

An Audit

WHA Television

2009-2010 Joint Legislative Audit Committee Members

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State Auditor – Janice Mueller

Audit Prepared by

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Janice Mueller
State Auditor

January 29, 2010

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Mr. Charles Pruitt
President of the Board of Regents
University of Wisconsin System
Madison, Wisconsin 53706

Dear Senator Vinehout, Representative Barca, and President Pruitt:

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

WHA Television is licensed to the University of Wisconsin System's Board of Regents and is operated by the University of Wisconsin-Extension. WHA Television earned \$15.5 million in revenues during fiscal year 2008-09, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains WHA Television's financial statements and related notes as of and for the periods ended June 30, 2009, and June 30, 2008. We were able to issue an unqualified independent auditor's report on these statements. However, our report on internal control and compliance discusses the need for expanded procedures to more fully address proper accounting treatment for the acquisition of capital assets.

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

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ss

Audit Opinion ■

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

We have audited the accompanying Balance Sheets of WHA Television as of June 30, 2009 and 2008, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Statements of Cash Flows for the years then ended, as listed in the table of contents. 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 audits. We did not audit the financial statements of the Friends of WHA-TV, Inc., which represent 14.1 percent and 15.5 percent of the total assets as of June 30, 2009 and 2008, respectively, and 23.1 percent and 23.8 percent of the total revenues during fiscal years 2008-09 and 2007-08, respectively. 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 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 Friends of WHA-TV, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *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 and the report of the other auditors provide a reasonable basis for our opinion.


As discussed in Note 1, the financial statements present only WHA Television and do not purport to, and do not, present fairly the financial positions of the State of Wisconsin or the University of Wisconsin System, the changes in their financial positions, and their cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based upon our audits and the report of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the operating fund of WHA Television and the Friends of WHA-TV, Inc., as of June 30, 2009 and 2008, and the respective changes in their financial positions and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements of WHA Television. The supplementary information included as Management's Discussion and Analysis on pages 5 through 9 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 January 22, 2010, on our consideration of WHA Television's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

January 22, 2010

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 years ended June 30, 2009 and 2008. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of WHA Television management.

Using the Annual Financial Statements

WHA Television is licensed to the University of Wisconsin System's Board of Regents and prepares its financial statements in accordance with Governmental Accounting Standards Board statements. The financial statements include WHA's operating fund and the accounts of the Friends of WHA-TV, Inc., a not-for-profit corporation that solicits funds for WHA Television.

The Balance Sheet includes all assets and liabilities. Assets and liabilities are subtotaled as current and noncurrent. Current assets will be used within one year to satisfy obligations, while current liabilities will be liquidated within one year. The difference between assets and liabilities is reported as net assets. Restricted net assets reflect unspent balances and endowments of purpose-restricted grants, contracts, and contributions. Over time, increases or decreases in net assets are indicators of changes in WHA Television's financial health.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities are reported as either operating or nonoperating. WHA Television's dependence on state general appropriations and donated facilities and administrative support from the University of Wisconsin System will result in operating deficits because the financial reporting model classifies state general appropriations and donated services as nonoperating revenues. The use of capital assets is reflected in the financial statements as depreciation expense, which amortizes the cost of an asset over its expected useful life. Actual depreciation expense is included in the various functional expense categories.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities and helps to measure the ability to meet financial obligations as they mature.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Noteworthy Financial Activity

Condensed financial information relating to WHA Television as of and for the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007, as shown in Table A.

Total assets decreased 6 percent in fiscal year (FY) 2008-09 and increased 2 percent in FY 2007-08. The largest decrease in terms of dollars in FY 2008-09 was a decrease of \$491,000 in investments due to market losses as the national economy experienced a sharp downturn. Total liabilities decreased by 7 percent in FY 2008-09 and 3 percent in FY 2007-08. Overall, these changes resulted in a 6 percent decrease in net assets in FY 2008-09, and a 2 percent increase in FY 2007-08. Unrestricted net assets decreased 9 percent, to \$6,961,000. Unrestricted net assets had previously increased for seven consecutive years, from \$4,507,000 in FY 2001-02 to \$7,656,000 in FY 2007-08.

Capital assets decreased \$138,000 in FY 2008-09 and \$191,000 in FY 2007-08. The changes to capital assets will fluctuate because they are highly dependent on the receipt of one-time grants of capital contributions. WHA Television continues to convert the production facility to high-definition digital technology, and state and federal commitments have allowed for significant increases in capital assets in recent years. In FY 2008-09, WHA Television secured funding commitments for a new remote production facility estimated to cost \$3 million, although only \$11,000 was recognized in FY 2008-09.

Table A

WHA Television Condensed Financial Information
(in thousands)

	June 30, 2009	Change from Previous Year	June 30, 2008 ¹	Change from Previous Year	June 30, 2007
Capital Assets	\$ 2,750	(5)%	\$ 2,888	(6)%	\$ 3,079
Other Assets	10,189	(6)	10,862	4	10,421
Total Assets	<u>12,939</u>	(6)	<u>13,750</u>	2	<u>13,500</u>
Current Liabilities	716	(21)	904	(1)	917
Noncurrent Liabilities	618	16	534	(6)	567
Total Liabilities	<u>1,334</u>	(7)	<u>1,438</u>	(3)	<u>1,484</u>
Invested in Capital Assets	2,750	(5)	2,888	(6)	3,079
Restricted—nonexpendable	1,090	9	1,000	0	1,000
Restricted—expendable	804	5	768	11	694
Unrestricted	6,961	(9)	7,656	6	7,243
Total Net Assets	<u>\$11,605</u>	(6)	<u>\$12,312</u>	2	<u>\$12,016</u>

	FY 2008-09	Change from Previous Year	FY 2007-08 ¹	Change from Previous Year	FY 2006-07
Operating Revenues	\$ 9,194	11%	\$ 8,272	(4)%	\$ 8,574
Operating Expenses	16,181	9	14,870	(2)	15,121
Net Operating Loss	(6,987)	6	(6,598)	1	(6,547)
Nonoperating Revenues	6,024	(8)	6,541	(9)	7,180
Capital Contributions	256	(27)	353	(57)	819
Change in Net Assets	<u>\$ (707)</u>	(339)	<u>\$ 296</u>	(80)	<u>\$ 1,452</u>

¹ Certain FY 2007-08 amounts reflect prior-period restatements.

Current liabilities decreased 21 percent to reach \$716,000 in FY 2008-09, after experiencing a 1 percent decrease in FY 2007-08. The decrease is primarily the result of a decrease in the “due to the University of Wisconsin System” liability from \$420,000 at the end of FY 2007-08 to \$112,000 at the end of FY 2008-09. The decrease in FY 2008-09 occurred because the Friends of WHA-TV decreased the amount due to the University of Wisconsin System by \$483,000 from the amount owed in FY 2007-08. Amounts due to or from the University of Wisconsin System can fluctuate depending on the timing of cash flows. A liability is the result of spending university funds in anticipation of reimbursement under grants and

contracts, while an asset balance indicates that grantors have paid the university before WHA Television has spent the university funds.

Operating revenues increased 11 percent in FY 2008-09, after a decrease of 4 percent in FY 2007-08. The operating revenue from grants and contracts increased by \$856,000 in FY 2008-09, compared to a decrease of \$399,000 in FY 2007-08. The Corporation for Public Broadcasting (CPB) continues to be the major source of grants and contracts revenue, providing \$1,977,000, which is 88 percent of the total. The National Center for Media Engagement (NCME), which was formerly the National Center for Outreach (NCO), is the recipient of the largest amount of CPB grant funding at \$1,794,000 in FY 2008-09, compared to \$1,031,000 in FY 2007-08. CPB is also the source of the Community Service Grant, which totaled \$1,238,000 in FY 2008-09. In total, CPB funding increased \$860,000 in FY 2008-09.

Total operating expenses increased \$1,311,000 in FY 2008-09, after a decrease of \$251,000 in FY 2007-08. The program information expense category increased 34 percent, following a 15 percent decrease in FY 2007-08. NCME expenses are categorized as program information and increased \$763,000 in FY 2008-09. NCME awards grants to other public broadcasting entities, and the timing of these awards can create a high degree of volatility with NCME revenues and expenses, which then affects WHA Television's revenues and expenses. These awards totaled \$958,000 in FY 2008-09, \$93,000 in FY 2007-08, and \$661,000 in FY 2006-07. Fund-raising and membership development expenses increased \$297,000, or 17 percent, from \$1,723,000 in FY 2007-08 to \$2,020,000 in FY 2008-09. Additional staffing expenses were incurred as WHA Television began a capital campaign to raise funds for a remote production facility and increased fund-raising efforts from major donors.

Operating expenses include \$1,761,000 in donated facilities and administrative support from the University of Wisconsin System, a \$30,000 increase compared to the prior year. \$1,460,000 of the donated facilities and administrative support is reported as management and general expense.

Nonoperating revenues consist of investment income, State of Wisconsin general appropriations, and donated support from the University of Wisconsin System. Nonoperating revenues decreased 8 percent and were \$6,024,000 in FY 2008-09. In FY 2007-08 there was a 9 percent decrease, for a combined decrease in nonoperating revenue of \$1,156,000 in two years. WHA uses the federally negotiated University of Wisconsin-Extension indirect cost rate as the basis for estimating revenues and expenses provided by the licensee, the University of Wisconsin System. A new rate was negotiated for FY 2007-08 and will remain in effect through FY 2009-10. The new rate calculation decreases the WHA base expenses used for estimating indirect support. The new rate was the basis for a decrease in donated facilities and administrative support of \$243,000 in FY 2007-08 and \$30,000 in FY 2008-09. Total investment income decreased \$518,000 in FY 2007-08 and an additional \$695,000 in FY 2008-09, for a two-year total of \$1,213,000. Volatile equity markets contributed to unrealized losses on marketable securities of \$229,000 in FY 2007-08, and \$650,000 in FY 2008-09. State general appropriations increased \$209,000 to reach \$4,653,000 in FY 2008-09. State general appropriations are the single largest source of revenue for WHA Television.

Capital contributions decreased \$563,000, from \$819,000 in FY 2006-07 to \$256,000 in FY 2008-09. State Building Trust Fund resources and United States Department of Commerce grants ended in FY 2006-07, but new funding has been secured beginning in FY 2008-09 for the purchase of the new mobile production facility at approximately \$3.1 million.

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
c/o Director of Business Services
821 University Avenue
Madison, Wisconsin 53706

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Financial Statements ■



Balance Sheet

June 30, 2009

	Operating Fund	Friends of WHA-TV, Inc.	Total June 30, 2009
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 2)	\$ 2,653,870	\$ 175,411	\$ 2,829,281
Investments (Note 2)	1,248,628	118,432	1,367,060
Grants and contracts receivable	361,464	0	361,464
Accounts and interest receivable, net	83,428	73,678	157,106
Accounts receivable—ECB (Note 11)	75,157	9,097	84,254
Interfund receivable (payable)	615,715	(615,715)	0
Prepaid expenses	93,340	58,686	152,026
Total Current Assets	<u>5,131,602</u>	<u>(180,411)</u>	<u>4,951,191</u>
Noncurrent Assets:			
Investments (Note 2)	3,231,861	2,006,597	5,238,458
Capital assets, net of accumulated depreciation (Notes 3 and 4)	2,749,731	0	2,749,731
Total Noncurrent Assets	<u>5,981,592</u>	<u>2,006,597</u>	<u>7,988,189</u>
TOTAL ASSETS	<u>\$ 11,113,194</u>	<u>\$ 1,826,186</u>	<u>\$ 12,939,380</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 228,651	\$ 111,397	\$ 340,048
Accounts payable—ECB (Note 11)	71,131	0	71,131
Due to the University of Wisconsin System (Note 1G)	111,914	0	111,914
Unearned revenue	3,748	189,199	192,947
Total Current Liabilities	<u>415,444</u>	<u>300,596</u>	<u>716,040</u>
Noncurrent Liabilities:			
Compensated absences payable (Note 5)	618,443	0	618,443
Total Noncurrent Liabilities	<u>618,443</u>	<u>0</u>	<u>618,443</u>
Total Liabilities	<u>1,033,887</u>	<u>300,596</u>	<u>1,334,483</u>
Net Assets:			
Invested in capital assets	2,749,731	0	2,749,731
Restricted (Note 9):			
Nonexpendable—endowments	1,000,000	90,000	1,090,000
Expendable:			
Endowments	436,311	0	436,311
Grantee and donor restrictions	217,931	150,000	367,931
Unrestricted (Note 10)	5,675,334	1,285,590	6,960,924
Total Net Assets	<u>10,079,307</u>	<u>1,525,590</u>	<u>11,604,897</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,113,194</u>	<u>\$ 1,826,186</u>	<u>\$ 12,939,380</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2009

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2008-09
OPERATING REVENUES			
Grants and Contracts	\$ 2,237,174	\$ 0	\$ 2,237,174
Community Service Grant—CPB	1,238,314	0	1,238,314
Underwriting	528,884	0	528,884
Telecasting, Production, and Other Income	1,297,606	692,427	1,990,033
Membership Income	0	2,043,058	2,043,058
Auction Income	0	379,885	379,885
Major Gifts	0	777,061	777,061
Total Operating Revenues	5,301,978	3,892,431	9,194,409
OPERATING EXPENSES			
Program Services:			
Programming and production	7,383,998	157,794	7,541,792
Broadcasting	585,093	0	585,093
Program information	3,574,752	43,830	3,618,582
Total Program Services	11,543,843	201,624	11,745,467
Support Services:			
Management and general	2,213,686	84,572	2,298,258
Fund-raising and membership development	1,099,348	920,155	2,019,503
Underwriting	118,438	0	118,438
Total Support Services	3,431,472	1,004,727	4,436,199
Total Operating Expenses	14,975,315	1,206,351	16,181,666
OPERATING INCOME (LOSS)	(9,673,337)	2,686,080	(6,987,257)
NONOPERATING REVENUES AND EXPENSES			
State General Appropriations	4,653,495	0	4,653,495
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,760,666	0	1,760,666
Investment Income	(67,683)	(322,522)	(390,205)
Total Nonoperating Revenues (Expenses)	6,346,478	(322,522)	6,023,956
Income (Loss) Before Contributions and Transfers	(3,326,859)	2,363,558	(963,301)
CONTRIBUTIONS AND TRANSFERS			
Capital Contributions	256,120	0	256,120
Interfund Transfers	2,740,613	(2,740,613)	0
CHANGE IN NET ASSETS	(330,126)	(377,055)	(707,181)
Total Net Assets—Beginning of the Year	10,409,433	1,902,645	12,312,078
Total Net Assets—End of the Year	<u>\$ 10,079,307</u>	<u>\$ 1,525,590</u>	<u>\$ 11,604,897</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2009

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2008-09
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Grants and Contracts	\$ 1,946,977	\$ 0	\$ 1,946,977
Receipts from Community Service Grant—CPB	1,238,314	0	1,238,314
Receipts from Contributed Support	540,432	4,067,014	4,607,446
Receipts from Sales and Services	1,376,818	0	1,376,818
Payments to Suppliers	(4,953,451)	(1,057,988)	(6,011,439)
Payments to Employees	(7,850,040)	(60,985)	(7,911,025)
Net Cash Provided (Used) by Operating Activities	(7,700,950)	2,948,041	(4,752,909)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from State Government	4,653,495	0	4,653,495
Interfund Transfers	3,215,537	(3,215,537)	0
Net Cash Provided (Used) by Noncapital Financing Activities	7,869,032	(3,215,537)	4,653,495
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributions	256,120	0	256,120
Purchases of Capital Assets	(437,367)	0	(437,367)
Net Cash Used for Capital and Related Financing Activities	(181,247)	0	(181,247)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchases) and Sales of Investments	(93,367)	(96,741)	(190,108)
Interest and Dividends Received	239,506	67,945	307,451
Net Cash Provided (Used) by Investing Activities	146,139	(28,796)	117,343
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	132,974	(296,292)	(163,318)
Balances—Beginning of the Year	2,520,896	471,703	2,992,599
Balances—End of the Year	<u>\$ 2,653,870</u>	<u>\$ 175,411</u>	<u>\$ 2,829,281</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2008-09
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (9,673,337)	\$ 2,686,080	\$ (6,987,257)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	575,604	0	575,604
Donated facilities and administrative support from the University of Wisconsin System expense	1,760,666	0	1,760,666
Change in assets and liabilities:			
Receivables, net	(183,692)	182,585	(1,107)
Prepaid expenses	(7,915)	10,799	2,884
Accounts and other payables	151,129	76,579	227,708
Due (from) / to the University of Wisconsin System	(307,660)	0	(307,660)
Unearned revenue	(15,745)	(8,002)	(23,747)
Net Cash Provided (Used) by Operating Activities	<u>\$ (7,700,950)</u>	<u>\$ 2,948,041</u>	<u>\$ (4,752,909)</u>

Noncash Activities:

The net increase (decrease) in the fair value of investments was \$(259,617) for the operating fund and \$(390,467) for the Friends of WHA-TV, Inc.

The decrease in the present value of the Friends' interest in the remainder trust was \$5,155.

Donated facilities and administrative support from the University of Wisconsin System totaled \$1,760,666.

The accompanying notes are an integral part of this statement.

Balance Sheet

June 30, 2008

	Operating Fund	Friends of WHA-TV, Inc.	Total June 30, 2008
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 2)	\$ 2,520,896	\$ 471,703	\$ 2,992,599
Investments (Note 2)	1,267,352	197,272	1,464,624
Grants and contracts receivable	80,828	0	80,828
Accounts and interest receivable, net	179,025	189,917	368,942
Accounts receivable—ECB (Note 11)	92,889	65,288	158,177
Contributions receivable from remainder trust	0	10,155	10,155
Interfund receivable (payable)	1,090,639	(1,090,639)	0
Prepaid expenses	85,425	69,485	154,910
Total Current Assets	<u>5,317,054</u>	<u>(86,819)</u>	<u>5,230,235</u>
Noncurrent Assets:			
Investments (Note 2)	3,410,574	2,221,483	5,632,057
Capital assets, net of accumulated depreciation (Notes 3 and 4)	2,887,968	0	2,887,968
Total Noncurrent Assets	<u>6,298,542</u>	<u>2,221,483</u>	<u>8,520,025</u>
TOTAL ASSETS	<u>\$ 11,615,596</u>	<u>\$ 2,134,664</u>	<u>\$ 13,750,260</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 114,389	\$ 34,818	\$ 149,207
Accounts payable—ECB (Note 11)	118,630	0	118,630
Due to the University of Wisconsin System (Note 1G)	419,574	0	419,574
Unearned revenue	19,493	197,201	216,694
Total Current Liabilities	<u>672,086</u>	<u>232,019</u>	<u>904,105</u>
Noncurrent Liabilities:			
Compensated absences payable (Note 5)	534,077	0	534,077
Total Noncurrent Liabilities	<u>534,077</u>	<u>0</u>	<u>534,077</u>
Total Liabilities	<u>1,206,163</u>	<u>232,019</u>	<u>1,438,182</u>
Net Assets:			
Invested in capital assets	2,887,968	0	2,887,968
Restricted (Note 9):			
Nonexpendable—endowments	1,000,000	0	1,000,000
Expendable:			
Endowments	474,068	0	474,068
Grantee and donor restrictions	188,368	100,000	288,368
Remainder trust	0	5,155	5,155
Unrestricted (Note 10)	5,859,029	1,797,490	7,656,519
Total Net Assets	<u>10,409,433</u>	<u>1,902,645</u>	<u>12,312,078</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,615,596</u>	<u>\$ 2,134,664</u>	<u>\$ 13,750,260</u>

The accompanying notes are an integral part of this statement.

**Statement of Revenues, Expenses, and Changes in Net Assets
for the Year Ended June 30, 2008**

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2007-08
OPERATING REVENUES			
Grants and Contracts	\$ 1,381,084	\$ 0	\$ 1,381,084
Community Service Grant—CPB	1,189,656	0	1,189,656
Underwriting	470,485	0	470,485
Telecasting, Production, and Other Income	1,501,296	643,235	2,144,531
Membership Income	0	2,101,725	2,101,725
Auction Income	0	390,475	390,475
Major Gifts	0	593,816	593,816
Total Operating Revenues	4,542,521	3,729,251	8,271,772
OPERATING EXPENSES			
Program Services:			
Programming and production	7,103,142	175,003	7,278,145
Broadcasting	678,152	0	678,152
Program information	2,686,794	20,292	2,707,086
Total Program Services	<u>10,468,088</u>	<u>195,295</u>	<u>10,663,383</u>
Support Services:			
Management and general	2,239,778	93,997	2,333,775
Fund-raising and membership development	911,771	810,861	1,722,632
Underwriting	149,949	0	149,949
Total Support Services	<u>3,301,498</u>	<u>904,858</u>	<u>4,206,356</u>
Total Operating Expenses	13,769,586	1,100,153	14,869,739
OPERATING INCOME (LOSS)	(9,227,065)	2,629,098	(6,597,967)
NONOPERATING REVENUES AND EXPENSES			
State General Appropriations	4,444,761	0	4,444,761
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,791,153	0	1,791,153
Investment Income	424,097	(119,211)	304,886
Total Nonoperating Revenues (Expenses)	6,660,011	(119,211)	6,540,800
Income (Loss) Before Contributions and Transfers	(2,567,054)	2,509,887	(57,167)
CONTRIBUTIONS AND TRANSFERS			
Capital Contributions	353,066	0	353,066
Interfund Transfers	2,613,639	(2,613,639)	0
CHANGE IN NET ASSETS	399,651	(103,752)	295,899
Total Net Assets—Beginning of the Year	10,009,782	2,006,397	12,016,179
Total Net Assets—End of the Year	<u>\$ 10,409,433</u>	<u>\$ 1,902,645</u>	<u>\$ 12,312,078</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2008

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2007-08
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Grants and Contracts	\$ 1,410,082	\$ 0	\$ 1,410,082
Receipts from Community Service Grant—CPB	1,189,656	0	1,189,656
Receipts from Contributed Support	441,566	3,504,650	3,946,216
Receipts from Sales and Services	1,437,432	0	1,437,432
Payments to Suppliers	(3,344,341)	(1,063,126)	(4,407,467)
Payments to Employees	(7,496,702)	(91,161)	(7,587,863)
Net Cash Provided (Used) by Operating Activities	(6,362,307)	2,350,363	(4,011,944)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from State Government	4,444,761	0	4,444,761
Interfund Transfers	2,153,206	(2,153,206)	0
Net Cash Provided (Used) by Noncapital Financing Activities	6,597,967	(2,153,206)	4,444,761
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributions	353,066	0	353,066
Purchases of Capital Assets	(447,814)	0	(447,814)
Net Cash Used for Capital and Related Financing Activities	(94,748)	0	(94,748)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchases) and Sales of Investments	(56,947)	(64,814)	(121,761)
Interest and Dividends Received	425,706	127,979	553,685
Net Cash Provided (Used) by Investing Activities	368,759	63,165	431,924
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	509,671	260,322	769,993
Balances—Beginning of the Year	2,011,225	211,381	2,222,606
Balances—End of the Year	<u>\$ 2,520,896</u>	<u>\$ 471,703</u>	<u>\$ 2,992,599</u>

The accompanying notes are an integral part of this statement.

	Operating Fund	Friends of WHA-TV, Inc.	Total FY 2007-08
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (9,227,065)	\$ 2,629,098	\$ (6,597,967)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	638,734	0	638,734
Donated facilities and administrative support from the University of Wisconsin System expense	1,791,153	0	1,791,153
Change in assets and liabilities:			
Receivables, net	(74,856)	(152,218)	(227,074)
Prepaid expenses	(6,411)	(28,192)	(34,603)
Accounts and other payables	(377,929)	(25,942)	(403,871)
Due (from) / to the University of Wisconsin System	882,996	0	882,996
Unearned revenue	11,071	(72,383)	(61,312)
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,362,307)</u>	<u>\$ 2,350,363</u>	<u>\$ (4,011,944)</u>

Noncash Activities:

The net increase (decrease) in the fair value of investments was \$18,048 for the operating fund and \$(247,190) for the Friends of WHA-TV, Inc.

The decrease in the present value of the Friends' interest in the remainder trust was \$11,015.

Donated facilities and administrative support from the University of Wisconsin System totaled \$1,791,153.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

Copies of the separately issued financial statements of the Friends may be obtained by contacting:

Executive Director
Friends of WHA-TV, Inc.
821 University Avenue
Madison, Wisconsin 53706

B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). WHA

Television has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. GASB allows governmental entities that previously used the American Institute of Certified Public Accountants' not-for-profit model to use enterprise fund accounting and financial reporting. Enterprise fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Revenues from government-mandated or voluntary nonexchange transactions, such as contributions and grants, are recognized when all applicable eligibility requirements are met. Eligibility requirements are established by the provider of the funds and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies. Restrictions that specify the purpose for which resources are required to be used are not considered eligibility requirements and do not affect when nonexchange revenue is recognized.

Contributions, gifts, and grants that do not have eligibility requirements are reported as revenue when WHA Television is entitled to the funds. Contributed membership fees of the Friends are nonrefundable and are recorded as revenue in the year earned; pledged Friends contributions that are expected to be collected within one year are recorded as revenue at the net realizable value. There are no pledges due in more than one year. Individual gifts equal to or greater than \$1,000 are reported as major gifts. Contributions, gifts, and grants with eligibility requirements, such as expense-driven grants, are recognized when the eligibility requirements are met.

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

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

Operating revenues are directly related to programming, production, and development activities. Nonoperating revenues are indirectly associated with programming, production, and development activities such as investment income. Certain significant revenue streams relied upon for operations are reported as nonoperating revenue, as defined by GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*,

including state general appropriations and donated facilities and administrative support from the University of Wisconsin System.

C. Accounting Estimates

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

D. Cash and Cash Equivalents

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

E. Valuation of Investments

All investments of WHA Television and the Friends are carried at fair-market value based on quoted market prices. State Investment Fund shares are valued at amortized cost, which approximates fair value.

F. Capital Assets

Items classified as capital assets are recorded at cost or, for donated property, at the estimated fair-market value at date of receipt. A capital asset is defined as any single asset that has an acquisition cost of \$5,000 or more and a useful life of more than one year, whether purchased outright or acquired through a capital lease or through donation. Capital assets also include certain constructed or fabricated items and certain component parts.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for capital assets are based on standards for the public broadcasting industry developed by the Public Broadcasting Service and range from 4 to 15 years. Expenses for repairs and maintenance are charged to operating expenses as incurred.

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

All cash received by WHA Television from grants and contracts is deposited with the University of Wisconsin System. Expenses related to certain WHA Television grants and contracts may be incurred by the University of Wisconsin System prior to receipt of funding from the granting agency. The difference between cash received and expenses is reported as a payable, due to the University of Wisconsin System, on the Balance Sheet. When receipts from the granting agency exceed expenses, the difference is reported as a receivable, due from the University of Wisconsin System, on the Balance Sheet.

H. Unearned Revenue

Payments received but not yet earned for grants with eligibility requirements are reported as a liability on the Balance Sheet until the eligibility requirements have been met.

I. Compensated Absences for Employees

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

2. DEPOSITS AND INVESTMENTS

The cash balances of WHA Television's operating fund are deposited with the State of Wisconsin and are invested in the State Investment Fund, a short-term investment pool of state and local funds. The fund is managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees and is not registered with the Securities and Exchange Commission as an investment company.

The types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17(3)(b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and banker's acceptances. The Investment Board's trustees may specifically approve other prudent investments.

The investment balances of WHA Television's operating fund are deposited with the University of Wisconsin System and invested in two different pools of University of Wisconsin funds: the UW Intermediate Term Fund, which invests primarily in fixed-income securities, and the UW Long Term Fund, which primarily invests in fixed-income and equity securities. These two funds are managed by the University of Wisconsin System, with oversight and authorization of the investment policies and guidelines by its Board of Regents, and are not registered with the Securities and Exchange Commission as an investment company.

The Friends' cash and investment activities are managed separately from the cash and investment activities of the State Investment Fund and University of Wisconsin System funds. A cash deposit balance is maintained at one

financial institution. Current investments consist of money market accounts at two financial institutions, which are classified as deposits for purposes of this disclosure. Noncurrent investments consist of fixed-income funds and equity mutual funds.

A. Deposits

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. The Friends do not have a deposit policy for custodial credit risk. Deposits maintained by the Friends are insured by the Federal Deposit Insurance Corporation and the National Credit Union Administration for up to \$250,000 at each depository institution. As of June 30, 2009, \$427,396 of the Friends' bank balance and \$0 of the two money market accounts were uninsured and uncollateralized. As of June 30, 2008, \$260,100 of the Friends' bank balance and \$10,567 of the three money market accounts were uninsured and uncollateralized.

B. Investments

Investment balances for WHA Television's operating fund as of June 30, 2009, and June 30, 2008, were as follows:

	June 30, 2009 <u>Fair Value</u>	June 30, 2008 <u>Fair Value</u>
UW Intermediate Term Fund	\$3,657,848	\$3,658,809
UW Long Term Fund	<u>822,641</u>	<u>1,019,117</u>
Total	<u>\$4,480,489</u>	<u>\$4,677,926</u>

Noncurrent Investment balances for the Friends as of June 30, 2009, and June 30, 2008, were as follows:

	June 30, 2009 <u>Fair Value</u>	June 30, 2008 <u>Fair Value</u>
Fixed-Income Funds	\$ 841,796	\$ 911,746
Equity Mutual Funds	<u>1,164,801</u>	<u>1,309,737</u>
Total Noncurrent Investments	<u>\$2,006,597</u>	<u>\$2,221,483</u>

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

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University of Wisconsin System's investment guidelines prohibit security transactions that involve a counterparty rated below AA by Standard & Poor's and/or Moody's. In addition, all securities held must have a minimum quality rating of investment grade (BBB/Baa by

Standard & Poor's and/or Moody's) with an average portfolio quality of at least AA as rated by Standard & Poor's and/or Moody's. The Friends' investment policy also requires that investments have a minimum quality rating of investment grade. As of June 30, 2009, and June 30, 2008, the UW Intermediate and Long Term Funds and the Friends' fixed-income investments listed in the preceding tables were all unrated.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University of Wisconsin System's investment guidelines mandate that the UW Intermediate and Long Term Funds must maintain an effective modified duration within one year of the effective modified duration of the underlying portfolios' benchmark indices. The Friends do not have an investment policy for interest rate risk. As of June 30, 2009, and June 30, 2008, the fixed-income investments of WHA Television and the Friends had the following modified durations:

<u>Investment</u>	June 30, 2009 <u>Fair Value</u>	Modified Duration <u>(In Years)</u>
UW Intermediate Term Fund	\$3,657,848	3.82
Vanguard Intermediate-Term Investment Grade Fund	317,782	5.3
Vanguard Short-Term Investment Grade Fund	143,828	2.2
Vanguard Short-Term Bond Index Fund	160,065	2.6
Vanguard Long-Term Bond Index Fund	210,421	12.3
Vanguard Total Bond Market Index Fund	<u>9,700</u>	4.2
Total Fixed-Income Investments	<u>\$4,499,644</u>	

<u>Investment</u>	June 30, 2008 <u>Fair Value</u>	Modified Duration <u>(In Years)</u>
UW Intermediate Term Fund	\$3,658,809	3.17
Vanguard Intermediate-Term Investment Grade Fund	411,940	5.1
Vanguard Short-Term Investment Grade Fund	142,551	1.9
Vanguard Short-Term Bond Index Fund	159,610	2.6
Vanguard Long-Term Bond Index Fund	191,818	11.1
Vanguard Total Bond Market Index Fund	<u>5,827</u>	4.0
Total Fixed-Income Investments	<u>\$4,570,555</u>	

In addition, as of June 30, 2009, 14.4 percent of the UW Long Term Fund, in which WHA Television had an investment of \$822,641, was invested in fixed-income securities that had a modified duration of 3.99 years. As of June 30, 2008, 13.9 percent of that fund, in which WHA Television had an investment of \$1,019,117, was invested in fixed-income securities that had a modified duration of 4.29 years.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University of Wisconsin System’s investment guidelines state that it is generally expected that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments. The Friends do not have an investment policy for foreign currency risk. WHA Television was exposed to foreign currency risk through its investments in the UW Long Term Fund of \$822,641 as of June 30, 2009, and \$1,019,117 as of June 30, 2008. In addition, on June 30, 2009, Friends had nine equity mutual funds totaling \$1,164,801; of this amount \$260,647 was invested in foreign securities. On June 30, 2008, these funds totaled \$1,309,737, of which \$297,063 was invested in foreign securities.

3. CAPITAL ASSETS

The change in book value from July 1, 2008, to June 30, 2009, is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Equipment	\$12,062,947	\$ 437,367	\$(191,117)	\$12,309,197
Less Accumulated Depreciation for:				
Equipment	<u>(9,174,979)</u>	<u>(575,604)</u>	<u>191,117</u>	<u>(9,559,466)</u>
Total Capital Assets, Net	<u>\$ 2,887,968</u>	<u>\$(138,237)</u>	<u>\$ 0</u>	<u>\$ 2,749,731</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$374,418
Program Information	850
Broadcasting	<u>200,336</u>
Total Depreciation Expense	<u>\$575,604</u>

Construction in progress related to a media asset management system is included in the capital assets at \$312,878 as of June 30, 2009.

The change in book value from July 1, 2007, to June 30, 2008, is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Equipment	\$11,981,258	\$ 447,814	\$(366,125)	\$12,062,947
Less Accumulated Depreciation for:				
Equipment	<u>(8,902,370)</u>	<u>(638,734)</u>	<u>366,125</u>	<u>(9,174,979)</u>
Total Capital Assets, Net	<u>\$ 3,078,888</u>	<u>\$(190,920)</u>	<u>\$ 0</u>	<u>\$ 2,887,968</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$411,101
Program Information	850
Broadcasting	<u>226,783</u>
Total Depreciation Expense	<u>\$638,734</u>

The Friends own furniture and fixtures with a historical cost of \$20,000, which is fully depreciated. Since the beginning and ending balances are fully depreciated, there is no effect on the Balance Sheet.

4. CAPITAL ASSET LIEN

Federal grant funds received from the National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years from the date of award completion, during which time the federal government retains priority reversionary interest in the equipment. WHA Television was awarded five NTIA capital equipment grants from FY 1998-99 through FY 2008-09. The depreciated value of equipment subject to a priority lien was \$1,252,668 as of June 30, 2009, and \$1,494,819 as of June 30, 2008.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$534,077	\$135,531	\$(51,165)	\$618,443

Noncurrent liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$567,089	\$71,618	\$(104,630)	\$534,077

In addition, another \$17,123 as of June 30, 2009, and \$20,849 as of June 30, 2008, was due within one year and included in the accounts payable and accrued expenses balance on the Balance Sheet.

6. DONATED FACILITIES AND ADMINISTRATIVE SUPPORT FROM THE UNIVERSITY OF WISCONSIN SYSTEM

Donated facilities from the University of Wisconsin System consist of physical plant operating costs of \$243,410 and occupancy costs of \$56,796 for FY 2008-09, and operating costs of \$247,625 and occupancy costs of \$57,779 for FY 2007-08. 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 totaled \$1,460,460 in FY 2008-09 and \$1,485,749 in FY 2007-08.

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 ch. 40, Wis. Stats. 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, *www.etf.wi.gov*.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. However, in December 2003, the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. WHA Television's contribution to the plan, including employer and employee contributions, was \$736,959 in FY 2008-09 and \$698,443 in FY 2007-08. 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. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the provisions of GASB Statement No. 45, state and local governmental employers are required to display in financial reports other postemployment benefits (OPEB) expenses and related liabilities; notes disclosures; and if applicable, required supplementary information. The employees of WHA Television are employees of the State of Wisconsin. The financial statements of WHA Television do not include OPEB expenses or the related liabilities other than those actually paid, which are included in salary and fringe benefits on the financial statements.

Health Insurance—The State's Health Insurance Program, a cost-sharing, multiple-employer, defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State created under ch. 40, Wis. Stats. The Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under ss. 15.1565(2) and 40.03(6), Wis. Stats.

Under this plan, retired employees of the State contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare, when eligible) is treated as an OPEB.

As of the January 1, 2007 actuarial valuation, the State's annual required contributions were \$158.7 million for 2008 and \$148.5 million for 2007. The State's actual contributions were \$48.8 million in 2008 and \$44.3 million in 2007, which results in a net OPEB obligation for the State of \$214.1 million as of December 31, 2008, and \$104.2 million as of December 31, 2007. The portion of this obligation allocated to the University of Wisconsin System

increased from \$47.1 million in FY 2007-08 to \$96.6 million in FY 2008-09. WHA Television's portion is estimated at less than \$0.4 million in FY 2008-09 and less than \$0.2 million in FY 2007-08. This obligation is included in the State's Comprehensive Annual Financial Report (CAFR) but is not included in WHA Television's financial statements.

The State's CAFR includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at www.doa.wi.gov or may be obtained by writing to:

State Controller's Office
Department of Administration
101 East Wilson Street
Madison, Wisconsin 53703

Life Insurance—The State's Life Insurance program, a cost-sharing, multiple-employer, defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under s. 40.70, Wis. Stats. Beginning at age 65, retirees and terminating participants continue to receive, at no cost to them, basic life insurance coverage. Retirees and terminating participants under age 65 must continue to pay the employee premium to maintain coverage. The relative portion of the State's contributions to the Life Insurance OPEB plan attributable to WHA Television is not readily available.

The Department of Employee Trust Funds issues a publicly available financial report that includes financial statements, additional note disclosures, and required supplementary information for the Life Insurance OPEB plan. That report available at www.etf.wi.gov or may be obtained by writing to:

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

The State's CAFR also includes additional employer note disclosures for the plan.

9. RESTRICTED NET ASSETS

Restricted net assets are reported when constraints placed on net assets are externally imposed, such as by donors or grantors. Restricted nonexpendable endowments are restricted by donors to be maintained in perpetuity. The restricted nonexpendable net assets balance was \$1,090,000 as of June 30, 2009, and \$1,000,000 as of June 30, 2008. Additional disclosures about a \$90,000 permanent endowment established with the Friends in FY 2008-09 are available in the Friends' separately issued financial statements. The restricted expendable net assets include purpose restrictions placed by donors on grants or gifts. The restricted expendable net assets balance was \$804,242 as of June 30, 2009, and \$767,591 as of June 30, 2008.

During the year ended June 30, 1999, the Friends received an interest in a charitable remainder trust, which provided for the payment of distributions to the donor and the donor's spouse until their deaths. The Friends' interest in the charitable remainder trust ended January 2009. The present value of the estimated future benefits was \$0 as of June 30, 2009, and \$5,155 as of June 30, 2008, and was calculated in FY 2007-08 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 decrease of \$5,155 in FY 2008-09 and \$11,015 in FY 2007-08, is recorded in the telecasting, production, and other income account on the Statement of Revenues, Expenses, and Changes in Net Assets.

10. DESIGNATION OF UNRESTRICTED NET ASSETS

The Board of Directors of the Friends has designated \$768,775 as of June 30 2009, and \$798,955 as of June 30, 2008, of the unrestricted net assets that represent endowment funds for future program production and acquisition.

11. RELATED ENTITIES

A. Educational Communications Board Television Network

The Educational Communications Board Television Network is a public telecommunications entity operated by the Wisconsin Educational Communications Board (ECB). In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the University of Wisconsin System's Board of Regents developed partnerships called Wisconsin Public Television and Wisconsin Public Radio to manage and operate their licenses. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Television and Wisconsin Public Radio), and financial commitments of the partners. The directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the University of Wisconsin System's Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from the affiliated parties are separately disclosed on the Balance Sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

B. The University of Wisconsin Foundation

The Foundation is the official not-for-profit fund-raising corporation for the University of Wisconsin-Madison and several other units of the University of Wisconsin System, including the University of Wisconsin-Extension. It receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the University of Wisconsin. The market value of endowments and

accumulated interest held by the Foundation for WHA Television was \$302,848 as of June 30, 2009, and \$379,869 as of June 30, 2008. The accumulated interest is available to be transferred to the university and spent by WHA Television. Accumulated interest totaled \$18,045 as of June 30, 2009, and \$17,837 as of June 30, 2008. WHA Television transferred from the Foundation \$16,939 and spent \$12,786 in FY 2008-09. WHA Television transferred from the Foundation \$105,666 and spent \$4,105 in FY 2007-08. Only actual transfers from the Foundation are reflected in WHA Television's financial statements.

12. REDEFINING MEMBERSHIP INCOME AND MAJOR GIFTS

The Friends of WHA-TV consider all individual gifts greater than or equal to \$500 to be major gifts on its audited financial statements. Amounts less than \$500 are reported as membership income. Beginning in FY 2005-06, the Corporation for Public Broadcasting requires stations to report major gifts at \$1,000 or more. Based on information provided by the membership manager, the amounts of major gifts and membership income reported by Friends in its audited financial statements was reclassified in WHA Television's financial statements based on the \$1,000 threshold for major gifts. Membership income was increased and major gifts decreased by \$189,732 in FY 2008-09 and \$159,294 from the amounts reported on the Friends' financial statements for FY 2007-08. An additional \$5,639 reported as major gifts on the Friends audited statements was recategorized as telecasting, production, and other income in FY 2008-09.

13. RESTATEMENT OF FY 2007-08 FINANCIAL STATEMENTS

The FY 2007-08 financial statements have been restated to correct an error in which a reversing entry was not made as part of the process to consolidate the interorganization accounts. As part of the correction, FY 2007-08 expenses were increased by \$179,090 and the ending net assets balance as of June 30, 2008, was decreased by \$179,090.

14. SUBSEQUENT EVENTS

Effective July 1, 2009, the Friends of WHA-TV, Inc. changed its name to Friends of Wisconsin Public Television (WPT), Inc., and assumed responsibility for the fund-raising efforts of both the former Friends of WHA-TV and the Wisconsin Public Broadcasting Foundation to support public television in Wisconsin. Amended Articles of Incorporation to reflect the change in name and responsibilities were filed on July 15, 2009.

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Report on Control and Compliance ■

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

We have audited the financial statements of WHA Television as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated January 22, 2010. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Friends of WHA-TV, Inc., as described in our opinion on WHA Television. While the financial statements of Friends of WHA-TV, Inc., were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered WHA Television's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WHA Television's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of WHA Television's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of WHA Television's financial statements will not be prevented or will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined in the preceding paragraph. However, we consider the occurrence of accounting errors for capital assets and a corresponding need for expanded procedures to more fully address proper accounting treatment for the acquisition of capital assets to be a significant deficiency. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The compilation process for the WHA Television and Radio financial statements is complex and involves many supporting spreadsheets and adjusting journal entries. It is therefore important that clear and comprehensive procedures are in place to identify and determine how capital assets should be recorded in the financial statements.

Several errors resulted because University of Wisconsin-Extension staff incorrectly assessed the proper accounting treatment for the acquisition of capital assets. In the first case, University of Wisconsin-Extension staff capitalized assets in the WHA Television and WHA Radio financial statements at the time the assets were entered into the inventory system and inventory tags were placed on the assets, rather than at the time the assets were purchased. Incorrect financial reporting of the assets occurred when inventory tags were placed on the equipment in a different fiscal year than when the purchase occurred. We identified \$184,927 of equipment purchases and University of Wisconsin-Extension staff identified an additional \$127,906 of purchases that should have been capitalized in the WHA Television's draft financial statements in FY 2008-09.

In the second case, University of Wisconsin-Extension staff incorrectly reported a capital asset in both FY 2008-09 and FY 2007-08 and recognized related capital contributions for WHA Radio for the acquisition of a radio tower totaling \$277,769. After following up on audit questions about the asset, staff determined that it is considered a building of the University of Wisconsin System and that the costs of the tower are already recognized by WHA Radio through the calculation of donated facilities and administration support from the University of Wisconsin System.

University of Wisconsin-Extension staff corrected the draft financial statements for these errors. In addition, the University of Wisconsin-Extension agrees with our

recommendation to review and amend its procedures to ensure they fully identify and explain the proper accounting treatment for capital assets. In response, the University of Wisconsin-Extension will institute additional procedures to identify capital assets that have been purchased but not yet recorded on the inventory system and to request additional information from the University of Wisconsin System on the University of Wisconsin-Extension's buildings.


COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether WHA Television's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

UW-Extension's written response to the findings identified in our audit is summarized in the preceding narrative. We did not audit the response and, accordingly, express no opinion on it.

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

January 22, 2010

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director