

An Audit

WHA Television

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 Television, as requested by the University of Wisconsin-Extension to fulfill the audit requirements of the Corporation for Public Broadcasting. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels.

WHA Television is licensed to the Board of Regents of the University of Wisconsin System and is operated by the University of Wisconsin-Extension. WHA Television received \$16.2 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 the period July 1, 2001 through June 30, 2002. 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 Television 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 Television

We have audited the accompanying balance sheet of WHA Television as of June 30, 2002, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the management of WHA Television. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Friends of WHA-TV, Inc., which represent 12.7 percent of the total assets and 18.9 percent of the total revenues. The financial statements of the Friends of WHA-TV, Inc., were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Friends of WHA-TV, Inc., is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Friends of WHA-TV, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States, 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 provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only WHA Television 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 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 Television as of June 30, 2002, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As described in Note 12, WHA Television 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 audit was conducted for the purpose of forming an opinion on the financial statements of WHA Television. Management's Discussion and Analysis on pages 5 through 8 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 7, 2003, on our consideration of WHA Television's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 7, 2003

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director

Management's Discussion and Analysis ■

Prepared by WHA Television Management

This section of the WHA Television annual financial report presents management's discussion and analysis of the financial performance of WHA Television during the fiscal year ended June 30, 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 Television management.

USING THE ANNUAL FINANCIAL STATEMENTS

WHA Television is licensed to the Board of Regents of the University of Wisconsin System and prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) statements. For fiscal year (FY) 2001-02, WHA Television implemented GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, which materially affected the presentation of the financial statements. 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 Television as a whole.

The Balance Sheet includes all assets and liabilities. Over time, increases or decreases in net assets are an indicator of WHA Television's financial health.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities are reported as either operating or nonoperating. WHA Television's dependence on State General Appropriations and Donated Facilities and Administrative Support from the University 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 Television for the fiscal years ended June 30, 2002 and 2001 is as follows:

WHA Television Condensed Financial Information (in thousands)

	<u>FY 2001-02</u>	<u>FY 2000-01</u>	<u>Change</u>	<u>Percentage Change</u>
Capital Assets	\$ 3,223	\$ 2,388	\$ 835	35%
Other Assets	<u>10,804</u>	<u>10,351</u>	<u>453</u>	4%
Total Assets	<u>14,027</u>	<u>12,739</u>	<u>1,288</u>	10%
Current Liabilities	5,336	4,475	861	19%
Noncurrent Liabilities	<u>489</u>	<u>447</u>	<u>42</u>	9%
Total Liabilities	<u>5,825</u>	<u>4,922</u>	<u>903</u>	18%
Invested in Capital Assets	3,223	2,388	835	35%
Temporarily Restricted	41	56	(15)	(27%)
Unrestricted	<u>4,938</u>	<u>5,373</u>	<u>(435)</u>	(8%)
Total Net Assets	<u>\$ 8,202</u>	<u>\$ 7,817</u>	<u>\$ 385</u>	5%

	<u>FY 2001-02</u>	<u>FY 2000-01</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues	\$ 9,475	\$ 8,161	\$1,314	16%
Operating Expenses	<u>16,504</u>	<u>15,507</u>	<u>997</u>	6%
Net Operating (Loss)	(7,029)	(7,346)	317	4%
Nonoperating Income	6,690	6,347	343	5%
Capital Contributions	<u>725</u>	<u>357</u>	<u>368</u>	103%
Change in Net Assets	<u>\$ 386</u>	<u>\$ (642)</u>	<u>\$1,028</u>	160%

Total Assets increased 10 percent while Total Liabilities increased 18 percent. This resulted in a 5 percent increase in net assets. Although Total Assets increased, Cash and Investments, totaling \$5,766,000, decreased by \$378,000, with the Operating Fund's Investments portion decreasing 19 percent to \$3,273,000. These assets were needed to in order to pay for current-year operating expenses. Grants Receivable was \$4,360,000 at June 30, 2002, a 41 percent increase, but much of the Grants Receivable asset is offset by a Deferred Support liability. Deferred Support increased by \$804,000, to \$3,492,000. There is a direct relationship between Grants Receivable and Deferred Support, which represents the unfulfilled portion of the grant. Deferred Support appears on the balance sheet as a liability until the related expenses have been incurred. Typically, payment on the restricted grants receivable will not occur until after the work has been performed and expenses incurred.

Capital Assets increased by \$835,000. New capital asset additions totaled \$1,278,000, while annual depreciation expense decreased the net value by \$443,000. Most of the increase was the result of acquiring a new transmitter, antenna, and related equipment that are required for broadcasting a digital signal as mandated by the Federal Communications Commission. The digital broadcast equipment was primarily funded by Capital Contributions from the State Building Trust Fund, \$725,000, and a grant from the United States Department of Commerce, \$359,000.

Operating Revenues grew at a faster rate, 16 percent, than Operating Expenses, 6 percent, resulting in a 4 percent decrease in the net operating loss to \$7,029,000. The most significant sources of operating revenues are Grants and Contracts, \$3,655,000, an increase of 72 percent, and Membership Income at \$2,196,000, an increase of 7 percent. Increased Grants and Contracts revenue is offset by a concomitant increase in operating expenses. The Corporation for Public Broadcasting (CPB) was the source of 63 percent of the Other Grants and Contracts revenue, at \$2,314,000. Most of the CPB funding continues through FY 2002-03.

Operating Expenses include \$2,802,000 of Donated Facilities and Administrative Support from the University, a \$148,000 increase over the prior year. \$2,007,000 is reported as a Management and General expense. Program Information expenses

increased 55 percent to \$3,271,000, which includes expenses for the National Center for Outreach (NCO). The NCO is funded from the CPB, and its main function is to provide outreach grants to public television stations. FY 2001-02 was the first year WHA Television received funding from the NCO. WHA Television recognized revenues and expenses related to NCO funding at more than \$1,612,000, which included providing grants totaling \$368,000, plus an additional \$437,000 of one-time grants, for outreach activity to other television stations associated with the series *American Family*. WHA Television has a three-year funding commitment for the NCO from the CPB.

Nonoperating Income increases totaling \$343,000 include an Investment Income decrease of \$153,000, a Donated Facilities and Administrative Support increase of \$148,000, and a State General Appropriations increase of \$347,000. The major components of the State General Appropriations increase were fringe benefits of \$77,000, one-time budget transfers within the University of Wisconsin-Extension of \$200,000, and pay plan increases partially offset by budget cuts of \$70,000.

This financial report is designed to provide a general overview of the University of Wisconsin-Extension's finances related to public television. Questions concerning any of the information provided in this report or requests for additional information should be addressed to UWEX Division of Broadcasting and Media Innovations in care of the Director of Business Services, 821 University Avenue, Madison, WI 53706.

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

Assets	Operating Fund	Friends of WHA-TV, Inc.	Total June 30, 2002	Total June 30, 2001
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 0	\$ 481,948	\$ 481,948	\$ 112,485
Investments (Note 2)	3,273,419	224,061	3,497,480	4,253,269
Grants and contracts receivable	4,360,379	0	4,360,379	3,088,521
Accounts and interest receivable, net	43,341	87,713	131,054	312,532
Accounts receivable—ECB (Note 10)	421,219	0	421,219	674,744
Restricted contributions receivable	0	40,987	40,987	56,100
Interfund receivable (payable)	850,343	(850,343)	0	0
Prepaid expenses	72,786	11,862	84,648	74,301
Total Current Assets	<u>9,021,487</u>	<u>(3,772)</u>	<u>9,017,715</u>	<u>8,571,952</u>
Noncurrent Assets:				
Investments (Note 2)	0	1,786,673	1,786,673	1,778,732
Capital assets, net of accumulated depreciation (Notes 3 and 4)	3,222,679	0	3,222,679	2,388,145
Total Noncurrent Assets	<u>3,222,679</u>	<u>1,786,673</u>	<u>5,009,352</u>	<u>4,166,877</u>
Total Assets	<u><u>\$ 12,244,166</u></u>	<u><u>\$ 1,782,901</u></u>	<u><u>\$ 14,027,067</u></u>	<u><u>\$ 12,738,829</u></u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 122,866	\$ 110,175	\$ 233,041	\$ 358,316
Due to the University of Wisconsin System	1,610,760	0	1,610,760	1,428,673
Deferred support (Note 5)	3,457,466	34,670	3,492,136	2,688,284
Total Current Liabilities	<u>5,191,092</u>	<u>144,845</u>	<u>5,335,937</u>	<u>4,475,273</u>
Noncurrent Liabilities:				
Compensated absences payable	488,899	0	488,899	446,927
Total Noncurrent Liabilities	<u>488,899</u>	<u>0</u>	<u>488,899</u>	<u>446,927</u>
Total Liabilities	<u>5,679,991</u>	<u>144,845</u>	<u>5,824,836</u>	<u>4,922,200</u>
Net Assets:				
Invested in capital assets	3,222,679	0	3,222,679	2,388,145
Temporarily restricted (Note 8)	0	40,987	40,987	56,100
Unrestricted (Note 9)	3,341,496	1,597,069	4,938,565	5,372,384
Total Net Assets	<u>6,564,175</u>	<u>1,638,056</u>	<u>8,202,231</u>	<u>7,816,629</u>
Total Liabilities and Net Assets	<u><u>\$ 12,244,166</u></u>	<u><u>\$ 1,782,901</u></u>	<u><u>\$ 14,027,067</u></u>	<u><u>\$ 12,738,829</u></u>

The accompanying notes are an integral part of this statement.

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

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2001-02	Total FY 2000-01
Operating Revenues				
Grants and Contracts	\$ 3,655,036	\$ 0	\$ 3,655,036	\$ 2,120,761
Community Service Grant—CPB	1,052,521	0	1,052,521	1,049,612
Underwriting	462,131	0	462,131	610,305
Telecasting, Production, and Other Income	1,130,913	578,464	1,709,377	1,846,385
Membership Income	0	2,196,158	2,196,158	2,055,770
Auction Income	0	400,036	400,036	478,143
Total Operating Revenues	6,300,601	3,174,658	9,475,259	8,160,976
Operating Expenses				
Program Services:				
Programming and production	8,521,583	214,314	8,735,897	8,802,268
Broadcasting	219,971	0	219,971	361,482
Program information	3,233,386	37,910	3,271,296	2,108,413
Total Program Services	11,974,940	252,224	12,227,164	11,272,163
Support Services:				
Management and general	2,687,083	82,492	2,769,575	2,752,101
Fund-raising and membership development	741,255	646,072	1,387,327	1,356,411
Underwriting	120,417	0	120,417	125,803
Total Support Services	3,548,755	728,564	4,277,319	4,234,315
Total Operating Expenses	15,523,695	980,788	16,504,483	15,506,478
Operating Income (Loss)	(9,223,094)	2,193,870	(7,029,224)	(7,345,502)
Nonoperating Revenues and Expenses				
State General Appropriations	3,986,961	0	3,986,961	3,639,810
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	2,802,405	0	2,802,405	2,654,105
Investment income	26,375	(126,068)	(99,693)	52,896
Total Nonoperating Income (Loss)	6,815,741	(126,068)	6,689,673	6,346,811
Income (Loss) Before Contributions and Transfers	(2,407,353)	2,067,802	(339,551)	(998,691)
Contributions and Transfers				
Capital Contributions	725,153	0	725,153	357,170
Interfund Donations	2,354,468	(2,354,468)	0	0
Change in Net Assets	672,268	(286,666)	385,602	(641,521)
Total Net Assets—Beginning of the Year	5,891,907	1,924,722	7,816,629	8,458,150
Total Net Assets—End of the Year	\$ 6,564,175	\$ 1,638,056	\$ 8,202,231	\$ 7,816,629

The accompanying notes are an integral part of this statement.

WHA Television
A Public Telecommunications Entity
Operated by the University of Wisconsin-Extension
Statement of Cash Flows
for the Year Ended June 30, 2002

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2001-02	Total FY 2000-01
Cash Flows from Operating Activities				
Receipts from Grants and Contracts	\$ 4,621,706	\$ 0	\$ 4,621,706	\$ 3,146,822
Receipts from Contributed Support	462,131	3,333,369	3,795,500	3,592,671
Receipts from Sales and Services	1,176,680	0	1,176,680	1,326,766
Payments to Suppliers	(4,047,687)	(911,408)	(4,959,095)	(3,800,874)
Payments to Employees	(8,099,066)	(62,757)	(8,161,823)	(7,746,332)
Net Cash Provided (Used) by Operating Activities	<u>(5,886,236)</u>	<u>2,359,204</u>	<u>(3,527,032)</u>	<u>(3,480,947)</u>
Cash Flows from Noncapital Financing Activities				
Receipts from State Government	3,937,475	0	3,937,475	3,587,511
Interfund Transfers	1,851,011	(1,851,011)	0	0
Net Cash Provided (Used) by Noncapital Financing Activities	<u>5,788,486</u>	<u>(1,851,011)</u>	<u>3,937,475</u>	<u>3,587,511</u>
Cash Flows from Capital and Related Financing Activities				
Capital Contributions	725,153	0	725,153	357,170
Purchases of Capital Assets	(1,277,771)	0	(1,277,771)	(721,767)
Net Cash Used by Capital and Related Financing Activities	<u>(552,618)</u>	<u>0</u>	<u>(552,618)</u>	<u>(364,597)</u>
Cash Flows from Investing Activities				
Net (Purchases) and Sales of Investments	584,684	(178,965)	405,719	(952,271)
Interest Income	65,684	40,235	105,919	558,968
Net Cash Provided (Used) by Investing Activities	<u>650,368</u>	<u>(138,730)</u>	<u>511,638</u>	<u>(393,303)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	0	369,463	369,463	(651,336)
Cash and Cash Equivalents				
Balances—Beginning of the Year	0	112,485	112,485	763,821
Balances—End of the Year	<u>\$ 0</u>	<u>\$ 481,948</u>	<u>\$ 481,948</u>	<u>\$ 112,485</u>

The accompanying notes are an integral part of this statement.

WHA Television
A Public Telecommunications Entity
Operated by the University of Wisconsin-Extension
Statement of Cash Flows
for the Year Ended June 30, 2002

	Operating <u>Fund</u>	Friends of <u>WHA-TV, Inc.</u>	Total <u>FY 2001-02</u>	Total <u>FY 2000-01</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (9,223,094)	\$ 2,193,870	\$ (7,029,224)	\$ (7,345,502)
Adjustments to Reconcile Operating Income to Net Cash				
Provided by Operating Activities:				
Depreciation expense	443,237	0	443,237	620,065
Donated facilities and administrative support from the University of Wisconsin System expense	2,802,405	0	2,802,405	2,654,105
Miscellaneous non-cash operating expenses	49,486	0	49,486	52,299
Change in assets and liabilities:				
Receivables, net	(846,988)	161,763	(685,225)	(1,599,118)
Prepaid expenses	(11,297)	950	(10,347)	62,471
Accounts and other payables	(130,948)	5,673	(125,275)	28,550
Due to the University of Wisconsin System	182,087	0	182,087	515,501
Deferred support	806,904	(3,052)	803,852	1,504,401
Compensated absences payable	41,972	0	41,972	26,281
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,886,236)</u>	<u>\$ 2,359,204</u>	<u>\$ (3,527,032)</u>	<u>\$ (3,480,947)</u>

Noncash Investing Activities:

The net decrease in the fair value of investments was \$209,489 for the operating fund and \$160,628 for the Friends of WHA-TV, Inc.

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

WHA Television is licensed to the Board of Regents of the University of Wisconsin System and is operated by the University of Wisconsin-Extension. WHA Television is presented as the Operating Fund in the foregoing financial statements. The financial statements also include the accounts of the Friends of WHA-TV, Inc. (the Friends). The Friends is a not-for-profit corporation that solicits funds in the name of, and with the approval of, WHA Television. Funds are distributed by the Friends to WHA Television in amounts determined by the Board of the Friends (of which the WHA Television Manager is a member). The timing and the purpose for which such distributions are to be used are controlled by the Friends. All significant inter-organization accounts and transactions have been eliminated.

B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). WHA 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 Television 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. Contributed membership fees of the Friends are non-refundable and are recorded as revenue in the year earned; pledged Friends contributions that are expected to be collected within one year are recorded as revenue at the net realizable value. There are no pledges due in more than one year. Non-cash contributions are recognized as revenues in the period of receipt.

Expenses are shown in the functional categories contained in the statement of revenues, expenses, and changes in net assets. Expenses that relate to more than one category are allocated to the respective categories, using estimates as necessary. Restricted resources are first applied when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating revenues 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 in WHA Television's operating fund include cash balances deposited with the State Treasurer and shares in the State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the Friends fund include cash deposits with one financial institution.

E. Valuation of Investments

All investments of WHA Television and the Friends are carried at fair value based on quoted market prices. State Investment Fund shares are valued at amortized cost, which approximates fair value. As of June 30, 2002, 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 which has an acquisition cost of \$5,000 or more and a useful life of more than one year, whether purchased outright, acquired through a capital lease or through donation. Capital assets also include certain constructed or fabricated items and certain component parts. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for capital assets are based on standards for the public broadcasting industry developed by the Public Broadcasting Service and range from 4 to 15 years. Expenses for repairs and maintenance are charged to operating expenses as incurred. Construction in progress at June 30, 2002, which includes the costs incurred for the replacement and upgrade of the television tower for conversion to digital broadcasting, is included in the property and equipment balances.

G. Due from (to) the University of Wisconsin System

Substantially all contributions and grant funds received by WHA Television 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.

J. Prior-year Financial Statements

The financial information shown for FY 2000-01 in the accompanying financial statements presents summarized totals and is included only to provide a basis for comparison with FY 2001-02. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation (see Note 12).

2. DEPOSITS AND INVESTMENTS

The cash balances of WHA Television's operating fund are deposited with the State of Wisconsin Treasurer and are invested in the State Investment Fund, 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.

The investment balances of WHA Television's operating fund are deposited with the University of Wisconsin System and are invested in the University Trust Funds, 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.

The Friends' cash and investment activities are managed separate from the cash and investment activities of the State Investment Fund and the University Trust Funds. A cash deposit balance is maintained at one financial institution. Investments consist of money market funds, fixed-income funds, and equity mutual funds.

A. Deposits

GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of credit risk assumed. These risk categories are: 1) insured or collateralized, with securities held by the entity or its agent in the entity's name; 2) collateralized, with securities held by the financial institution's trust department or agent in the entity's name; and 3) uninsured or uncollateralized.

WHA Television did not have a deposit with the State Investment Fund at June 30, 2002. Deposits up to \$100,000 maintained by the Friends are insured by the Federal Deposit Insurance Corporation. At June 30, 2002, \$100,000 of the bank balance was insured and, therefore, is classified in risk category 1; \$333,627 was uninsured and uncollateralized and, therefore, is classified in risk category 3.

B. Investments

GASB Statement 3 requires investments to be categorized to indicate the level of risk assumed. These risk categories are: 1) insured or registered, or securities held by the entity or its agent in the entity's name; 2) uninsured and unregistered, with securities held by a counterparty or its agent in the entity's name; and 3) uninsured or unregistered, or securities held by a counterparty or its agent, but not in the entity's name. All investments of WHA Television and the Friends are in pooled investment funds and, therefore, are not required to be categorized for credit risk under GASB Statement 3.

Detail for investment balances for WHA Television as of June 30, 2002, follows:

	<u>Fair Value</u>	<u>Cost</u>
Intermediate-term Pooled Bond Funds	\$1,970,525	\$1,939,800
Long-term Pooled Bond and Equity Funds	<u>1,302,894</u>	<u>1,354,722</u>
Total	<u>\$3,273,419</u>	<u>\$3,294,522</u>

Detail for investment balances for the Friends as of June 30, 2002, follows:

	<u>Fair Value</u>	<u>Cost</u>
Money Market Funds	\$ 224,061	\$ 224,061
Fixed-Income Funds	325,446	326,002
Equity Mutual Funds	<u>1,461,227</u>	<u>1,604,674</u>
Total	<u>\$2,010,734</u>	<u>\$2,154,737</u>

3. CAPITAL ASSETS

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

	Beginning Balance	FY 2001-02		Ending Balance
		Increases	Decreases	
Capital Assets:				
Production equipment	\$7,322,813	\$ 243,341	\$ 0	\$7,566,154
Transmission equipment	2,188,918	1,034,430	0	3,223,348
Furniture and fixtures	177,072	0	(30,523)	146,549
Vehicles	<u>103,897</u>	<u>0</u>	<u>0</u>	<u>103,897</u>
Total capital assets at historical cost	<u>9,792,700</u>	<u>1,277,771</u>	<u>(30,523)</u>	<u>11,039,948</u>
Less Accumulated Depreciation for:				
Production equipment	(6,301,787)	(326,339)	0	(6,628,126)
Transmission equipment	(842,600)	(109,885)	0	(952,485)
Furniture and fixtures	(156,272)	(7,013)	30,523	(132,762)
Vehicles	<u>(103,896)</u>	<u>0</u>	<u>0</u>	<u>(103,896)</u>
Total accumulated depreciation	<u>(7,404,555)</u>	<u>(443,237)</u>	<u>30,523</u>	<u>(7,817,269)</u>
Total Capital Assets, Net	<u>\$2,388,145</u>	<u>\$834,534</u>	<u>\$ 0</u>	<u>\$3,222,679</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$333,352
Broadcast	<u>109,885</u>
Total Depreciation Expense	<u>\$443,237</u>

At the beginning of the year, the Friends owned furniture and fixtures with a historical cost of \$56,423, which were fully depreciated. \$30,523 of these furniture and fixtures were disposed of during the current year, leaving ending balances of \$25,900 for historical cost and accumulated depreciation of furniture and fixtures. Since the beginning and ending balances are fully depreciated, there is no effect on the balance sheet.

4. CAPITAL ASSET LIEN

Federal grant funds received from National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years, during which time the federal government retains priority reversionary interest in the equipment. WHA Television received six NTIA capital equipment grants from FY 1991-92 through FY 2000-01. No grant was received during the current reporting period. The depreciated value of equipment purchased with NTIA funds is \$90,601 as of June 30, 2002.

5. CHANGES IN DEFERRED SUPPORT

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

Beginning-of-Year Balance	\$2,688,284
(-) Prior-Year Earned	(1,722,303)
+ Additions	<u>2,526,155</u>
End-of-Year Balance	<u>\$3,492,136</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 \$541,522 and occupancy costs of \$278,933 for FY 2001-02. Such contributions are recorded at the University of Wisconsin System's cost of providing them. Administrative support from the University of Wisconsin System consists of allocated financial and administrative costs incurred by the University of Wisconsin System on behalf of WHA Television. Administrative support provided in FY 2001-02 totaled \$1,981,950.

7. EMPLOYEE RETIREMENT PLAN

Permanent and qualifying limited-term employees of WHA Television are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. WHA Television's contribution to the plan was \$467,358 for FY 2001-02. The relative position of WHA Television in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

8. TEMPORARILY RESTRICTED NET ASSETS

During the year ended June 30, 1999, the Friends' received an interest in a charitable remainder trust, which provides for the payment of distributions to the donor and the donor's spouse until their deaths. At the end of the trust's term, the remaining assets are available for the Friends' use. The present value of the estimated future benefits as of June 30, 2002, is \$40,987 and is calculated using a discount rate of 7 percent and applicable mortality rate tables. The change in the present value of the future benefits to be received by the Friends, a decline of \$15,113, is recorded in the telecasting, production, and other income account on the statement of revenues, expenses, and changes in net assets.

9. DESIGNATION OF UNRESTRICTED NET ASSETS

The management of the Friends has designated \$675,122 of the unrestricted fund balance that represents endowment funds for future program production and acquisition.

10. RELATED ENTITIES

The Educational Communications Board Television Network is a public telecommunications entity operated by the Wisconsin Educational Communications Board (ECB). In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the University of Wisconsin

Board of Regents developed partnerships called Wisconsin Public Television and Wisconsin Public Radio to manage and operate their licenses. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Television and Wisconsin Public Radio), and financial commitments of the partners. The Directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the University of Wisconsin Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from the affiliated parties are separately disclosed on the balance sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

11. PRIOR-PERIOD CORRECTIONS

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

- The operating fund did not recognize an account receivable from ECB of \$8,428 and an interfund receivable from the Friends of \$35,844. Because of these omissions, an offsetting liability to the University of Wisconsin System of \$44,272 was also not recognized.
- Due to the above correction, \$35,844 of the Friends' accounts payable was reclassified to an interfund payable to WHA Television.
- A revenue accrual of \$61,138 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, presented for comparative purposes, 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.

Report on Compliance and Control ■

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

We have audited the financial statements of WHA Television as of and for the year ended June 30, 2002, and have issued our report thereon dated February 7, 2003. We did not audit the financial statements of the Friends of WHA-TV, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Friends of WHA-TV, Inc., is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Friends of WHA-TV, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States, but not in accordance with the additional requirements of *Government Auditing Standards*.

COMPLIANCE

As part of obtaining reasonable assurance about whether WHA Television's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,


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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered WHA Television's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This independent auditor's report is intended for the information and use of the Wisconsin Legislature, the University of Wisconsin System Board of Regents, the University of Wisconsin-Extension, and the Corporation for Public Broadcasting. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

February 7, 2003

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director