

**Report 12-2  
January 2012**

# **WHA Radio**

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **WHA Radio**

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State Auditor – Joe Chrisman

### **Audit Prepared by**

Diann Allsen, *Director and Contact Person*

Dan Purcell

Rachael Inman

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

WHA Radio is licensed to the University of Wisconsin System's Board of Regents and is operated by the University of Wisconsin-Extension. WHA Radio earned \$11.2 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 Radio'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 these 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





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# Audit Opinion ■

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

We have audited the accompanying financial statements of WHA Radio 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 Radio. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Wisconsin Public Radio Association, Inc., which represent 17.9 percent and 19.9 percent of WHA Radio's total assets as of June 30, 2011, and June 30, 2010, respectively, and 14.7 percent and 14.9 percent of WHA Radio's total revenue during fiscal years 2010-11 and 2009-10, respectively. The financial statements of the Wisconsin Public Radio Association, Inc., were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, 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 Wisconsin Public Radio Association, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *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 Radio and do not purport to, and do not, present fairly the financial positions of the State of Wisconsin or the University of Wisconsin System and the changes in their financial positions 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 Radio 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 Radio'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 Radio. The supplementary information included as Management's Discussion and Analysis on pages 5 through 8 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

January 20, 2012

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director

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# Management's Discussion and Analysis ■

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*Prepared by WHA Radio Management*

This section of the WHA Radio annual financial report presents management's discussion and analysis of the financial performance of WHA Radio during the fiscal 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 Radio management.

## **Using the Annual Financial Statements**

WHA Radio 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 also include WHA Radio's allocated share of the accounts of the Wisconsin Public Radio Association, Inc. (WPRA), a not-for-profit corporation that solicits funds for WHA Radio and the 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 of purpose-restricted grants, contracts, and contributions. Over time, increases or decreases in net assets are indicators of changes in WHA Radio's financial health.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. WHA Radio's dependence on state general appropriations and donated facilities and administrative support from the University of Wisconsin System will result in operating deficits because the financial reporting model classifies state general appropriations and donated services as nonoperating revenues. The use of capital assets is reflected in the financial statements as depreciation expense, which amortizes the cost of an asset over its expected useful life. 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 Radio as of and for the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009, is shown in Table A.

Total assets increased 10 percent in fiscal year (FY) 2010-11, and total liabilities increased 1 percent, resulting in a 12 percent increase in net assets. These changes compare to a total asset increase of 12 percent in FY 2009-10, when total liabilities increased 23 percent, resulting in a 10 percent increase in net assets. Net assets have increased for 14 consecutive years. The net assets invested in capital assets increased \$204,000, or 37 percent, in FY 2010-11 following a decrease of \$82,000 in FY 2009-10. The increase relates largely to a \$255,000 grant from the federal Department of Commerce Public Telecommunications Facilities Program (PTFP) for a new broadcast station in Ashland. The grant was awarded in FY 2008-09, but the majority of the construction occurred in FY 2010-11.

Current liabilities increased 7 percent in FY 2010-11 after increasing 31 percent in FY 2009-10. A liability due to the University of Wisconsin System accounts for more than 86 percent of all current liabilities in both fiscal years. The liability is the result of spending university funds in anticipation of reimbursement under grants and contracts and typically fluctuates year to year. Noncurrent liabilities, which are payables for compensated absences, decreased \$58,000 and totaled \$412,000 as of June 30, 2011. In FY 2009-10, noncurrent liabilities increased \$36,000. The compensated liability tends to increase when there is relatively low staff turnover and staff bank leave time for use at a later date and to decrease when there is relatively high staff turnover.

Table A

**WHA Radio Condensed Financial Information**  
(in thousands)

	June 30, 2011	Change from Previous Year	June 30, 2010	Change from Previous Year	June 30, 2009
Capital Assets	\$ 757	37%	\$ 553	(13)%	\$ 635
Other Assets	7,457	8	6,918	15	6,035
<b>Total Assets</b>	<b><u>8,214</u></b>	<b>10</b>	<b><u>7,471</u></b>	<b>12</b>	<b><u>6,670</u></b>
Current Liabilities	1,100	7	1,029	31	786
Noncurrent Liabilities	412	(12)	470	8	434
<b>Total Liabilities</b>	<b><u>1,512</u></b>	<b>1</b>	<b><u>1,499</u></b>	<b>23</b>	<b><u>1,220</u></b>
Invested in Capital Assets	757	37	553	(13)	635
Restricted—Nonexpendable	38	(3)	39	77	22
Restricted—Expendable	164	4	158	20	132
Unrestricted	5,743	10	5,222	12	4,661
<b>Total Net Assets</b>	<b><u>\$6,702</u></b>	<b>12</b>	<b><u>\$5,972</u></b>	<b>10</b>	<b><u>\$5,450</u></b>

	FY 2010-11	Change from Previous Year	FY 2009-10	Change from Previous Year	FY 2008-09
Operating Revenues	\$ 7,445	4%	\$ 7,144	3%	\$6,905
Operating Expenses	10,494	3	10,213	3	9,956
<b>Net Operating Loss</b>	<b>(3,049)</b>	<b>(1)</b>	<b>(3,069)</b>	<b>1</b>	<b>(3,051)</b>
Nonoperating Revenues	3,780	5	3,591	13	3,186
Capital Contributions	0	N/A	0	N/A	0
<b>Change in Net Assets</b>	<b><u>\$ 731</u></b>	<b>40</b>	<b><u>\$ 522</u></b>	<b>287</b>	<b><u>\$ 135</u></b>

Operating revenues increased \$301,000 and totaled \$7,445,000 in FY 2010-11, after a \$239,000 increase in FY 2009-10. Grants and contracts are the single largest source of operating revenues and totaled \$4,180,000 in FY 2010-11, a 3 percent increase compared to FY 2009-10. ECB was the source of \$3,473,000 in grants and contracts revenue in FY 2010-11, which was approximately the same amount as the previous year. ECB and WHA Radio share WPRA revenue (see Note 9; ECB's share is 76 percent and WHA Radio's share is 24 percent). Since FY 1999-2000, WPRA revenue has increased over \$3,015,000. WPRA revenue increased \$215,000 in

FY 2010-11 and \$450,000 in FY 2009-10. WPRA contractual support to the licensees increased by \$92,000 in FY 2010-11 and \$303,000 in FY 2009-10.

Capital contributions decreased from \$124,000 in FY 2006-07 to \$13,000 in FY 2007-08 and have been \$0 since FY 2008-09. Capital contributions can vary significantly from year to year because they are highly dependent upon receipt of one-time funding from state and federal organizations in competition with other state and broadcast entities.

Nonoperating revenues consist of investment income, State of Wisconsin general appropriations, and donated support from the University of Wisconsin System. Nonoperating revenues increased by 5 percent and totaled \$3,780,000 in FY 2010-11. In FY 2009-10, nonoperating revenues increased 13 percent. The increases in nonoperating revenues is largely associated with increased investment income as the investment markets improved and increases in donated support from the University of Wisconsin System. Investment income increased 27 percent in FY 2010-11 to \$388,000, following an increase of 367 percent in FY 2009-10. Donated support from the University of Wisconsin System increased 2 percent to \$1,357,000 following an increase of 3 percent in FY 2009-10. WHA Radio 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. The amount of state general appropriations fluctuated slightly during the last three years.

This financial report is designed to provide a general overview of the University of Wisconsin-Extension's finances related to public radio. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

UWEX Division of Broadcasting and Media Innovations  
c/o Director of Business Services  
821 University Avenue  
Madison, Wisconsin 53706

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## **Financial Statements ■**

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## Balance Sheet

### June 30, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 2,535,157	\$ 2,625,059
Investments (Note 2)	2,346,115	1,866,244
Contributions Receivable, Net	74,522	59,320
Accounts and Interest Receivable, Net	170,359	160,905
Accounts Receivable—ECB (Note 9A)	942,323	1,014,291
Grants and Contracts Receivable	20,851	30,626
Prepaid Expenses	51,266	49,898
Inventory	<u>2,786</u>	<u>2,146</u>
Total Current Assets	<u>6,143,379</u>	<u>5,808,489</u>
Noncurrent Assets:		
Investments (Note 2)	1,313,902	1,109,310
Capital Assets, Net of Accumulated Depreciation (Notes 3 and 4)	<u>756,858</u>	<u>553,176</u>
Total Noncurrent Assets	<u>2,070,760</u>	<u>1,662,486</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,214,139</u></b>	<b><u>\$ 7,470,975</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 133,139	\$ 140,559
Accounts Payable—ECB (Note 9A)	20,569	0
Due to the University of Wisconsin System (Note 1G)	<u>945,805</u>	<u>888,480</u>
Total Current Liabilities	<u>1,099,513</u>	<u>1,029,039</u>
Noncurrent Liabilities:		
Compensated Absences Payable (Note 5)	<u>412,448</u>	<u>470,411</u>
Total Noncurrent Liabilities	<u>412,448</u>	<u>470,411</u>
<b>Total Liabilities</b>	<b><u>1,511,961</u></b>	<b><u>1,499,450</u></b>
Net Assets:		
Invested in Capital Assets	756,858	553,176
Restricted (Note 1J):		
Nonexpendable—Endowments	38,491	38,491
Expendable—Grantee and Donor Restrictions	163,537	157,559
Unrestricted	<u>5,743,292</u>	<u>5,222,299</u>
<b>Total Net Assets</b>	<b><u>6,702,178</u></b>	<b><u>5,971,525</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,214,139</u></b>	<b><u>\$ 7,470,975</u></b>

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

	FY 2010-11	FY 2009-10
<b>OPERATING REVENUES</b>		
Grants and Contracts	\$ 4,180,357	\$ 4,067,085
Community Service Grant—CPB	542,457	496,070
Underwriting	756,449	625,769
Telecasting, Production, and Other Income	106,205	136,111
Membership Income	1,374,178	1,301,018
Major Gifts	485,083	517,657
<b>Total Operating Revenues</b>	<b>7,444,729</b>	<b>7,143,710</b>
<b>OPERATING EXPENSES</b>		
Program Services:		
Programming and Production	6,183,973	6,137,381
Broadcasting	453,663	458,683
Program Information	302,009	242,180
Total Program Services	6,939,645	6,838,244
Support Services:		
Management and General	2,162,943	2,124,998
Fund-raising and Membership Development	867,662	863,313
Underwriting	523,674	386,691
Total Support Services	3,554,279	3,375,002
<b>Total Operating Expenses</b>	<b>10,493,924</b>	<b>10,213,246</b>
<b>OPERATING LOSS</b>	<b>(3,049,195)</b>	<b>(3,069,536)</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
State General Appropriations	2,040,196	1,962,120
Donated Facilities and Administrative Support from the University of Wisconsin System (Note 6)	1,356,827	1,328,426
Gain/(Loss) on Sale of Assets	(5,030)	(5,779)
Investment Income	387,855	306,304
<b>Total Nonoperating Revenues</b>	<b>3,779,848</b>	<b>3,591,071</b>
Income Before Capital Contributions and Transfers	730,653	521,535
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>		
Capital Contributions	0	0
<b>CHANGE IN NET ASSETS</b>	<b>730,653</b>	<b>521,535</b>
Total Net Assets—Beginning of the Year	5,971,525	5,449,990
Total Net Assets—End of the Year	<b>\$ 6,702,178</b>	<b>\$ 5,971,525</b>

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

	<u>FY 2010-11</u>	<u>FY 2009-10</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Grants and Contracts	\$ 4,282,603	\$ 3,824,398
Receipts from Community Service Grant—CPB	542,457	496,070
Receipts from Contributed Support	2,576,888	2,533,613
Receipts from Sales and Services	109,290	130,252
Payments to Suppliers	(2,233,814)	(1,837,287)
Payments to Employees	<u>(6,790,998)</u>	<u>(6,452,497)</u>
<b>Net Cash Used for Operating Activities</b>	<b><u>(1,513,574)</u></b>	<b><u>(1,305,451)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Receipts from State Government	<u>2,040,196</u>	<u>1,962,120</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b><u>2,040,196</u></b>	<b><u>1,962,120</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	0	0
Purchases of Capital Assets	<u>(319,445)</u>	<u>(41,646)</u>
<b>Net Cash Used for Capital and Related Financing Activities</b>	<b><u>(319,445)</u></b>	<b><u>(41,646)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (Purchases) and Sales of Investments	(427,653)	80,813
Interest and Dividends Received	<u>130,574</u>	<u>145,767</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>(297,079)</u></b>	<b><u>226,580</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(89,902)</b>	<b>841,603</b>
Balances—Beginning of the Year	<u>2,625,059</u>	<u>1,783,456</u>
Balances—End of the Year	<b><u>\$ 2,535,157</u></b>	<b><u>\$ 2,625,059</u></b>

The accompanying notes are an integral part of this statement.



	<u>FY 2010-11</u>	<u>FY 2009-10</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>		
Operating Loss	\$ (3,049,195)	\$ (3,069,536)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation Expense	110,733	95,639
Donated Facilities and Administrative Support from the University of Wisconsin System Expense	1,356,827	1,328,426
Other Adjustment	0	22,361
Change in Assets and Liabilities:		
Receivables, Net	57,558	(23,622)
Prepaid Expenses	(1,368)	61,302
Inventory	(640)	211
Accounts and Other Payables	(44,814)	8,952
Due to the University of Wisconsin System	57,325	270,816
<b>Net Cash Used for Operating Activities</b>	<b><u>\$ (1,513,574)</u></b>	<b><u>\$ (1,305,451)</u></b>

Noncash Activities:

The fair value of investments increased \$219,718 in FY 2010-11 and increased \$158,400 in FY 2009-10.

Donated facilities and administrative support from the University of Wisconsin System totaled \$1,356,827 in FY 2010-11 and \$1,328,426 in FY 2009-10.

The accompanying notes are an integral part of this statement.



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# Notes to the Financial Statements ■

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Organization

WHA Radio is a public telecommunications entity operated by the University of Wisconsin-Extension and consists of eight FM stations and one AM station that are licensed to the University of Wisconsin System's Board of Regents. The newest of these stations, WUWS-FM in Ashland, was added to the network in September 2011. WHA Radio's financial statements include its allocated share of the assets, liabilities, revenues, and expenses of the Wisconsin Public Radio Association, Inc. (WPRA), a not-for-profit corporation that collects funds for Wisconsin Public Radio and provides support to WHA Radio and the Educational Communications Board (ECB) radio networks. All significant interorganization accounts and transactions have been eliminated. See Note 9 for further information regarding WPRA.

### B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). WHA Radio has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. GASB allows governmental entities that previously used the 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 Radio is entitled to the funds. Pledged WPRA contributions that are expected to be collected within one year are recorded as revenue at the net realizable value. There are no pledges due in more than one year. 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. Noncash contributions are recognized as revenues in the period of receipt.

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

Operating revenues are directly related to programming, production, and development activities. Nonoperating revenues, 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 cash balances deposited with the State; shares in the State Investment Fund, a short-term investment pool of state and local funds; and WHA Radio’s allocated share of WPRA’s cash and cash equivalents, which include cash deposits and highly liquid investments with an original maturity of three months or less.

**E. Valuation of Investments**

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

**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 donation. Capital assets also include certain constructed or fabricated items and certain component parts.

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

**G. Due to the University of Wisconsin System**

All cash received by WHA Radio from grants and contracts is deposited with the University of Wisconsin System. Expenses related to certain WHA Radio grants and contracts may be incurred by the University of Wisconsin System prior to receipt of funding from the granting agency. The difference between cash received and expenses is reported as a payable, "Due to 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.

**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.

**J. Restricted Net Assets**

Restricted net assets are reported when constraints placed on net assets are externally imposed, such as by donors or grantors. WHA Radio's restricted net assets include purpose restrictions placed by donors on contributed support or gifts. Restricted nonexpendable net assets are restricted by donors to be maintained in perpetuity. Unrestricted net assets may be used at the discretion of WHA Radio management.

## 2. DEPOSITS AND INVESTMENTS

WHA Radio'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 State Investment 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.

WHA Radio's 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.

WPRA's cash and investment activities are managed separately from the cash and investment activities of the State Investment Fund and the University of Wisconsin funds. WPRA cash balances are held in deposit and money market accounts at one financial institution. WPRA investments are managed by asset management or private trust companies and 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. WPRA does not have a deposit policy for custodial credit risk. Deposits maintained by WPRA are insured by the Federal Deposit Insurance Corporation for up to \$250,000 at each depository institution. As of June 30, 2011, \$520,279 of WHA Radio's share of WPRA's deposits was uninsured and uncollateralized. As of June 30, 2010, the uninsured and uncollateralized balance was \$135,702.



**B. Investments**

Investment balances for WHA Radio 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	\$ 9,577	\$ 26,023
Fixed-Income Funds	159,829	130,754
Equity Mutual Funds	250,967	184,982
UW Intermediate Term Fund	2,346,115	1,866,244
UW Long Term Fund	<u>893,529</u>	<u>767,551</u>
Total Investments on the Balance Sheet	<u>\$3,660,017</u>	<u>\$2,975,554</u>

The investments of WHA Radio and its share of WPRA 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. WPRA’s investment guidelines require an average of at least an Aa by Moody’s or at least an AA by Standard and Poor’s. As of June 30, 2011, and June 30, 2010, the UW Intermediate Term and Long Term funds and WPRA’s 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. WPRA investment guidelines require that the fixed-income investments contain a duration within 20 percent of the effective duration of the benchmark index under normal conditions. As of June 30, 2011, and June 30, 2010, the fixed-income investments of WPRA had the following modified durations:

<u>Investment</u>	June 30, 2011 <u>Fair Value</u>	Modified Duration <u>(In Years)</u>
PIMCO Total Return Fund	\$ 60,876	4.4
Metropolitan West Total Return Bond Fund	61,095	4.2
American Centennial Diversified Bond Fund	<u>37,858</u>	5.2
Total Fixed-Income Investments	<u>\$159,829</u>	

<u>Investment</u>	June 30, 2010 <u>Fair Value</u>	Modified Duration <u>(In Years)</u>
PIMCO Total Return Fund	\$ 49,411	4.8
Metropolitan West Total Return Bond Fund	49,114	4.3
PIMCO Unconstrained Bond Fund	<u>32,229</u>	3.1
Total Fixed-Income Investments	<u>\$130,754</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 the foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments. WPRA’s investment guidelines indicate that international equity investments held by WPRA will not constitute more than 20 percent of the equity portion of the investment portfolio. As of June 30, 2011, WHA Radio was exposed to foreign currency risk through its international investments in the UW Long Term and Intermediate Term funds. In addition, WPRA held investments that were exposed to foreign currency risk totaling \$53,867 as of June 30, 2011, and \$53,983 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:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Equipment	\$1,574,158	\$319,445	\$(238,509)	\$1,655,094
Less Accumulated Depreciation for:				
Equipment	<u>(1,020,982)</u>	<u>(110,733)</u>	<u>233,479</u>	<u>(898,236)</u>
Total Capital Assets, Net	<u>\$ 553,176</u>	<u>\$208,712</u>	<u>\$ (5,030)</u>	<u>\$ 756,858</u>

Work in progress related to the Wisconsin Public Radio website of \$43,163 is included in the capital asset balance as of June 30, 2011.

Depreciation expense was charged to functions as follows:

Programming and Production	\$ 45,052
Broadcasting	62,750
Fund-raising	<u>2,931</u>
Total Depreciation Expense	<u>\$110,733</u>

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	\$1,597,946	\$ 41,646	\$(65,434)	\$1,574,158
Less Accumulated Depreciation for:				
Equipment	<u>(962,637)</u>	<u>(95,639)</u>	<u>37,294</u>	<u>(1,020,982)</u>
Total Capital Assets, Net	<u>\$ 635,309</u>	<u>\$(53,993)</u>	<u>\$(28,140)</u>	<u>\$ 553,176</u>

Depreciation expense was charged to functions as follows:

Programming and Production	\$47,516
Broadcasting	45,192
Fund-raising	<u>2,931</u>
Total Depreciation Expense	<u>\$95,639</u>

**4. CAPITAL ASSET LIEN**

Federal grant funds received from the National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years from the date of award completion, during which time the federal government retains priority reversionary interest in the equipment. WHA Radio was awarded four NTIA capital equipment grants from fiscal year (FY) 2001-02 through FY 2010-11. The depreciated value of equipment subject to a priority lien was \$240,265 as of June 30, 2011, and \$41,319 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	\$470,411	\$68,448	\$(126,411)	\$412,448

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	\$433,499	\$81,790	\$(44,878)	\$470,411

In addition, another \$26,136 as of June 30, 2011, and \$14,524 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 \$188,688 and occupancy costs of \$38,737 for FY 2010-11, and operating costs of \$183,817 and occupancy costs of \$42,891 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 and certain other expenses incurred by the University of Wisconsin System on behalf of WHA Radio. Administrative support totaled \$1,129,402 in FY 2010-11, and \$1,101,718 in FY 2009-10.

## 7. EMPLOYEE RETIREMENT PLAN

Permanent and qualifying limited-term employees of WHA Radio are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by 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](http://www.etf.wi.gov) or 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 Radio's contribution to the plan, including employer and employee contributions, was \$631,910 in FY 2010-11 and \$596,097 in FY 2009-10. The relative position of WHA Radio 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 Radio are employees of the State of Wisconsin. The financial statements of WHA Radio 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 Radio employees was \$0.4 million as of June 30, 2011, and \$0.4 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 Radio’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](http://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 Radio 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](http://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. RELATED ENTITIES

### A. Educational Communications Board

ECB is an agency of the State of Wisconsin that operates two public radio networks—WERN-FM and its affiliated music network stations and WHAD-FM and its affiliated Ideas Network stations. 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 Radio and Wisconsin Public Television to manage and operate their licenses. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. The directors of Wisconsin Public Radio and Wisconsin Public Television are jointly appointed by ECB and the University of Wisconsin System's Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the Balance Sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

### B. Wisconsin Public Radio Association, Inc.

WPRA is a publicly supported not-for-profit corporation whose purpose is to administer various fund-raising and membership duties of Wisconsin Public Radio and to provide support to WHA Radio and ECB's radio networks. WPRA solicits funds in the name of, and with the approval of, both WHA Radio and ECB. Under an affiliation agreement, WHA Radio and ECB staff, along with the WPRA Board of Directors, approve WPRA's budget. WHA Radio and ECB have access to WPRA's net resources and retain an ongoing allocated interest in WPRA's net assets. WHA Radio's and ECB's allocated interest in WPRA are calculated in accordance with the affiliation agreement that currently provides WHA Radio with 24 percent of WPRA net resources and ECB

with 76 percent. In addition, all net income from a quasi endowment held by WPRA on behalf of WHA is allocated to WHA Radio. This agreement is renegotiated annually based upon membership proportion.

WHA Radio includes its allocated share of WPRA assets, liabilities, revenues, and expenses in its financial statements. A summary of amounts related to WPRA prior to interorganizational eliminations is included in the following table. The financial statement amounts are reported net of eliminations of \$492,927 for both assets and liabilities as of June 30, 2011, and \$558,901 as of June 30, 2010. The financial statement amounts are also reported net of eliminations of \$1,455,727 for both revenues and expenses for FY 2010-11, and \$1,343,115 for FY 2009-10.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash and Investments	\$1,375,367	\$1,415,391
Receivables and Other Current Assets	91,077	71,013
Capital Assets	<u>489</u>	<u>3,419</u>
Total Assets	1,466,933	1,489,823
Payables and Other Current Liabilities	<u>(522,082)</u>	<u>(567,763)</u>
Net Assets	<u>\$ 944,851</u>	<u>\$ 922,060</u>
	<u>Fiscal Year Ended</u> <u>June 30, 2011</u>	<u>Fiscal Year Ended</u> <u>June 30, 2010</u>
Contributed Support and Revenue	<u>\$1,652,109</u>	<u>\$1,600,902</u>
Expenses:		
Programming and Production	68,247	19,634
Program Information	9,129	16,290
Management and General	30,759	33,000
Fund-raising	<u>211,805</u>	<u>204,012</u>
Total Expenses	<u>319,940</u>	<u>272,936</u>
Change in Net Assets before		
Contractual Support to WHA Radio	<u>\$1,332,169</u>	<u>\$1,327,966</u>

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data as of and for periods ended June 30, 2011, and June 30, 2010, follows. Copies of WPRA's separately issued financial statements may be obtained by contacting:

Financial Manager  
 Wisconsin Public Radio Association, Inc.  
 821 University Avenue  
 Madison, Wisconsin 53706

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash and Investments	\$2,297,705	\$2,194,704
Receivables and Other Current Assets	379,491	295,889
Capital Assets	<u>2,036</u>	<u>14,246</u>
Total Assets	2,679,232	2,504,839
Payables and Other Current Liabilities	<u>(730,052)</u>	<u>(595,825)</u>
Net Assets	<u>\$1,949,180</u>	<u>\$1,909,014</u>

	<u>Fiscal Year Ended June 30, 2011</u>	<u>Fiscal Year Ended June 30, 2010</u>
Contributed Support and Revenue	<u>\$6,734,086</u>	<u>\$6,583,803</u>
Expenses:		
Programming and Production	189,461	81,810
Program Information	38,036	67,875
Management and General	128,162	137,501
Fund-raising	882,519	850,051
Contract Support to WHA and ECB	<u>5,455,742</u>	<u>5,298,779</u>
Total Expenses	<u>6,693,920</u>	<u>6,436,016</u>
Change in Net Assets	<u>\$ 40,166</u>	<u>\$ 147,787</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 market value of endowments and accumulated interest held by the Foundation for WHA Radio was \$804,069 as of June 30, 2011, and \$708,589 as of June 30, 2010. The accumulated interest is available to be transferred to the University of Wisconsin-Extension and spent by WHA Radio. Accumulated interest totaled \$202,620 as of June 30, 2011, and \$175,782 as of June 30, 2010. WHA Radio did not transfer any funds from the Foundation in FY 2010-11 and transferred \$14,375 from the Foundation in FY 2009-10. Only the actual transfers from the Foundation are reflected in WHA Radio's financial statements.

## 10. ALLOCATION OF WLSU-FM

WLSU-FM is qualified for Community Service Grant assistance from the Corporation for Public Broadcasting (CPB). Beginning in FY 2002-03, its affiliated Music Network stations, WUEC-FM and WVSS-FM, were also combined with WLSU-FM for purposes of applying for Community Service Grant assistance.



WLSU-FM and WHA Radio and their affiliates are licensed to the University of Wisconsin System’s Board of Regents. Financial transactions for WLSU-FM and its affiliated stations are included as a part of WHA Radio’s financial statements.

The portion of WHA Radio’s statement of financial activity attributable to WLSU-FM and its affiliated stations’ revenues, direct expenses, and related allocable indirect expenses has been identified in the following tables for FY 2010-11 and FY 2009-10. The remaining revenues and expenses are attributable to WHA Radio and its affiliated Ideas Network stations and include any unallocated amounts of WLSU-FM.

<b><u>FY 2010-11</u></b>	<b><u>WHA-AM and Affiliates</u></b>	<b><u>WLSU-FM and Affiliates</u></b>	<b><u>WHA Radio Total</u></b>
<b>Operating Revenues</b>			
Grants and Contracts	\$4,180,357	\$ 0	\$4,180,357
Community Service Grant—CPB	402,557	139,900	542,457
Underwriting	710,857	45,592	756,449
Telecasting, Production, and Other Income	106,205	0	106,205
Membership Income	1,139,526	234,652	1,374,178
Major Gifts	<u>485,083</u>	<u>0</u>	<u>485,083</u>
Total Operating Revenues	<u>7,024,585</u>	<u>420,144</u>	<u>7,444,729</u>
<b>Operating Expenses</b>			
Program Services:			
Programming and Production	5,768,314	415,659	6,183,973
Broadcasting	416,402	37,261	453,663
Program Information	<u>274,520</u>	<u>27,489</u>	<u>302,009</u>
Total Program Services	<u>6,459,236</u>	<u>480,409</u>	<u>6,939,645</u>
Support Services:			
Management and General	1,974,972	187,971	2,162,943
Fund-raising and Membership Development	860,279	7,383	867,662
Underwriting	<u>463,241</u>	<u>60,433</u>	<u>523,674</u>
Total Support Services	<u>3,298,492</u>	<u>255,787</u>	<u>3,554,279</u>
Total Operating Expenses	<u>9,757,728</u>	<u>736,196</u>	<u>10,493,924</u>
Operating Loss	<u>(2,733,143)</u>	<u>(316,052)</u>	<u>(3,049,195)</u>
<b>Nonoperating Revenues (Expenses)</b>			
State General Appropriations	1,814,180	226,016	2,040,196
Donated Facilities and Administrative Support from the University of Wisconsin System	1,258,379	98,448	1,356,827
Gain/(Loss) on Sale of Assets	(5,030)	0	(5,030)
Investment Income	<u>387,855</u>	<u>0</u>	<u>387,855</u>
Total Nonoperating Revenues	<u>3,455,384</u>	<u>324,464</u>	<u>3,779,848</u>
Change in Net Assets	<u>\$ 722,241</u>	<u>\$ 8,412</u>	<u>\$ 730,653</u>

<u>FY 2009-10</u>	<u>WHA-AM and Affiliates</u>	<u>WLSU-FM and Affiliates</u>	<u>WHA Radio Total</u>
<b>Operating Revenues</b>			
Grants and Contracts	\$4,056,230	\$ 10,855	\$4,067,085
Community Service Grant—CPB	381,654	114,416	496,070
Underwriting	580,981	44,788	625,769
Telecasting, Production, and Other Income	136,111	0	136,111
Membership Income	1,049,913	251,105	1,301,018
Major Gifts	<u>517,657</u>	<u>0</u>	<u>517,657</u>
Total Operating Revenues	<u>6,722,546</u>	<u>421,164</u>	<u>7,143,710</u>
<b>Operating Expenses</b>			
Program Services:			
Programming and Production	5,676,867	460,514	6,137,381
Broadcasting	418,850	39,833	458,683
Program Information	<u>221,973</u>	<u>20,207</u>	<u>242,180</u>
Total Program Services	<u>6,317,690</u>	<u>520,554</u>	<u>6,838,244</u>
Support Services:			
Management and General	1,926,938	198,060	2,124,998
Fund-raising and Membership Development	846,250	17,063	863,313
Underwriting	<u>325,272</u>	<u>61,419</u>	<u>386,691</u>
Total Support Services	<u>3,098,460</u>	<u>276,542</u>	<u>3,375,002</u>
Total Operating Expenses	<u>9,416,150</u>	<u>797,096</u>	<u>10,213,246</u>
Operating Loss	<u>(2,693,604)</u>	<u>(375,932)</u>	<u>(3,069,536)</u>
<b>Nonoperating Revenues (Expenses)</b>			
State General Appropriations	1,697,202	264,918	1,962,120
Donated Facilities and Administrative Support from the University of Wisconsin System	1,220,779	107,647	1,328,426
Gain/(Loss) on Sale of Assets	0	(5,779)	(5,779)
Investment Income	<u>306,304</u>	<u>0</u>	<u>306,304</u>
Total Nonoperating Revenues	<u>3,224,285</u>	<u>366,786</u>	<u>3,591,071</u>
Change in Net Assets	<u>\$ 530,681</u>	<u>\$ (9,146)</u>	<u>\$ 521,535</u>

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# Report on Internal Control and Compliance ■

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## *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 Radio 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 Wisconsin Public Radio Association, Inc., as described in our opinion on WHA Radio. While the financial statements of Wisconsin Public Radio Association, 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 Radio'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 Radio's internal control. Accordingly, we do not express an opinion on the effectiveness of WHA Radio'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 Radio'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 Radio and WHA Television, 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. 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 statements. 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 Radio'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 additional 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 Radio'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 audits 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 findings 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 Radio'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