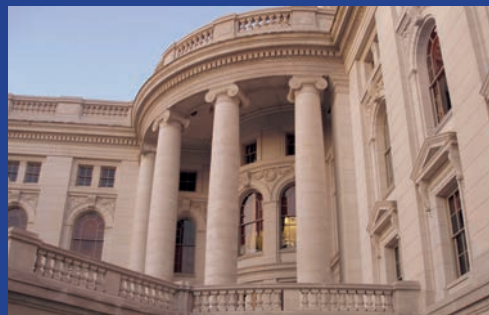
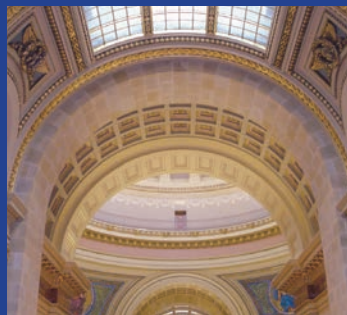


**Report 12-1
January 2012**

WHA Television

STATE OF WISCONSIN



Legislative Audit Bureau ■

WHA Television

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State Auditor – Joe Chrisman

Audit Prepared by

Diann Allsen, *Director and Contact Person*

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Joe Chrisman
State Auditor

January 31, 2012

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Mr. Michael J. Spector
President of the Board of Regents
University of Wisconsin System
Madison, Wisconsin 53706

Dear Senator Cowles, Representative Kerkman, and President Spector:

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 \$16.7 million in revenues during fiscal year 2010-11, 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 years ended June 30, 2011, and June 30, 2010. We were able to issue an unqualified independent auditor's report on WHA Television's financial statements. In our report on internal control and compliance, we note that the University of Wisconsin-Extension needs to take steps to ensure that it is fully analyzing and applying proper accounting treatment to WHA Radio's and WHA Television's financial activities in a timely manner.

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

Respectfully submitted,

Joe Chrisman
State Auditor

JC/DA/ss

Audit Opinion ■

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

We have audited the accompanying financial statements of WHA Television as of and for the years ended June 30, 2011, and June 30, 2010, 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 Wisconsin Public Television, Inc., which represent 19.2 percent and 17.3 percent of the total assets as of June 30, 2011, and June 30, 2010, respectively, and 27.0 percent and 25.3 percent of the total revenues during fiscal years 2010-11 and 2009-10, respectively. The financial statements of the Friends of Wisconsin Public Television, 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 Wisconsin Public Television, Inc., is based 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 Wisconsin Public Television, 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 referred to in the first paragraph present only WHA Television and do not purport to, and do not, present fairly the financial position of the State of Wisconsin or the University of Wisconsin System and the changes in their financial position and 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 financial position of WHA Television as of June 30, 2011, and June 30, 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 20, 2012, 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.

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.

January 20, 2012

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, 2011 and 2010. 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 is managed by the University of Wisconsin-Extension. WHA Television prepares its financial statements in accordance with Governmental Accounting Standards Board statements. The financial statements also include WHA Television's allocable share of the accounts of the Friends of Wisconsin Public Television, Inc., a not-for-profit corporation that solicits funds for WHA Television and the Wisconsin Educational Communications Board (ECB).

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 and amortization expense, both of which amortize the cost of an asset over its expected useful life. Actual depreciation expense and amortization expense are 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, 2011, June 30, 2010, and June 30, 2009, is shown in Table A.

Fiscal year (FY) 2010-11 activities reflect significant increases in grant and contract revenue, major gift revenue and investment income as well as significant decreases in capital contributions. Grant and contract revenue increases are related primarily to \$761,000 of revenue earned on grants from the federal Department of Commerce Public Telecommunications Facilities Program (PTFP) for capital equipment, and to increased revenues and expenses of \$389,000 incurred by the National Center for Media Engagement (NCME), which is a program funded by the Corporation for Public Broadcasting (CPB) and managed by WHA Television.

Total assets increased 14 percent in FY 2010-11 and 20 percent in FY 2009-10. The increase in FY 2010-11 can be attributed to a \$1.9 million increase in investments as a result of improved market conditions and reduced spending. The FY 2009-10 increase reflects \$2.4 million of capital contributions that were primarily for the acquisition of a remote production facility. Total liabilities decreased 3 percent in FY 2010-11 and increased by 12 percent in FY 2009-10. Overall, these changes resulted in a 16 percent increase in net assets in FY 2010-11 and a 21 percent increase in net assets in FY 2009-10. Unrestricted net assets increased 33 percent in FY 2010-11 after decreasing by 1 percent in FY 2009-10. Unrestricted net assets have increased for eight of the last ten fiscal years.

Table A

WHA Television Condensed Financial Information
(in thousands)

	June 30, 2011	Change from Previous Year	June 30, 2010	Change from Previous Year	June 30, 2009 ¹
Capital Assets	\$ 4,812	2%	\$ 4,740	72%	\$ 2,750
Other Assets	12,856	19	10,783	6	10,189
Total Assets	<u>17,668</u>	14	<u>15,523</u>	20	<u>12,939</u>
Current Liabilities	932	5	890	11	801
Noncurrent Liabilities	610	(13)	702	14	618
Total Liabilities	<u>1,542</u>	(3)	<u>1,592</u>	12	<u>1,419</u>
Invested in Capital Assets	4,812	2	4,740	72	2,750
Restricted—Nonexpendable	1,160	0	1,161	6	1,090
Restricted—Expendable	1,045	(13)	1,204	50	804
Unrestricted	9,108	33	6,826	(1)	6,876
Total Net Assets	<u>\$16,125</u>	16	<u>\$13,931</u>	21	<u>\$11,520</u>

	FY 2010-11	Change from Previous Year	FY 2009-10	Change from Previous Year	FY 2008-09
Operating Revenues	\$ 9,249	16%	\$ 7,987	(13)%	\$ 9,193
Operating Expenses	14,540	(3)	14,934	(7)	16,039
Net Operating Loss	(5,291)	(24)	(6,947)	1	(6,846)
Nonoperating Revenues	7,475	7	6,981	19	5,881
Capital Contributions	10	(100)	2,377	829	256
Change in Net Assets	<u>\$2,194</u>	(9)	<u>\$2,411</u>	440	<u>\$ (709)</u>

¹ Certain FY 2008-09 amounts reflect prior-period restatements.

Capital assets increased \$72,000 in FY 2010-11 after increasing \$1,990,000 in FY 2009-10. Capital asset values will fluctuate because they are highly dependent on the receipt of one-time grants or capital contributions. In FY 2008-09, WHA Television secured funding commitments for a new remote production facility. Purchases of assets and other expenses related to the remote production facility were \$910,000 in FY 2010-11 and \$2,184,000 in FY 2009-10.

Current liabilities increased 5 percent to reach \$932,000 in FY 2010-11, after increasing 11 percent in FY 2009-10. The FY 2010-11 increase is the result of an increase in accounts payable to ECB, while the FY 2009-10 increase was related to an increase in unearned revenue for NCME activity.

Operating revenues increased 16 percent in FY 2010-11 after decreasing 13 percent in FY 2009-10. Operating revenue from grants and contracts was a significant part of the increase in FY 2010-11, rising by \$1,079,000 in FY 2010-11 after decreasing by \$1,180,000 in FY 2009-10. PTFP grants accounted for \$761,000 of the FY 2010-11 increase while grants from CPB for NCME accounted for \$389,000 of the increase. The decrease in FY 2009-10 was largely due to a \$1,006,000 decrease in CPB grants, of which \$975,000 was attributable to NCME. CPB is a major source of grants and contract revenue for WHA Television, providing \$1,376,000 in FY 2010-11 and \$971,000 in FY 2009-10. CPB is also the source of the Community Service Grant, which totaled \$1,423,000 in FY 2010-11 and \$1,279,000 in FY 2009-10.

Total operating expenses decreased \$394,000 in FY 2010-11, after decreasing \$1,105,000 in FY 2009-10. The FY 2010-11 decrease was the net result of a decrease of \$749,000 in programming and production costs, a decrease of \$66,000 in broadcasting costs, an increase of \$323,000 in program information, and an increase of \$95,000 in fund-raising and membership development costs. The programming and production costs reduction related largely to the LZ Lambeau event while the increased program information costs related to increased NCME activity. Management and general and underwriting costs did not vary significantly between fiscal years. The decrease in operating expenses during FY 2009-10 was largely a result of a decrease in NCME activity and a reduction in fund-raising costs. Timing of NCME grant awards to other public broadcasting entities can create a high degree of volatility with NCME revenues and expenses. The reduction in fund-raising costs was due both to an overall decrease in fund-raising activity by the University of Wisconsin-Extension and to the reorganization of the Friends of WHA-TV, Inc., into the Friends of Wisconsin Public Television, Inc. The reorganization allowed WHA Television to share fund-raising costs with ECB.

Operating expenses include \$1,604,000 in donated facilities and administrative support from the University of Wisconsin System, a \$43,000 decrease compared to the prior year. \$1,324,000 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 increased 7 percent and were \$7,475,000 in FY 2010-11, after increasing by 19 percent in FY 2009-10. Investment income increased by \$386,000 in FY 2010-11 and by \$1,194,000 in FY 2009-10, as investment markets have improved over the last two years. State general appropriation income increased by \$151,000 in FY 2010-11, and decreased by \$124,000 in FY 2009-10. Donated facilities and administrative support income decreased by \$43,000 in FY 2010-11, after increasing by \$29,000 in FY 2009-10. WHA Television uses the University of Wisconsin-Extension's federally negotiated Other Sponsored Activities facilities and administrative support rate as the basis for estimating revenues and expenses provided by the licensee, the University of Wisconsin System.

Capital contributions decreased to \$10,236 in FY 2010-11, from \$2,377,000 in FY 2009-10. This significant decrease related to state funding that was received in FY 2009-10 for the purchase of the new mobile production facility.

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, 2011 and June 30, 2010 (Restated)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 1,160,932	\$ 966,316
Investments (Note 2)	3,929,387	3,283,270
Grants and Contracts Receivable	304,567	2,484
Accounts and Interest Receivable, Net	248,521	200,796
Accounts Receivable—ECB (Note 11A)	95,976	79,762
Due from the University of Wisconsin System (Note 1G)	79,232	440,945
Prepaid Expenses	<u>43,112</u>	<u>19,436</u>
Total Current Assets	<u>5,861,727</u>	<u>4,993,009</u>
Noncurrent Assets:		
Investments (Note 2)	6,994,247	5,789,543
Capital Assets, Net of Accumulated Depreciation (Notes 3 and 4)	4,747,468	2,529,830
Work-in-Process (Notes 3 and 4)	<u>64,273</u>	<u>2,210,378</u>
Total Noncurrent Assets	<u>11,805,988</u>	<u>10,529,751</u>
TOTAL ASSETS	<u>\$ 17,667,715</u>	<u>\$ 15,522,760</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 107,308	\$ 250,198
Accounts Payable—ECB (Note 11A)	428,832	255,283
Due to the University of Wisconsin System (Note 1G)	0	0
Unearned Revenue	<u>396,065</u>	<u>384,420</u>
Total Current Liabilities	<u>932,205</u>	<u>889,901</u>
Noncurrent Liabilities:		
Compensated Absences Payable (Note 5)	<u>610,223</u>	<u>701,857</u>
Total Noncurrent Liabilities	<u>610,223</u>	<u>701,857</u>
Total Liabilities	<u>1,542,428</u>	<u>1,591,758</u>
Net Assets:		
Invested in Capital Assets	4,811,741	4,740,208
Restricted (Note 9):		
Nonexpendable—Endowments	1,160,378	1,160,378
Expendable:		
Endowments	598,063	553,135
Grantee and Donor Restrictions	447,042	651,088
Unrestricted (Note 10)	<u>9,108,063</u>	<u>6,826,193</u>
Total Net Assets	<u>16,125,287</u>	<u>13,931,002</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,667,715</u>	<u>\$ 15,522,760</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended June 30, 2011 and June 30, 2010

	<u>FY 2010-11</u>	<u>FY 2009-10</u>
OPERATING REVENUES		
Grants and Contracts	\$ 2,136,830	\$ 1,057,574
Community Service Grant—CPB	1,422,792	1,278,600
Underwriting	300,020	447,601
Telecasting, Production, and Other Income	2,051,289	2,395,324
Membership Income	2,136,786	1,968,146
Auction Income	129,808	152,268
Major Gifts	<u>1,071,280</u>	<u>687,457</u>
Total Operating Revenues	<u>9,248,805</u>	<u>7,986,970</u>
OPERATING EXPENSES		
Program Services:		
Programming and Production	7,189,310	7,937,909
Broadcasting	594,652	660,534
Program Information	<u>3,088,507</u>	<u>2,765,154</u>
Total Program Services	<u>10,872,469</u>	<u>11,363,597</u>
Support Services:		
Management and General	2,181,796	2,174,557
Fund-raising and Membership Development	1,370,397	1,275,606
Underwriting	<u>114,787</u>	<u>120,152</u>
Total Support Services	<u>3,666,980</u>	<u>3,570,315</u>
Total Operating Expenses	<u>14,539,449</u>	<u>14,933,912</u>
OPERATING INCOME (LOSS)	<u>(5,290,644)</u>	<u>(6,946,942)</u>
NONOPERATING REVENUES AND EXPENSES		
State General Appropriations	4,681,111	4,529,931
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,603,608	1,647,078
Investment Income	<u>1,189,974</u>	<u>803,773</u>
Total Nonoperating Revenues (Expenses)	<u>7,474,693</u>	<u>6,980,782</u>
Income (Loss) Before Capital Contributions and Transfers	2,184,049	33,840
CAPITAL CONTRIBUTIONS AND TRANSFERS		
Capital Contributions	<u>10,236</u>	<u>2,376,824</u>
CHANGE IN NET ASSETS	<u>2,194,285</u>	<u>2,410,664</u>
Total Net Assets—Beginning of the Year	<u>13,931,002</u>	<u>11,520,338</u>
Total Net Assets—End of the Year	<u><u>\$ 16,125,287</u></u>	<u><u>\$ 13,931,002</u></u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Years Ended June 30, 2011 and June 30, 2010 (Restated)

	<u>FY 2010-11</u>	<u>FY 2009-10</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Grants and Contracts	\$ 1,698,851	\$ 1,713,368
Receipts from Community Service Grant—CPB	1,422,792	1,278,600
Receipts from Contributed Support	3,462,482	3,238,764
Receipts from Sales and Services	2,274,392	2,366,696
Payments to Suppliers	(3,673,071)	(5,508,790)
Payments to Employees	<u>(7,932,192)</u>	<u>(7,593,137)</u>
Net Cash Provided (Used) by Operating Activities	<u>(2,746,746)</u>	<u>(4,504,499)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from State Government	<u>4,681,111</u>	<u>4,529,931</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>4,681,111</u>	<u>4,529,931</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	10,236	2,376,824
Purchases of Capital Assets	<u>(1,089,405)</u>	<u>(2,592,555)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,079,169)</u>	<u>(215,731)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Purchases) and Sales of Investments	(970,762)	(1,916,677)
Interest and Dividends Received	<u>310,182</u>	<u>244,011</u>
Net Cash Provided (Used) by Investing Activities	<u>(660,580)</u>	<u>(1,672,666)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	194,616	(1,862,965)
Balances—Beginning of the Year	<u>966,316</u>	<u>2,829,281</u>
Balances—End of the Year	<u>\$ 1,160,932</u>	<u>\$ 966,316</u>

The accompanying notes are an integral part of this statement.

	<u>FY 2010-11</u>	<u>FY 2009-10</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (5,290,644)	\$ (6,946,942)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	1,017,872	602,078
Donated Facilities and Administrative Support from the University of Wisconsin System Expense	1,603,608	1,647,078
Change in Assets and Liabilities:		
Receivables, Net	(366,289)	328,927
Prepaid Expenses	(23,676)	132,590
Accounts and Other Payables	(60,975)	177,716
Due (from)/to the University of Wisconsin System	361,713	(637,418)
Unearned Revenue	11,645	191,472
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (2,746,746)</u></u>	<u><u>\$ (4,504,499)</u></u>

Noncash Activities:

The net increase in the fair value of investments was \$488,148 in FY 2010-11 and \$358,940 in FY 2009-10.

Donated facilities and administrative support from the University of Wisconsin System totaled \$1,603,608 in FY 2010-11 and \$1,647,078 in FY 2009-10.

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 University of Wisconsin System's Board of Regents and is operated by the University of Wisconsin-Extension. WHA Television's financial statements include its allocable share of the assets, liabilities, revenues, and expenses of the Friends of Wisconsin Public Television, Inc., a not-for-profit corporation that receives contributions for the Wisconsin Public Television partnership, which includes WHA Television and the Wisconsin Educational Communications Board (ECB) television network. Prior to a reorganization that occurred on June 30, 2009, the Friends of Wisconsin Public Television, Inc., operated as the Friends of WHA-TV, Inc. The net assets of the organization as of June 30, 2009, are fully allocable to WHA Television. The Friends of Wisconsin Public Television, Inc., receives and disburses net revenues to the licensees in accordance with an annual allocation agreement. Funds are distributed to WHA Television and to ECB in amounts determined by the Friends' Board of Directors (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. See Note 11B for further information regarding the Friends.

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. 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, such as investment income, are indirectly associated with programming, production, and development activities. 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 include deposits 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 also include WHA Television’s share of the Friends’ deposits.

E. Valuation of Investments

Investments are carried at fair value based on quoted market prices. State Investment Fund shares are valued at fair value.

F. Capital Assets

Items classified as capital assets are recorded at cost or, for donated property, at the estimated fair 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

WHA Television's cash balances 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 are deposited with the University of Wisconsin System and invested in two different pools of University of Wisconsin funds: the UW Intermediate Term Fund and the UW Long Term Fund. 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 asset allocation policy for the Intermediate Term Fund sets a target of 15 percent marketable equities, 65 percent fixed-income, 10 percent alternatives, and 10 percent cash. The asset allocation policy for the Long Term Fund sets a target of 37.5 percent marketable equities, 25 percent fixed-income, and 37.5 percent alternatives. Additional information on the two funds is available in the University of Wisconsin System's Annual Financial Report.

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 note 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, 2011, \$0 of the Friends’ deposit balance was uninsured and uncollateralized. As of June 30, 2010, \$60,745 of the Friends’ deposit balance was uninsured and uncollateralized.

B. Investments

Investment balances for WHA Television and for its share of the Friends’ investment balances as of June 30, 2011, and June 30, 2010, were as follows:

<u>Investment</u>	June 30, 2011 <u>Fair Value</u>	June 30, 2010 <u>Fair Value</u>
Money Market Funds Awaiting Investment	\$ 112,896	\$ 283,508
Fixed-Income Funds	1,204,981	918,467
Equity Mutual Funds	1,827,051	1,246,413
UW Intermediate Term Fund	6,053,539	5,142,486
UW Long Term Fund	<u>1,725,167</u>	<u>1,481,939</u>
Total Investments on the Balance Sheet	<u>\$10,923,634</u>	<u>\$9,072,813</u>

The investments of WHA Television and its share of the Friends’ investments 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/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/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, 2011, and June 30, 2010, the UW Intermediate Term and Long Term funds and the Friends’ fixed-income investments listed in the preceding table 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 Friends do not have an investment policy for interest rate risk. As of June 30, 2011, and June 30, 2010, the fixed-income investments of the Friends had the following modified durations:

<u>Investment</u>	June 30, 2011 <u>Fair Value</u>	Modified Duration (In Years)
Vanguard Short-Term Investment Grade Fund	\$ 227,334	2.2
Vanguard Intermediate-Term Investment Grade Fund	372,930	5.4
Vanguard Total Bond Market Index Fund	<u>604,717</u>	5.1
Total Fixed-Income Investments	<u>\$1,204,981</u>	

<u>Investment</u>	June 30, 2010 <u>Fair Value</u>	Modified Duration (In Years)
Vanguard Short-Term Investment Grade Fund	\$ 172,864	2.4
Vanguard Intermediate-Term Investment Grade Fund	284,024	5.4
Vanguard Total Bond Market Index Fund	<u>461,579</u>	4.8
Total Fixed-Income Investments	<u>\$918,467</u>	

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 international investments in the UW Long Term and Intermediate Term funds. In addition, the Friends held investments that were exposed to foreign currency risk totaling \$441,119 as of June 30, 2011, and \$296,168 as of June 30, 2010.

3. CAPITAL ASSETS

The change in book value from July 1, 2010, to June 30, 2011, is summarized as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital Assets:				
Equipment	\$12,691,374	\$3,205,866	\$ (629,827)	\$15,267,413
Intangible Assets	0	29,644	0	29,644
Work-in-Process	<u>2,210,378</u>	<u>950,895</u>	<u>(3,097,000)</u>	<u>64,273</u>
Total	<u>14,901,752</u>	<u>4,186,405</u>	<u>(3,726,827)</u>	<u>15,361,330</u>
Less Accumulated Depreciation (or Amortization):				
Equipment	(10,161,544)	(1,007,125)	629,827	(10,538,842)
Intangible Assets	0	(10,747)	0	(10,747)
Work-in-Process	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>(10,161,544)</u>	<u>(1,017,872)</u>	<u>629,827</u>	<u>(10,549,589)</u>
Total Capital Assets, Net:				
Equipment	2,529,830	2,198,741	0	4,728,571
Intangible Assets	0	18,897	0	18,897
Work-in-Process	<u>2,210,378</u>	<u>950,895</u>	<u>(3,097,000)</u>	<u>64,273</u>
Total Capital Assets, Net	<u>\$ 4,740,208</u>	<u>\$3,168,533</u>	<u>\$(3,097,000)</u>	<u>\$ 4,811,741</u>

Depreciation and amortization expense was charged to functions as follows:

Programming and Production	\$ 871,707
Program Information	849
Broadcasting	<u>145,316</u>
Total Depreciation Expense	<u>\$1,017,872</u>

Work-in-process related primarily to a new mobile production facility that was put into service during fiscal year (FY) 2010-11. Intangible assets include costs incurred for the right to broadcast programs beyond fiscal year-end. These costs are amortized over the useful life of the program.

The change in book value from July 1, 2009, to June 30, 2010, is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Equipment	\$11,996,319	\$ 695,055	\$ 0	\$12,691,374
Work-in-Process	<u>312,878</u>	<u>2,451,619</u>	<u>(554,119)</u>	<u>2,210,378</u>
Total	<u>12,309,197</u>	<u>3,146,674</u>	<u>(554,119)</u>	<u>14,901,752</u>
Less Accumulated Depreciation for:				
Equipment	(9,559,466)	(602,078)	0	(10,161,544)
Work-in-Process	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>(9,559,466)</u>	<u>(602,078)</u>	<u>0</u>	<u>(10,161,544)</u>
Total Capital Assets, Net:				
Equipment	2,436,853	92,977	0	2,529,830
Work-in-Process	<u>312,878</u>	<u>2,451,619</u>	<u>(554,119)</u>	<u>2,210,378</u>
Total Capital Assets, Net	<u>\$ 2,749,731</u>	<u>\$2,544,596</u>	<u>\$(554,119)</u>	<u>\$ 4,740,208</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$448,203
Program Information	850
Broadcasting	<u>153,025</u>
Total Depreciation Expense	<u>\$602,078</u>

Work-in-process during FY 2009-10 related primarily to a new mobile production facility.

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 2001-02 through FY 2010-11. The depreciated value of equipment subject to a priority lien was \$2,244,207 as of June 30, 2011, and \$1,010,556 as of June 30, 2010.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$701,857	\$72,144	\$(163,778)	\$610,223

Noncurrent liability activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$618,443	\$125,813	\$(42,399)	\$701,857

In addition, another \$38,668 as of June 30, 2011, and \$21,671 as of June 30, 2010, 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 \$237,613 and occupancy costs of \$48,781 for FY 2010-11, and operating costs of \$239,450 and occupancy costs of \$55,872 for FY 2009-10. 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 \$1,317,214 in FY 2010-11 and \$1,351,756 in FY 2009-10.

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. The separately issued financial report that includes financial statements and required supplementary information is available at www.etf.wi.gov or may be obtained by contacting:

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

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. 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.

As of June 30, 2011, 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 \$790,681 in FY 2010-11 and \$732,718 in FY 2009-10. The relative position of WHA Television in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-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 allocated to various functional expenses on the Statement of Revenues, Expenses, and Changes in Net Assets.

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.

The State's net OPEB obligation was \$367.5 million as of June 30, 2011, and \$291.9 million as of June 30, 2010. The estimated portion of this obligation related to WHA Television employees was \$0.6 million as of June 30, 2010, and less than \$0.5 million as of June 30, 2010. 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 contacting:

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 themselves, 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 is available at www.etf.wi.gov or may be obtained by contacting:

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 \$1,160,378 as of June 30, 2011, and June 30, 2010. Additional disclosures about a \$160,378 permanent endowment established with the Friends 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 \$1,045,105 as of June 30, 2011, and \$1,204,223 as of June 30, 2010.

10. DESIGNATION OF UNRESTRICTED NET ASSETS

The Friends' Board of Directors has designated \$1,635,159 as of June 30, 2011, and \$1,002,260 as of June 30, 2010, of the unrestricted net assets that represent endowment funds for future program production and acquisition.

11. RELATED ENTITIES

A. Educational Communications Board

ECB is an agency of the State of Wisconsin that operates a public television network (Wisconsin Television Network). 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. Friends of Wisconsin Public Television, Inc.

The Friends of Wisconsin Public Television, Inc., is a publicly supported not-for-profit corporation whose purpose is to administer various fund-raising and membership duties of Wisconsin Public Television and to provide support to WHA Television and ECB. As discussed in Note 1, the Friends of Wisconsin Public Television, Inc., was the result of a reorganization of the Friends of WHA-TV, Inc., that occurred on July 1, 2009. The Friends solicits funds in the name of, and with the approval of, both WHA Television and ECB. Under an affiliation agreement, WHA Television and ECB staff, along with the Friends' Board of Directors, approve the Friends' budget. WHA Television and ECB have access to the Friends' net resources and retain an ongoing allocated interest in the Friends' net assets. WHA Television's and ECB's allocated interests in the Friends are calculated in accordance with an affiliation agreement that currently provides WHA Television with 50 percent of the Friends' net resources. This agreement is negotiated annually based largely upon membership proportion. Net assets as of the reorganization of the Friends on June 30, 2009, are wholly allocable to WHA Television.

WHA Television includes its allocated share of the Friends’ assets, liabilities, revenues, and expenses in its financial statements. A summary of amounts related to the Friends prior to interorganizational eliminations is included in the following table. The financial statement amounts are reported net of eliminations of \$403,660 for both assets and liabilities as of June 30, 2011, and \$641,420 for both assets and liabilities as of June 30, 2010. The financial statement amounts are also reported net of eliminations of \$3,306,360 for both revenues and expenses for FY 2010-11, and \$2,987,473 for both revenues and expenses for FY 2009-10.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash and Investments	\$3,237,126	\$2,566,629
Receivables and Other Current Assets	<u>154,017</u>	<u>117,266</u>
Total Assets	3,391,143	2,683,895
Payables and Other Current Liabilities	<u>(842,753)</u>	<u>(994,603)</u>
Net Assets	<u>\$2,548,390</u>	<u>\$1,689,292</u>
	Fiscal Year Ended	Fiscal Year Ended
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Contributed Support and Revenue	<u>\$4,519,557</u>	<u>\$4,384,683</u>
Expenses:		
Programming and Production	156,839	1,061,800
Program Information	94,333	82,626
Management and General	39,040	35,747
Fund-raising	<u>1,499,500</u>	<u>1,123,449</u>
Total Expenses	<u>1,789,712</u>	<u>2,303,622</u>
Change in Net Assets before		
Contractual Support to WHA TV	<u>\$2,729,845</u>	<u>\$2,081,061</u>

The Friends issues separate financial statements, which are audited by other auditors. A summary of significant financial data for the Friends as of and for years ended June 30, 2011, and June 30, 2010, follows. Copies of the Friends’ separately issued financial statements may be obtained by contacting:

Executive Director
 Friends of Wisconsin Public Television, Inc.
 821 University Avenue
 Madison, Wisconsin 53706

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash and Investments	\$3,437,572	\$2,684,869
Receivables and Other Current Assets	<u>281,300</u>	<u>223,369</u>
Total Assets	3,718,872	2,908,238
Payables and Other Current Liabilities	<u>(910,140)</u>	<u>(1,259,085)</u>
Net Assets	<u>\$2,808,732</u>	<u>\$1,649,153</u>

	<u>Fiscal Year Ended June 30, 2011</u>	<u>Fiscal Year Ended June 30, 2010</u>
Contributed Support and Revenue	<u>\$7,857,480</u>	<u>\$7,371,871</u>
Expenses:		
Programming and Production	156,839	1,061,800
Program Information	188,666	165,251
Management and General	78,076	71,493
Fund-raising	2,643,411	2,223,166
Contract Support to WHA and ECB	<u>3,630,909</u>	<u>3,726,598</u>
Total Expenses	<u>6,697,901</u>	<u>7,248,308</u>
Change in Net Assets	<u>\$1,159,579</u>	<u>\$ 123,563</u>

C. The University of Wisconsin Foundation

The University of Wisconsin 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 System. The fair value of endowments and accumulated interest held by the Foundation for WHA Television was \$346,497 as of June 30, 2011, and \$310,884 as of June 30, 2010. The accumulated interest is available to be transferred to the University of Wisconsin-Extension and spent by WHA Television. Accumulated interest totaled \$15,684 as of June 30, 2011, and \$17,075 as of June 30, 2010. WHA Television transferred \$16,176 from the Foundation in FY 2010-11, and \$17,146 in FY 2009-10. Only actual transfers from the Foundation are reflected in WHA Television's financial statements.

12. RESTATEMENT OF FY 2009-10 FINANCIAL STATEMENTS

The FY 2009-10 financial statements have been restated to correct errors in the classification of accounts payable and in the presentation of certain cash flow transactions. The accounts payable correction increased "Accounts Payable—ECB" by \$177,998 and decreased "Accounts Payable and Accrued Expenses" by \$177,998 on the Balance Sheet. This correction had no effect on the beginning and ending net assets balance. A correction to the Statement of Cash Flows decreased "Net (Purchases) and Sales of Investments" and increased "Interest and Dividends Received." A separate correction increased "Payments to Suppliers" and decreased "Payments to Employees."

■ ■ ■ ■

Report on Internal 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, 2011, and June 30, 2010, and have issued our report thereon dated January 20, 2012. Our report includes 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 the Friends of Wisconsin Public Television, Inc., as described in our opinion on WHA Television. While the financial statements of the Friends of Wisconsin Public Television, 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. Accordingly, we do not express an opinion on the effectiveness of WHA Television's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies or material weaknesses, and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the following paragraph, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency discussed in the following paragraphs to be a material weakness.

The University of Wisconsin-Extension's Broadcasting and Media Innovations Division, which operates WHA Television and WHA Radio, needs to take steps to ensure that it is fully analyzing and applying proper accounting treatment to WHA Television's and WHA Radio's financial activities. During our audit, we noted several accounting issues in WHA Television's and WHA Radio's financial statements that had not been fully analyzed and addressed by Division staff. Most significantly, we found that Division staff had not properly accounted for certain WHA Television grant transactions as nonexchange transactions, which occur when a government gives or receives something of value without directly receiving or giving something of equal value in return. Accounting standards require that certain requirements or conditions be met before the revenues or expenses of a nonexchange transaction are recognized. Staff incorrectly recognized \$350,000 in grant revenue from the Corporation for Public Broadcasting and corresponding expenses for subgrants awarded to other entities before all conditions were met for recognition. As a result, WHA Television's revenues, receivables, expenses, and payables were each overstated by \$350,000 during fiscal year (FY) 2010-11.

Some of the other issues noted during the audit are as follows:

- Unrealized investment gains were incorrectly classified as a cash activity on WHA Television's cash flow statement. As a result, net purchases of investments and interest and dividends were each overstated by \$391,911 on the FY 2010-11 cash flow statement and by \$191,679 on the FY 2009-10 cash flow statement.
- Division staff did not obtain clarification of changes in the University of Wisconsin-Extension's federally approved Other Sponsored Activities facilities and administrative support rate effective for FY 2010-11 in a timely manner and calculated donated facilities and administrative support using the old rate. As a result, donated facilities and administrative support was

overstated by \$66,100 on WHA Television's financial statements and \$3,300 on WHA Radio's financial statements.

- \$45,266 in revenue attributable to WLSU-FM—another radio station licensed to the University of Wisconsin System's Board of Regents—was allocated to WHA-AM rather than to WLSU-FM in the notes to WHA Radio's financial statements.

Division staff appropriately addressed these issues in WHA Television's and WHA Radio's financial statements after we brought them to their attention. Overall, the misstatements had a minimal effect on net income and net assets for WHA Television's financial statements. However, individual financial statement accounts and totals need to be fairly presented and the size and extent of errors noted during the audit suggest that material errors could occur in the future if the Division does not take steps to better ensure the accuracy of the financial statements.

We recommend that the Broadcasting and Media Innovations Division take additional steps to ensure that it is analyzing and applying proper accounting treatment to WHA Television's and WHA Radio's financial statements in a timely manner. The Division agrees with the audit recommendation and indicates that it will take steps to provide additional time for research of accounting issues and preparation of WHA Television's and WHA Radio's financial statements. It will also develop written guidelines, steps, and timetables for the completion of various schedules used to prepare the financial statements and notes. The Division plans to develop the financial statement timetables and instructions by March 31, 2012.

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*.

The Division's written response to the finding identified in our audit is summarized in the preceding narrative. We did not audit the Division's response and, accordingly, express no opinion on it.

We noted certain additional accounting matters that we reported to the Division in separate correspondence dated January 4, 2012.

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 20, 2012

LEGISLATIVE AUDIT BUREAU

by 
Diann Allsen
Audit Director