 2001-02</u>
Equity in Resources Held by WPRA	\$ 706,829	\$ 592,559
Contributed Support:		
Grants to WHA Radio	827,176	812,775
In-kind support	202,890	231,096
Increase in equity held by WPRA	<u>114,270</u>	<u>55,091</u>
Total Contributed Support	<u>1,144,336</u>	<u>1,098,962</u>
Expenses on Behalf of WHA Radio:		
Programming and production	0	86,047
Management and general	1,517	25,456
Fund-raising and membership development	<u>201,373</u>	<u>119,593</u>
Total Expenses	<u>\$ 202,890</u>	<u>\$ 231,096</u>

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data for FY 2002-03 and FY 2001-02 follows:

	<u>FY 2002-03</u>	<u>FY 2001-02</u>
Revenues	\$4,746,249	\$4,588,198
Expenses	<u>(4,291,942)</u>	<u>(4,349,465)</u>
Excess Revenues over Expenses	<u>\$ 454,307</u>	<u>\$ 238,733</u>
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Current Assets	\$1,464,041	\$ 986,950
Endowment	214,255	197,429
Long-Term Investments	110,405	105,097
Current Liabilities	(325,265)	(280,347)
Restricted Fund Balance	<u>(269,900)</u>	<u>(291,718)</u>
Net Assets Contractually Committed for Distribution to WHA Radio and ECB Radio	<u>\$1,193,536</u>	<u>\$ 717,411</u>

10. ALLOCATION OF WLSU LICENSEE

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 and WVSS, 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 tables for FY 2002-03 and FY 2001-02. The remaining revenues and expenses are attributable to WHA Radio and include any unallocated amounts of WLSU-FM.

FY 2002-03

Operating Revenues	<u>WHA Radio</u>	<u>WLSU-FM</u>	<u>Total</u>
Grants and Contracts	\$2,972,250	\$ 50,602	\$3,022,852
Community Service Grant—CPB	423,704	94,351	518,055
Underwriting	530,712	122,152	652,864
Telecasting, Production, and Other Income	207,740	0	207,740
Donations from WPRA	<u>956,398</u>	<u>187,938</u>	<u>1,144,336</u>
Total Operating Revenues	<u>5,090,804</u>	<u>455,043</u>	<u>5,545,847</u>
 Operating Expenses			
Program Services:			
Programming and production	4,854,797	405,741	5,260,538
Broadcasting	288,057	82,425	370,482
Program information	<u>105,277</u>	<u>35,379</u>	<u>140,656</u>
Total Program Services	<u>5,248,131</u>	<u>523,545</u>	<u>5,771,676</u>
 Support Services:			
Management and general	1,748,696	92,479	1,841,175
Fund-raising and membership development	614,736	9,936	624,672
Underwriting	<u>273,230</u>	<u>62,524</u>	<u>335,754</u>
Total Support Services	<u>2,636,662</u>	<u>164,939</u>	<u>2,801,601</u>
Total Operating Expenses	<u>7,884,793</u>	<u>688,484</u>	<u>8,573,277</u>
Operating Loss	<u>(2,793,989)</u>	<u>(233,441)</u>	<u>(3,027,430)</u>
 Nonoperating Revenues (Expenses)			
State General Appropriations	1,564,371	176,892	1,741,263
Donated Facilities and Administrative Support from the University of Wisconsin System	1,282,605	74,002	1,356,607
In-Kind Contributions	56,954	0	56,954
Investment Income	<u>86,605</u>	<u>0</u>	<u>86,605</u>
Total Nonoperating Revenues	<u>2,990,535</u>	<u>250,894</u>	<u>3,241,429</u>
Capital Contributions	<u>150,739</u>	<u>0</u>	<u>150,739</u>
Change in Net Assets	<u>\$ 347,285</u>	<u>\$ 17,453</u>	<u>\$ 364,738</u>

FY 2001-02

Operating Revenues	<u>WHA Radio</u>	<u>WLSU-FM</u>	<u>Total</u>
Grants and Contracts	\$3,160,562	\$ 6,632	\$3,167,194
Community Service Grant—CPB	396,243	91,597	487,840
Underwriting	568,305	54,087	622,392
Telecasting, Production, and Other Income	216,012	0	216,012
Donations from WPRA	<u>1,022,826</u>	<u>76,136</u>	<u>1,098,962</u>
Total Operating Revenues	<u>5,363,948</u>	<u>228,452</u>	<u>5,592,400</u>
Operating Expenses			
Program Services:			
Programming and production	4,989,381	252,070	5,241,451
Broadcasting	270,954	22,512	293,466
Program information	<u>153,980</u>	<u>20,180</u>	<u>174,160</u>
Total Program Services	<u>5,414,315</u>	<u>294,762</u>	<u>5,709,077</u>
Support Services:			
Management and general	1,713,883	72,800	1,786,683
Fund-raising and membership			
development	506,690	0	506,690
Underwriting	<u>312,053</u>	<u>55,797</u>	<u>367,850</u>
Total Support Services	<u>2,532,626</u>	<u>128,597</u>	<u>2,661,223</u>
Total Operating Expenses	<u>7,946,941</u>	<u>423,359</u>	<u>8,370,300</u>
Operating Loss	<u>(2,582,993)</u>	<u>(194,907)</u>	<u>(2,777,900)</u>
Nonoperating Revenues (Expenses)			
State General Appropriations	1,498,145	169,387	1,667,532
Donated Facilities and Administrative			
Support from the University of			
Wisconsin System	1,283,525	50,660	1,334,185
In-Kind Contributions	55,868	0	55,868
Investment Income	<u>114,695</u>	<u>0</u>	<u>114,695</u>
Total Nonoperating Revenues	<u>2,952,233</u>	<u>220,047</u>	<u>3,172,280</u>
Change in Net Assets	<u>\$ 369,240</u>	<u>\$ 25,140</u>	<u>\$ 394,380</u>

11. PRIOR-PERIOD CORRECTION

In the past, WHA Radio recognized State General Appropriations and Grants and Contracts revenues and established related receivables to correspond to the accrual of compensated absence expenses. However, according to GASB Statement Number 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which was effective for FY 2000-01, recognition of State General Appropriations should correspond to the government's fiscal period during which the appropriation will be made. Similarly, recognition of Grants and Contracts revenue should correspond to the period during which the grant is awarded. As a result, the FY 2001-02 financial data have been restated to eliminate the State General Appropriations of \$4,501, Grants Receivable of \$35,046, and Due from the University of Wisconsin System of \$127,300 related to the accrual of compensated absence expenses during FY 2001-02. The cumulative effect of the error for periods prior to FY 2001-02 is reflected as a restatement of the beginning net asset balance as of July 1, 2001, by a decrease of \$157,845.

The FY 2001-02 financial data have also been restated because of an incorrect transfer between Deferred Support and Grants Receivable. As a result, Grants Receivable and Deferred Support were reduced by \$62,201.

The net effect of the prior period corrections is to reduce the net asset balance as of June 30, 2002, by \$162,346.

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. 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 Audits of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of WHA Radio as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated December 9, 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 audits 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*.

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 audits 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 audits, 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.

December 9, 2003

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director