



Financial Statements  
June 30, 2016 and 2015

University of Oklahoma  
KGOU-FM Radio Station

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis .....	3
Financial Statements	
Statements of Net Position.....	13
Statements of Revenues, Expenses and Changes in Net Position .....	14
Statements of Cash Flows .....	15
Notes to Financial Statements .....	16
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 <i>Government Auditing Standards</i> .....	28



## Independent Auditor's Report

To the Board of Regents of the University of Oklahoma  
KGOU-FM Radio Station  
Norman, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of KGOU-FM Radio Station (the Station), a department of the University of Oklahoma (the University), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of June 30, 2016, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the Station is considered a department of the University. The financial statements of the Station are intended to present the financial position, changes in financial position, and cash flows of only the activities of the Station. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2016, the changes in its financial position or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

The financial statements of the Station, as of and for the year ended June 30, 2015, were audited by other auditors whose report dated February 12, 2016, expressed an unmodified opinion on those statements.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, on our consideration of the Station's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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* in considering the Station's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma  
January 13, 2017

## **Introduction**

KGOU-FM Radio Station (the "Station") is a full service public radio station, licensed to the University of Oklahoma (the "University"), serving the greater Oklahoma City metropolitan area, towns in Pontotoc, Seminole and Grady counties, and northwestern Oklahoma. Its format is primarily news/talk on weekdays, with jazz, blues, and world music programs on weekends, broadcasting programs from National Public Radio ("NPR"), Public Radio International ("PRI") and other public radio networks.

In fiscal year 2016, the staff of the Station includes 12 full-time and 5 part-time employees. The station also employs and houses two reporters employed for State Impact Oklahoma, a collaborative effort of public broadcasters in the state.

The Station originates from studios located on the campus of the University and is delivered by four transmitters and four translators to more than one million residents of central and northwestern Oklahoma. The Station also streams the broadcast audio over the internet and has a robust service on its webpage, [www.kgou.org](http://www.kgou.org).

The licensee is the Board of Regents of the University of Oklahoma and includes call letters KGOU (Norman, OK), KROU (Spencer, OK), K276ET (Seminole, OK) K250AU (Ada, OK), K295BL (Chickasha, OK), KWOU (Woodward, OK), KOUA (Ada, OK) and K286BZ (Shawnee, OK).

## **Overview of the Financial Statements and Financial Analysis**

Within this section of the Station's annual financial report, the Station's management provides a narrative discussion and analysis of the financial activities of the Station for the fiscal year ended June 30, 2016 and 2015. The Station's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

## **Financial Highlights**

The Station's total assets exceeded liabilities by \$574,004 for the June 30, 2016 fiscal year. This compares to fiscal years 2015 and 2014 when assets exceeded liabilities by \$748,744 and \$849,147 respectively.

Capital assets including property and equipment, net of accumulated depreciation was \$366,309, a decrease of 23.2% in fiscal year 2016 from \$477,225 in fiscal year 2015, which was a decrease of 19.6% compared to \$593,351 in fiscal year 2014. The decrease in fiscal year 2016 of \$110,916 was because KGOU not having any capital projects during the fiscal year.

The Unrestricted Net Position of \$250,343 represents the portion available to maintain the Station's continuing obligations to citizens and creditors in fiscal year 2017. This is a decrease of 37% over fiscal year 2015 and a 14% decrease in fiscal year 2015 over fiscal year 2014. The Unrestricted Net Position in fiscal year 2015 was \$394,246 and in fiscal year 2014 totaled \$458,373.

During fiscal year 2016, total liabilities for the Station decreased by 16.8% or \$65,087 to \$321,371 due to a decrease in short and long term liabilities. During fiscal year 2015, total liabilities decreased by 29.6% or \$161,125 to \$386,458, from fiscal year 2014.

**Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report the Station's net position and how it has changed. Net position is the difference between assets plus deferred outflows and liabilities plus deferred inflows. This is one way to measure the Station's financial health or position. Over time, the increases or decreases in the Station's net position are an indicator of whether its financial health is improving or not.

These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, which is consistent with the accounting method used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following tables summarize the Station's assets, liabilities and net position as of June 30, 2016, 2015, and 2014, and the Station's revenue, expenses and changes in net position for the same dates.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Current assets	\$ 529,066	\$ 657,977	\$ 804,379
Capital assets, net of accumulated depreciation	<u>366,309</u>	<u>477,225</u>	<u>593,351</u>
Total assets	<u>\$ 895,375</u>	<u>\$ 1,135,202</u>	<u>\$ 1,397,730</u>
<b>Liabilities</b>			
Current liabilities	\$ 321,371	\$ 343,731	\$ 425,856
Long-term advance from OU, net of current	<u>-</u>	<u>42,727</u>	<u>122,727</u>
Total liabilities	<u>321,371</u>	<u>386,458</u>	<u>548,583</u>
<b>Net Position</b>			
Net investment in capital assets	323,582	354,498	390,624
Restricted - expendable	79	-	150
Unrestricted	<u>250,343</u>	<u>394,246</u>	<u>458,373</u>
Total net position	<u>574,004</u>	<u>748,744</u>	<u>849,147</u>
Total liabilities and net position	<u>\$ 895,375</u>	<u>\$ 1,135,202</u>	<u>\$ 1,397,730</u>
<b>Revenues, expenses and changes in net position</b>			
Operating revenue	\$ 1,365,953	\$ 1,348,342	\$ 1,368,150
Operating expenses	<u>2,066,534</u>	<u>2,164,779</u>	<u>2,105,317</u>
Operating loss	(700,581)	(816,437)	(737,167)
Nonoperating revenues	<u>525,841</u>	<u>716,034</u>	<u>716,684</u>
Change in net position	<u>\$ (174,740)</u>	<u>\$ (100,403)</u>	<u>\$ (20,483)</u>

### Operating and Non-Operating Revenues

The following table details the operating revenue and non-operating revenue for the Station for the fiscal years ending on June 30, 2016, 2015 and 2014.

	2016	2015	2014
<b>Operating revenues</b>			
Corporation for Public Broadcasting (CPB) grant	\$ 161,556	\$ 161,252	\$ 160,541
CPB special grant	-	27,573	40,969
Underwriting	535,672	487,895	467,229
In-kind underwriting	69,145	49,240	64,836
Capital contributions	-	210	450
Memberships	516,018	517,056	498,247
StateImpact Oklahoma	76,130	92,871	87,201
StateImpact Oklahoma foundation grants	-	-	37,500
Miscellaneous	7,432	12,245	11,177
<b>Total operating revenues</b>	<b>1,365,953</b>	<b>1,348,342</b>	<b>1,368,150</b>
<b>Nonoperating revenues</b>			
General allocations from OU	203,967	225,526	220,686
Donated facilities and administrative support	299,441	473,047	471,731
On-behalf payments for OTRS	22,433	17,683	24,267
Loss on capital assets	-	(222)	-
<b>Total nonoperating revenues</b>	<b>525,841</b>	<b>716,034</b>	<b>716,684</b>
<b>Total revenues</b>	<b>\$ 1,891,794</b>	<b>\$ 2,064,376</b>	<b>\$ 2,084,834</b>

The Station relies on three main sources of income: an annual allocation and related in-kind support from the University, which is categorized as non-operating revenue, and the operating revenue includes an annual grant from the Corporation for Public Broadcasting, and private donations, both cash and in-kind. Private giving includes underwriting, in-kind underwriting, capital contributions, and membership revenue and such donations are used for operating, capital expenses and special projects. Special projects sometimes include grants and contracts.

The table above summarizes the Station's operating revenues for the years ended June 30, 2016, 2015, and 2014. Total operating revenue of \$1,365,953 in fiscal year 2016 increased \$17,611 or 1.3% compared to fiscal year 2015. The total operating revenue in fiscal year 2015 was \$1,348,342, a decrease of \$19,808 or 1.5% when compared to 2014.

For 2016, the private giving total was \$1,120,835 and represented 59.2% of the station's operating and non-operating income. For 2015, the private giving total was \$1,054,401 and represented 51.1% of the station's operating and non-operating income.

Private giving in 2016 increased \$66,434 or 6.3% over the previous fiscal year. Private giving in 2015 increased \$23,639 or 2.3% over fiscal year 2014. Private giving was \$1,120,845 in fiscal year 2016, \$1,054,401 in fiscal year 2015, and \$1,030,762 in fiscal year 2014.

### **Operating and Non-Operating Revenues Discussion (Continued)**

Membership decreased 0.2% or \$1,038 in fiscal year 2016 from 2015. Membership increased 3.8% or \$18,809 in fiscal year 2015 over 2014. Membership revenue was \$516,018 in fiscal year 2016, \$517,056 in fiscal year 2015; and \$498,247 in fiscal year 2014.

Underwriting, both cash and in-kind, increased \$67,682 or 12.6% in fiscal year 2016 over 2015. The same underwriting total increased \$5,070 or 1.0% in fiscal year 2015 over 2014. Underwriting revenue was \$604,817 in 2016, \$537,135 in 2015, and \$532,065 in 2014.

Capital contributions decreased insignificantly in fiscal year 2016 to zero, compared to fiscal year 2015 donations of \$210, and \$450 in fiscal year 2014. This was due to the Station not conducting any capital campaigns for several years.

The grant from the Corporation for Public Broadcasting remained nearly flat in fiscal year 2016 from 2015. The grant increased \$304 to \$161,556 from \$161,252 in 2015, about .2%. The grant was about 8.5% of the Station's operating and non-operating income. In 2015, the grant represented 7.8% of the Station's operating and non-operating income. In 2014, this grant represented 7.7% of the Station's operating and non-operating income.

In fiscal year 2014, the Station received a special grant from the Corporation for Public Broadcasting for additional coverage of the aftermath of the May 2013 tornados in Moore, Oklahoma. The grant was for \$75,000 and the contract was from September 1, 2013 through September 30, 2014. CPB advanced \$22,500 during 2014 and expenses were \$40,969, with a receivable as of June 30, 2014 of \$18,469 from CPB. The project was completed in September of 2014, with an additional \$27,573 of expenses. CPB reimbursed the Station for \$27,573 during fiscal year 2015.

StateImpact Oklahoma is a journalism project led by the Station on behalf of the Oklahoma Public Media Exchange, a consortium. In fiscal year 2016, StateImpact Oklahoma was funded with payments of \$76,130 from the consortium partners, \$25,377 from KGOU's own funds, and \$60,377 in underwriting which is included in the KGOU underwriting totals. Expenses in fiscal year 2016 totaled \$159,646, an increase of 5.2% over the previous fiscal year. The increase is mostly a result of increased cost of obtaining business underwriting for the project.

In fiscal 2015, StateImpact Oklahoma received \$135,252 of revenue from a variety of sources, and the Station also provided \$25,101 from its own funds, for a total of \$160,353, an increase of 11.7% over the previous fiscal year when it had \$143,580. This project received \$16,667 of its revenue as an additional payment from NPR. The Station received \$75,303 from partner stations. The station also raised \$42,381 in underwriting and \$901 in private donations, all of which was used in the 2015 fiscal year.

In fiscal year 2014, StateImpact Oklahoma received \$124,701 of revenue from a variety of sources, and the Station also provided \$18,879 from its own funds, for a total of \$143,580. This project received 11% of its revenue from the contract with NPR. The Station received \$56,636 from partner stations and \$37,500 in grants obtained by the Station from the Ethics and Excellence in Journalism Foundation. The station also raised \$14,706 in private donations, all of which was used the 2014 fiscal year.

**Operating and Non-Operating Revenues Discussion (Continued)**

Miscellaneous income in the past has included fees from usages of the studios, ticket sales to the Station's events, and other unrestricted gifts from the University. The miscellaneous income in fiscal year 2016 was \$7,432 for studio rental and rental of space on the KGOU tower, a decrease in income of \$4,813 or 39.3%. Fiscal year 2015 had studio rental income at \$12,245, up slightly from \$11,177 in fiscal year 2014.

In fiscal year 2016, the University of Oklahoma provided \$203,967 in cash and \$299,441 of in-kind support, for a total of \$503,408. This category decreased 27.9% over the prior fiscal year, or \$195,165. In the 2015 fiscal year, the University provided \$225,526 in cash and \$473,047 of in-kind support and for a total of \$698,573 in non-operating revenue and expenses. This category increased by \$6,156 or 0.9% in fiscal year 2015 over 2014.

Cash support from the University in fiscal year 2016 decreased \$21,559 or 9.6% due to rescissions by the State of Oklahoma mid fiscal year. In fiscal year 2015, cash support from the University increased by \$4,840 or 2.2% over fiscal year 2014.

In-kind support for 2016 decreased \$173,606 or 36.7%, related in part to the decline in cash support, and for certain realignments of University units away from support for the Station. During fiscal year 2015, in-kind support increased \$1,316 or .3% over fiscal year 2014.

**Operating Expenses**

The following table summarizes the station's operating expenses for the years ending June 30, 2016, 2015, and 2014.

	2016	2015	2014
Operating expenses			
Program services			
Programming and production	\$ 831,710	\$ 861,279	\$ 889,620
Broadcasting	382,106	448,064	413,653
Program information	97,262	101,311	107,685
StateImpact Oklahoma Project	159,646	151,704	147,668
Total program services	1,470,724	1,562,358	1,558,626
Support services			
Fundraising and membership	161,126	117,424	122,434
Underwriting	188,791	217,933	177,235
Management and general	245,893	267,064	247,022
Total support services	595,810	602,421	546,691
Total operating expenses	\$ 2,066,534	\$ 2,164,779	\$ 2,105,317

### Operating Expenses (Continued)

Operating expenses in fiscal year 2016 were \$2,066,534, a decrease of \$98,245 or 4.5% from the prior fiscal year. The decrease in expenses in all areas of operation was the result of a 27.9% decrease in both cash and in-kind support from the University. Other areas of decrease included Outside Services, Supplies, Travel, Repairs and Maintenance, and Professional Services. Areas of increase included Salaries and Wages, Personnel Benefits, Purchased Programming, Computer Expenses, and Equipment Rental. In comparison, fiscal year 2015 expenses were \$2,164,779, an increase of \$59,462 or 2.8% over fiscal year 2014.

All programming expenses in fiscal year 2016, including the categories of Programming and Production, Distribution, Program Information and StateImpact Oklahoma, totaled \$1,470,724 or 71.2% of the Station's total operating expense. These programming expenses in fiscal year 2015 totaled \$1,562,358 or 72.1% of the Station's total operating expense. This compares to 2014 when programming expenses totaled \$1,558,626 or 74% of total expenses.

Fiscal year 2016 programming expenses decreased by \$91,634 or 5.9% from the prior fiscal year. Much of the decrease is attributed to the reduction of indirect support by the University, and cuts in Travel, Outside Services, and Advertising as a result of the State of Oklahoma rescission. Areas of increase included two annualized staff position Wages, related Benefits and Purchased Programming. Fiscal year 2015 programming expenses increased by \$3,732 or 0.2% over fiscal year 2014.

All support expenses in fiscal year 2016, including the categories of Management and General, Fundraising, Membership, and Underwriting totaled \$595,810 or 28.8% of the Station's total operating expenses. This compares to fiscal year 2015 when these expenses totaled \$602,421 or 27.9% of the Station's total operating expenses. Fiscal year 2014 expenses totaled \$546,691 or 26% of the Station's operating expenses.

This amount decreased by \$6,611 or 1.1% in fiscal year 2016 from the prior fiscal year. In 2015, these expenses increased by \$55,730 or 10.2% over fiscal year 2014. There were decreases in the indirect support by the University, and cuts in Outside Services, and Advertising as a result of the State of Oklahoma rescission. The increases were a result of a new staff position in the Fundraising area, plus related Benefits, and new computer software.

In the largest category of expense, Salaries, Wages and Benefits in fiscal year 2016 totaled \$839,173 and comprised 40.6% of all expenses. This was an increase of 8.4% over the prior fiscal year or \$64,963. The increase is the result of the addition of a new staff member in the Development Department, annualizing of positions in the Programming Department, and related small increases in Personnel Benefits.

In fiscal year 2015, salaries, wages and fringe benefits constituted 35.7% of all expenses, a small increase over fiscal year 2014 when this category consumed 35.5% of all expenses. Salaries, wage and fringe benefits increased \$10,445 or 1.4% in fiscal year 2015 over 2014 mostly due to a small wage and salary increase for all employees.

The second largest category of expense is the cost of purchased programming and satellite fees. In fiscal year 2016, this category increased to \$402,417, an increase of 4.1% or \$16,024 over the prior fiscal year. This category consumed 19.5% of all expenses. The increase is entirely a result of increasing program charges from various program suppliers.

The cost of purchased programming and satellite fees increased about \$32,511 or 9.2% in fiscal year 2015 over 2014. In fiscal year 2015, this category of expense was 17.8% of all expenses, and in 2014, was 17% of all expenses.

### Operating Expenses (Continued)

The third largest category of expense, in-kind or indirect expenses from the University of Oklahoma, was \$201,653 in fiscal year 2016 and represents 9.8% of all expenses. This support and related expenses decreased 44.8% percent over the prior fiscal year as a result of a rescission of state funds and reallocations of units no longer directly supporting the Station. In-kind support and related expenses from the University was \$365,073 in fiscal year 2015, compared to \$278,981 in fiscal year 2014.

Outside services in fiscal year 2016 totaled \$190,525, and decreased 12.4% or \$26,963 from the prior fiscal year. The final quarter of the Tornado Project occurred in fiscal 2015 and was not repeated in 2016, and other services such as engineering consultants or legal services were also not needed in 2016. This represented 9.2% of the Station's expenses in fiscal year 2016.

Outside Services in fiscal year 2015 totaled \$217,488 compared to \$179,183 in 2014. This was an increase of \$38,305 or 21.4% over 2014. The increase in fiscal year 2015 is a result of an increase of \$37,529 or 31.6% in fundraising outside services. In 2014 the increase was a result of the "Oklahoma Tornado Project" combined With a 43.2% decrease in outside services in the Management and General category due to fewer engineering and legal fees in fiscal year 2014. In fiscal year 2015 this category represented 10.0% of all expenses. Depreciation in fiscal year 2016 totaled \$143,730, decreasing \$1,814 or 1.2% from the prior fiscal year. This was a result of no major capital purchases in 2016 and represents 7.0% of the Station's expenses. Depreciation in fiscal year 2015 totaled \$145,544, compared to \$142,844 in 2014. This was a small increase of \$2,700 or 1.9% from 2014 as a result of no major equipment purchases in 2015. In fiscal year 2015, this category represents 6.7% of all expenses.

University-donated professional services decreased in fiscal year 2016 from the prior fiscal year by \$2,215 or 6.8%. This represents 1.5% of the Station's expenses. The donation by the University is the electrical cost at the various transmitter sites and is not included in the Indirect Support category referenced in the above paragraph. University donated professional services decreased \$81,730 or 71.4% in fiscal year 2015 from 2014, a result of a change in how the occupancy of the space was calculated.

All other categories of expenses totaled just 12.5% of all expenses in 2016, compared to 11.2% of all expenses in fiscal year 2015, and 13.11% of the fiscal year 2014 expenses. The station wrote off \$577 in bad debt in fiscal year 2016. These remaining categories increased \$15,178 or 6.2% in fiscal year 2016 over 2015.

### **Capital Assets**

At June 30, 2016, the Station had \$366,309 in capital assets, net of accumulated depreciation, compared to 2015 when the Station had \$477,225 in capital assets, net of accumulated depreciation. At the end of 2014, the Station had \$593,351 in capital assets, net of accumulated depreciation. Depreciation for 2016, 2015, and 2014 was \$143,730, \$145,544 and \$142,844. The Station did not have any major capital projects in fiscal years 2016, 2015 or 2014.

### **OU Long-term Advance**

During fiscal year 2006, the University provided an \$800,000 long-term advance for the new studios and offices. In fiscal year 2008, the University provided an additional \$42,727 advance. The University required the Station to repay the initial advance over 10 years, by June 30, 2016, with the first payment made in fiscal year 2007. The Station made \$80,000 payments in fiscal years 2007 through 2016, reducing the advance to \$42,727 as of June 30, 2016. That amount, \$42,727 is due in fiscal year 2017.

### **Other Significant Information and Future Activities**

The Station continued to be the lead station and administrative partner for the StateImpact Oklahoma project which is a partnership between the Station and three other public radio stations in Oklahoma. While the project began in 2012 with a matching grant from National Public Radio (NPR), beginning in fiscal year 2014 the project is funded by private gifts, underwriting and equal payments from each of the four partners. The partners have agreed by contract to continue the project through fiscal years 2016 and 2017.

In fiscal year 2016, StateImpact Oklahoma was funded with payments of \$76,130 from the consortium partners, \$25,377 from KGOU's own funds, and \$60,377 in underwriting which is included in the KGOU underwriting totals. Expenses in fiscal year 2016 totaled \$159,646, an increase of 5.2% over the previous fiscal year. The increase is a result of increased cost of obtaining business underwriting for the project.

In fiscal year 2015, StateImpact Oklahoma received \$135,252 of revenue from a variety of sources, and the Station also provided \$25,101 from its own funds, for a total of \$160,353, an increase of 11.7% over the previous fiscal year when it had \$143,580. This project received \$16,667 of its revenue as an additional payment from NPR. The Station received \$75,303 from partner stations. The station also raised \$42,381 in underwriting and \$901 in private donations, all of which was used in the 2015 fiscal year.

During fiscal year 2014, the Station was awarded a construction permit by the Federal Communications Commission for a 250-watt translator facility in Ada, Oklahoma where the Station already owns and operates a 250-watt translator and a 2,000-watt transmitter. The provisions of the construction permit require the facility to be built within three years. At nearly the same time, the Station was awarded a construction permit by the FCC for a 250-watt translator facility in Shawnee, Oklahoma where the Station desired to provide service.

### **Other Significant Information and Future Activities (Continued)**

To save resources, the Station negotiated an agreement with another non-commercial broadcaster who also received a construction permit for a translator in Shawnee, Oklahoma. The agreement outlined a joint installation where the two entities owned their own transmitters but used a common broadcast antenna and related equipment, and shared a common building. The agreement provided for both entities to pay 50% of the leasing costs to the tower owner, and for the other entity to purchase and operate the common-use equipment. The Station would have ten years of free access to the common-use equipment in return for the assignment of the Ada, Oklahoma translator construction permit. The agreements become effective in fiscal year 2015 and the Shawnee translator was installed in the early months of fiscal year 2015.

The change in the definition of exempt versus non-exempt employees by the Federal Labor Standards Act will affect the Station's operational expenses in 2017. Although as of this writing, a federal judge has halted the implementation of the rules changes, the University implemented the changes two months early on October 1, 2016. At this time, the University has indicated that the changes will not be reversed. The Station has budgeted extra funding for wages for the newly non-exempt staff for 2017.

### **Economic Outlook**

The economic outlook for the Station is dependent on the various influences of the station's three main sources of funding.

About 8.5% of the Station's total operating and non-operating income in fiscal year 2016 was from the Corporation for Public Broadcasting ("CPB"). CPB in turn relies on annual appropriations from the Federal government.

The Corporation is funded three years in advance by the U.S. Congress. The Station's CPB grant for fiscal year 2016 was \$161,556. The appropriation to the Corporation for Public Broadcasting was \$445 million for fiscal years 2016 and 2017. CPB has requested \$445 million for 2018 to be appropriated as part of the federal fiscal year 2016. Nonetheless, the sequestration requirement on appropriations is still in effect unless changed by Congress for federal fiscal years 2018 through 2022.

Assuming CPB continues to be funded by the Congress at some level, the Station must continue to meet all criteria to be eligible for the grant, in order to continue to receive some income from this source. Nonetheless, the Station is making contingency plans for the possibility that the grant could be rescinded in future fiscal years.

About 10.8% of the station's total operating budget is through the direct cash allocation of education and general funds that are appropriated to the University by the Oklahoma state legislature. About 15.8% of the operating budget comes from indirect support, including fringe benefits that match certain salaries contained in the direct cash, and indirect support which include physical and general administrative support.

### **Economic Outlook (Continued)**

The University decreased direct cash support for the Station in the amount of \$21,559 or 9.6% in fiscal year 2016 as a result of a rescission by the State of Oklahoma. Funds for fiscal year 2017 were also reduced by another 6%.

Station management does not expect any increases in direct University funding in the foreseeable future and will manage such a decrease by closely monitoring expenses and significantly increasing fundraising efforts. Station management believes that the University is sufficiently committed to the purpose of the station and that the support to the Station will be consistent with other units of the University.

The remainder of the Station's operating income comes from private donations from listeners and businesses which are directly related to the listener's perceptions of the quality of the program service.

Audience figures, as measured quarterly by Nielsen, Inc., increased by 6.4% in fiscal year 2016 over 2015. In fiscal year 2016, the station had an average of 70,500 different listeners per week, an average of 3,000 listeners at any time, and an average time spent listening of 5.40 hours per week. These measurements are often considered a precursor to private giving as it measures audience loyalty, and thus the self-interest embodied in making a private financial gift.

Private giving in fiscal year 2016 increased 6.2% over the prior fiscal year. Fundraising for operations during fiscal year 2017 seems on pace with last fiscal year and two quarters of audience measurement sees a maintenance of fiscal year 2016 audience numbers.

Changes in the economic outlook for 2017 and beyond will influence the Station's ability to raise unrestricted donations in 2017 and beyond in order to fund all its obligations.

Economic conditions for Oklahoma are forecasted by the OSU College of Business Economic Outlook. The latest briefing in early December 2016 projected the economic health of Oklahoma for 2017 would be fairly flat due to the continued over-supply of oil and natural gas. The report predicted the strongest economic growth, particularly a growth in the employment rate in Oklahoma City, the center of the Station's coverage area, while rural areas, particularly those who depend on oil and gas extraction, will decline further. Further affecting the flat growth projection will be the resulting decline or flat rate in state revenues and that effect on various state agencies, which will offset any influence national growth may have on Oklahoma business. All manufacturing sectors were predicted to decline in employment, while construction, education and tourism sectors anticipate increases in employment.

The Station's management had long anticipated the various capital equipment projects, the possibility of a rapid decline in the federal funding, and/or the impact of a state recession. The impact of the state recession was felt in 2016 and will be felt in 2017. Management and staff worked to increase the Station's net position to provide a cushion against the loss of income. Those efforts continued in subsequent fiscal years. Management expects to use some of that fund balance for final repayment of the loan from the University in coming year, as well as to fund capital improvements and cautiously expand operations.

### **Contacting the Department's Financial Management**

This financial report is designed to provide interested parties with a general overview of the Station's finances and to demonstrate the Station's accountability for the money it receives. If you have questions about this report or need additional financial information, contact KGOU-FM Public Radio, 860 Van Vleet Oval, Norman, OK 73019.

**KGOU-FM Radio Station**  
 Statements of Net Position  
 June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 30,497	\$ 52,301
Accounts receivable	217,690	223,925
Funds held for the benefit of the Station	280,879	381,751
Total current assets	529,066	657,977
Capital assets, net of accumulated depreciation	366,309	477,225
Total assets	\$ 895,375	\$ 1,135,202
 <b>Liabilities and Net Position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 25,792	\$ 15,375
Accounts payable to OU	-	19,047
Accrued salaries	4,237	3,288
Accrued compensated absences	74,322	64,022
Unearned revenue	174,293	161,999
Current portion of long-term advance from OU	42,727	80,000
Total current liabilities	321,371	343,731
Long-term advance from OU, net of current portion	-	42,727
Total liabilities	321,371	386,458
<b>Net position</b>		
Net investment in capital assets	323,582	354,498
Restricted for		
Expendable	79	-
Unrestricted net position	250,343	394,246
Total net position	574,004	748,744
Total liabilities and net position	\$ 895,375	\$ 1,135,202

**KGOU-FM Radio Station**  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues		
Grants	\$ 161,556	\$ 188,825
Underwriting	535,672	487,895
In-kind donations	69,145	49,240
Capital contributions	-	210
Memberships	516,018	517,056
StateImpact Oklahoma	76,130	92,871
Miscellaneous income	7,432	12,245
	<u>1,365,953</u>	<u>1,348,342</u>
Operating expenses		
Salaries and wages	621,436	574,933
Personnel benefits	217,737	199,277
Supplies	9,599	11,461
Travel	17,379	22,750
Communications	27,403	26,434
Other communications	4,320	3,865
Postage and shipping	9,851	7,024
Printing	4,957	4,242
Memberships and subscriptions	13,334	10,318
Outside services	190,525	217,488
Purchased programming	402,417	386,393
Advertising	48,515	46,489
Donated rent of space	26,030	26,030
Other operating expense	657	-
Computer expense	24,933	17,564
Equipment rental	62,949	50,297
Repairs and maintenance	8,758	17,031
Depreciation	143,730	145,544
Professional services	30,351	32,566
Indirect support	201,653	365,073
	<u>2,066,534</u>	<u>2,164,779</u>
Total operating expenses		
	<u>(700,581)</u>	<u>(816,437)</u>
Nonoperating revenues (expenses)		
General allocations from OU	203,967	225,526
Donated facilities and administrative support	299,441	473,047
On-behalf payments for OTRS	22,433	17,683
Loss on capital assets	-	(222)
	<u>525,841</u>	<u>716,034</u>
Total nonoperating revenues		
Net decrease in net position	(174,740)	(100,403)
Net positon, beginning of year	<u>748,744</u>	<u>849,147</u>
Net position, end of year	<u>\$ 574,004</u>	<u>\$ 748,744</u>

**KGOU-FM Radio Station**  
 Statements of Cash Flows  
 Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from contributions, grant, underwriting and miscellaneous receipts	\$ 1,384,482	\$ 1,479,724
Cash paid to suppliers	(792,820)	(855,077)
Cash paid to employees	(805,491)	(755,553)
Net Cash used in Operating Activities	(213,829)	(130,906)
Cash Flows from Noncapital Financing and Other Activities		
Cash received from University allocations	203,967	225,526
Cash Flows from Capital and Related Financing Activities		
Cash paid for capital assets	(32,814)	(29,640)
Repayment of long-term advance	(80,000)	(80,000)
Net Cash used in Capital and Related Financing Activities	(112,814)	(109,640)
Cash Flows from Investing Activities		
Change in funds held for the benefit of the Station	100,872	56,754
Net Increase (Decrease) in Cash and Cash Equivalents	(21,804)	41,734
Cash and Cash Equivalents, Beginning of Year	52,301	10,567
Cash and Cash Equivalents, End of Year	\$ 30,497	\$ 52,301
Reconciliation of Operating Loss to Net Cash Used In Operating Activities		
Operating loss	\$ (700,581)	\$ (816,437)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	143,730	145,544
On-behalf contributions from OTRS	22,433	17,683
Facilities and administrative support	299,441	473,047
Changes in assets and liabilities		
Accounts receivable	6,235	131,382
Accounts payable	10,417	(8,581)
Accounts payable to OU	(19,047)	(17,311)
Accrued expenses	11,249	974
Unearned revenue	12,294	(57,207)
Total adjustments	486,752	685,531
Net Cash from Operating Activities	\$ (213,829)	\$ (130,906)

## **Note 1 - Summary of Significant Accounting Policies**

The accompanying financial statements include the accounts of the KGOU-FM Radio Station (the Station) of the University of Oklahoma (the University). The Station is licensed by the Federal Communications Commission (the FCC) to the Board of Regents of the University of Oklahoma to serve the community as a public radio station. It is a unit of the College of Continuing Education and fulfills a public service mission of the University. The Station broadcasts 365 days per year, 24 hours per day with high-quality, noncommercial, public radio news, information, and entertainment. The Station and its related transmitters form a network to serve the greater Oklahoma City market, central Oklahoma, and northwest Oklahoma under the call letters KGOU (Norman, OK), KROU (Spencer, OK), K276ET (Seminole, OK), K250AU (Ada, OK), K295BL (Chickasha, OK), KWOU (Woodward, OK), KOUA (Ada, OK) and K286BZ (Shawnee, OK).

The FCC grants the Station the exclusive right to frequencies in the central and northwest Oklahoma Area for a period of eight years and the licenses to KGOU, KROU, KWOU and KOUA were renewed in June 2013 for an additional eight years, until June 1, 2021. All other licenses obtained for other translators, transmitters and related licensed installations will also expire on the same date.

### **Financial statement presentation**

The Station's financial statements are presented in accordance with the requirements of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments, and GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. The Station is required to present a statement of net position classified between current and noncurrent assets and liabilities and deferred outflows and inflows, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

### **Basis of accounting**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

### **Cash and cash equivalents**

The Station considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### **Pledges**

The Station engages in fund-raising campaigns manifested by on-air, mail fund-raising appeals, and appeals on the various digital platforms the Station operates. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Station for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. Uncollected pledges that are not enforceable against contributors are not shown as assets on the statement of net position.

### **Capital assets**

The Station follows the University's capitalization and depreciation policies. Capital assets are recorded at cost at the date of acquisition, or fair value on the date of donation if acquired by gift. For broadcasting and office equipment, the capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Depreciation is provided over the estimated useful lives of the assets on the straight-line methods, ranging from 3 to 10 years. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

### **Accounts payable to OU**

Accounts payable to OU represents a previous deficit cash balance to the Station, but has been funded by the University.

### **Compensated absences**

Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statements of net position and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

### **Unearned revenue**

Unearned revenue at June 30, 2016 and 2015 consists of \$174,293 and \$161,999, respectively, in underwriting revenues related to amounts received by the Station but have not been earned.

### **Income taxes**

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, income generated from activities unrelated to the University's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B). Such amounts have historically been insignificant. As a department of the University, the Station is also exempt from income taxes.

### **Programming**

Licensed program materials from National Public Radio (NPR) are expensed when purchased.

### **Contributed facilities and indirect administrative support**

The Station occupies without charge certain premises located in and owned by the University. The estimated fair value of the premises is reported as revenue and expenditure in the period when the premises are used. Indirect administrative support includes allocable portions of institutional support, physical plant operations and library costs. The amount of University expenditures attributable to the Station are allocated based upon suggested formats of the CPB. For the year ended June 30, 2016 and 2015, the allocation methods were as follows:

**Institutional support** - These costs are allocated based upon the Station's salaries, wages and benefits to total direct salaries, wages and benefits of the University.

**Physical plant operations** - Physical plant costs are allocated based upon net usable square feet. The base financial data used in the calculation are taken directly from the University's annual financial statements.

Donated facilities and indirect administrative support of \$201,653 and \$365,073 were recorded for the years ended June 30, 2016 and 2015, respectively.

### **In-kind contributions**

The CPB determined that it would not allow in-kind contributions for programs, compact discs, and volunteer services to be included for grant calculation purposes. Therefore, the CPB and the NPR have not furnished values for these in-kind contributions. These amounts have not been included in the accompanying financial statements; and the Station does not consider these in-kind contributions to be an integral part of the operations. The estimated fair value of in-kind contributions, primarily advertising and translator sites, are recorded as revenue and expensed in the period used and was \$69,145 and \$49,240 for the years ended June 30, 2016 and 2015, respectively.

### **Operating revenue and expenses**

The Station distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Station's principal ongoing operations. The principal operating revenues of the Station are grants for public broadcasting entities, including grants to enhance the quality of programming and expand the scope of public broadcasting services, as well as revenues received from underwriting and memberships and contributions from donors.

Operating expenses include cost of services, payments to suppliers and employees, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Revenue recognition**

Grant funds are reported as revenue when eligibility requirements have been met. Grant funds that have been received but have not met eligibility requirements are reported as unearned revenue. Revenue from underwriting and memberships is reported as revenue when received. Contributions are from fundraising from special events and are reported as operating revenue when received.

## **Net position**

The Station's net position is classified as follows:

*Net investment in capital assets* - This represents the University's investment in capital assets, net of accumulated depreciation, and related deferred outflows of resources, reduced by outstanding debt obligations and related deferred inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted net position-expendable* - The restricted expendable component of net position includes resources in which the Station is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted net position* - Unrestricted net position represents resources derived from the ongoing operations of the Station. These resources may be used at the discretion of the governing board to meet current expenses for any purpose.

It is the Station's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

## **Deferred outflows of resources**

Deferred outflows are the consumption of net position by the Station that are applicable to a future reporting period. At June 30, 2016 and 2015, the Station did not have any deferred outflows of resources.

## **Deferred inflows of resources**

Deferred inflows are the acquisition of net position by the Station that are applicable to a future reporting period. At June 30, 2016 and 2015, the Station did not have any deferred inflows of resources.

## **Funds held in trust by others**

The Station maintains cash funds held in trust by the University of Oklahoma Foundation, Inc. (the Foundation). The Foundation is a private Foundation organized for the purpose of receiving and administering gifts intended for the benefit of the University. At June 30, 2016 and 2015, the Foundation maintained cash balances on behalf of the Station totaling \$280,879 and \$381,751, respectively.

**Note 2 - Cash and Funds held for the Benefit of the Station**

The University acts as depository for funds received from the CPB and other sources for the benefit of the Station. These grant monies are pooled with other University funds for investment purposes, and are invested with the State Cash Management System.

The State Treasurer requires that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The University's deposits with the State Treasurer are pooled with funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the state's name.

The University requires that balances on deposit with financial institutions be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name.

Funds held for the benefit of the Station are pooled within the net assets of the University of Oklahoma Foundation, Inc. (the Foundation). The Foundation is a private Foundation organized for the purpose of receiving and administering gifts intended for the benefit of the University. At June 30, 2016 and 2015, the Foundation maintained cash balances on behalf of the Station totaling \$280,879 and \$381,751 respectively.

**Note 3 - Accounts Receivable**

Accounts receivable consists of underwriting receivables of \$217,690 and \$198,824 and a grant receivable of \$0 and \$25,101 at June 30, 2016 and 2015, respectively. All underwriting accounts receivable and grants receivable are due in one year or less.

During the years ended June 30, 2016 and 2015, management wrote off \$577 and \$8,165, respectively, of underwriting receivables as uncollectable. An allowance for accounts receivable is not recorded since management believes all accounts are fully collectible. If amounts are subsequently determined to be uncollectible, they will be charged to expense when that determination is made.

**Note 4 - Capital Assets**

Following are the changes in capital assets for the years ended June 30, 2016 and 2015:

	Balance June 30, 2015	Additions	Transfers and Retirements	Balance June 30, 2016
Cost of capital assets				
Broadcasting equipment	\$ 1,750,040	\$ 11,237	\$ (1,937)	\$ 1,759,340
Office Equipment	166,952	21,577	-	188,529
Total cost of capital assets	<u>\$ 1,916,992</u>	<u>\$ 32,814</u>	<u>\$ (1,937)</u>	<u>\$ 1,947,869</u>
Less accumulated depreciation				
Broadcasting equipment	(1,285,384)	\$ (134,431)	\$ 1,937	(1,417,878)
Office equipment	(154,383)	(9,299)	-	(163,682)
Total accumulated depreciation	<u>(1,439,767)</u>	<u>(143,730)</u>	<u>1,937</u>	<u>(1,581,560)</u>
Capital assets, net	<u>\$ 477,225</u>	<u>\$ (110,916)</u>	<u>\$ -</u>	<u>\$ 366,309</u>
	Balance June 30, 2014	Additions	Transfers and Retirements	Balance June 30, 2015
Cost of capital assets				
Broadcasting equipment	\$ 1,738,445	\$ 20,395	\$ (8,800)	\$ 1,750,040
Office Equipment	167,763	9,245	(10,056)	166,952
Total cost of capital assets	<u>\$ 1,906,208</u>	<u>\$ 29,640</u>	<u>\$ (18,856)</u>	<u>\$ 1,916,992</u>
Less accumulated depreciation				
Broadcasting equipment	(1,155,375)	\$ (138,587)	\$ 8,578	(1,285,384)
Office equipment	(157,482)	(6,957)	10,056	(154,383)
Total accumulated depreciation	<u>(1,312,857)</u>	<u>\$ (145,544)</u>	<u>\$ 18,634</u>	<u>(1,439,767)</u>
Capital assets, net	<u>\$ 593,351</u>	<u>\$ (115,904)</u>	<u>\$ (222)</u>	<u>\$ 477,225</u>

**Note 5 - Long-term Advance and Compensated Absences**

The long-term advance and compensated balances and activity for the years ended June 30, 2016 and 2015 were as follows:

					Amount Due
	June 30, 2015	Additions	Reductions	June 30, 2016	Within One Year
Compensated absences	\$ 64,022	\$ 74,322	\$ 64,022	\$ 74,322	\$ 74,322
Long-term advance from OU	122,727	-	80,000	42,727	42,727
<b>Total long-term liabilities</b>	<b>\$ 186,749</b>	<b>\$ 74,322</b>	<b>\$ 144,022</b>	<b>\$ 117,049</b>	<b>\$ 117,049</b>

					Amount Due
	June 30, 2014	Additions	Reductions	June 30, 2015	Within One Year
Compensated absences	\$ 61,765	\$ 64,022	\$ 61,765	\$ 64,022	\$ 64,022
Long-term advance from OU	202,727	-	80,000	122,727	80,000
<b>Total long-term liabilities</b>	<b>\$ 264,492</b>	<b>\$ 64,022</b>	<b>\$ 141,765</b>	<b>\$ 186,749</b>	<b>\$ 144,022</b>

Additional discussion of the long-term advance from OU is at Note 9. As of June 30, 2016, the full amount is due within one year.

**Note 6 - Functional Expense Classification**

The Station's operating expenses by functional classification were as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Program services		
Program information	\$ 97,262	\$ 101,311
Broadcasting	382,106	448,064
Programming and production	831,710	861,279
StateImpact Oklahoma	159,646	151,704
Support services		
Fundraising and membership	161,126	117,424
Underwriting	188,791	217,933
Management and general	245,893	267,064
	<b>\$ 2,066,534</b>	<b>\$ 2,164,779</b>

## Note 7 - Retirement Plans

The Station's employees are University employees and are covered, through the University, by the Oklahoma Teachers Retirement System (OTRS or the System), which is a State of Oklahoma public employees' retirement system. The University does not maintain the accounting records, hold the investments for, or administer the OTRS plan. In addition, employees can participate in the Teachers Insurance Annuity Association-College Retirement Equities Fund (TIAA-CREF), a defined contribution plans, to which the University contributes 8 percent of base pay over \$9,000.

### Oklahoma Teachers' Retirement System

**Plan description** - The University contributes to the OTRS, a cost sharing multiple-employer defined-benefit pension plan sponsored by the State of Oklahoma. The OTRS provides defined retirement benefits based on members' final compensation, age and term of services. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the plan to the Board of Trustees of OTRS. The System issues a publicly available financial report that includes financial statements and supplementary information for the OTRS. That annual report may be obtained by writing to the OTRS, P. O. Box 53524, Oklahoma City, OK 73152, by calling (405) 521-2387, or at the OTRS website at [www.tris.state.ok.us](http://www.tris.state.ok.us).

**Funding policy** - System members and the University are required to contribute at a rate set by statute. The contribution requirements of system members and the University are established and may be amended by the legislature of the state of Oklahoma. For the years ended June 30, 2016, 2015 and 2014, the contribution rate for System members of 7 percent is applied to their total compensation.

For fiscal years 2016, 2015, and 2014, the local employer contribution rate was 8.55 percent. For the years ended June 30, 2016 and 2015, the State contributed 5 percent of State revenues from sales and use taxes and individual income taxes. Contributions made by the State from dedicated taxes are considered on-behalf payments for the University's employees. The amount benefiting the Station's employees is estimated at \$22,433 and \$17,683 for the years ended June 30, 2016 and 2015, respectively, based on an allocation of the University's covered payroll, which includes Station employees, to the total covered payroll for the OTRS. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net position.

The University's contributions to OTRS for the Station's employees for the years ended June 30, 2016, 2015 and 2014 were \$105,661, \$92,277 and \$91,272, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

During fiscal year June 30, 2015 the University implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB 68. The implementation of these statements resulted in the University recognizing a net pension liability, deferred inflows and deferred outflows of \$243,235,000, \$59,384,000, and \$20,947,000 respectively. The liability has not been recorded at the department level of the Station as this liability does not represented a direct liability of the Station. Only the estimated expenses associated with contributions made during the year by the Department and the State on behalf of the University are recognized as expense.

**Note 8 - Accumulated Deficit**

Prior to 1985, the Station accumulated a cash deficit of \$263,757. The University agreed to assume this deficit and contributed this amount to the Station. In the event that future revenues of the Station exceed related expenditures after Station facilities and personnel needs are met, University may reduce future appropriations to recover this contribution.

**Note 9 - Related Parties**

The Station is operated by and on behalf of the University. The University provided the following support to the Station for the years ended June 30, 2016:

	2016	2015
In-kind support		
Benefits	\$ 67,438	\$ 75,408
Budget support from other University units	30,351	32,566
Facility and administrative support	201,653	365,073
Total in-kind support	299,442	473,047
Cash support		
Direct allocation	203,967	225,526
	\$ 503,409	\$ 698,573

In May 2006, the University authorized an equivalent of a loan - a "deficit authorization" of \$800,000 to be used for expenses to renovate and construct new offices and studios for the Station. In May 2007, an additional \$42,727 was authorized. The costs are to be repaid over ten years at \$80,000 per year with the balance due on June 30, 2017 with a with a zero interest rate. At June 30, 2016 and 2015, the amount outstanding on this deficit authorization was \$42,727 and \$122,727, respectively. The loan is being repaid from membership and other revenues received by the Foundation in support of the Station.

**Note 10 - Leases**

The Station leases six spaces for broadcasting towers. Most of the leases have options to renew, with rentals to be negotiated. Rent expense was approximately \$55,000 and \$42,000 for the years ended June 30, 2016 and 2015, respectively. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2016:

2017	\$	52,041
2018		44,139
2019		45,463
2020		46,827
2021		7,790
2022 - Therafter		24,801
		24,801
	\$	221,061

In addition to the broadcasting towers listed above, the Station leases three locations without cost. The Ada translator is housed rent-free on the East Central University campus, the Chickasha translator is housed rent-free on the University of Science and Arts of Oklahoma campus, and High Plains Technology Center in Woodward hosts equipment related to signal delivery for the transmitter in Woodward, Oklahoma. The estimated fair value of these leases of approximately \$26,000 for the years ended June 30, 2016 and 2015, are included in-kind contributions in the statements of revenues, expenses and changes in net position.

**Note 11 - Grants**

**Corporation for Public Broadcasting** - The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. The CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two Federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients. The fiscal year 2016 grant guidelines classify the 2016 grant as 74 percent unrestricted and 26 percent restricted; there are no restricted funds remaining at June 30, 2016. The Station uses these funds for the acquisition of programming. The grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain guidelines must be satisfied in connection with application for and use of the CSGs to maintain eligibility and meet compliance requirements. These guidelines pertain to the use of CSG funds, record keeping, audits, financial reporting, and licensee status with the Federal Communications Commission. Management believes these are routine requirements and do not provide any restrictions on the grants. For the years ended June 30, 2016 and 2015, the Station received and expended \$161,556 and \$161,252, respectively, in grant revenue in relation to CSGs.

The Station received a one-time grant from the CPB to enhance the Station's news coverage of the recovery from the May 2013 tornadoes the amount up to \$75,000. The contract with the CPB was fully executed on August 27, 2013, and the first story was broadcast on September 30, 2013. The grant purpose was to defray direct costs for enhanced news and public affairs coverage and community engagement activities and had a budget period spanning fiscal year 2014 but was extended to September 30, 2014. During fiscal year 2014, CPB provided \$22,500 in advance while expenses totaled \$40,969, and a receivable is shown for the balance of \$18,469. In fiscal year 2015, the Station expended an additional \$27,573 for the project, and received reimbursement from CPB in the amount of \$46,042. There were no such amounts outstanding as of June 30, 2016.

## **Note 12 - Risk Management**

Due to the diverse risk exposure of the University, the insurance portfolio contains a comprehensive variety of coverage. Oklahoma Statutes require participation of all State agencies in basic general liability, tort claim coverage, directors and officers liability, and property and casualty programs provided by the State of Oklahoma Division of Capital Assets Management Risk Management Division (DCAMRMD). In addition to these basic policies, the University's Department of Risk Management establishes guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The University and individual employees are provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma State Tort Claims Act.

Beyond acceptable retention levels, complete risk transfer is practiced by purchasing conventional insurance coverage either directly from a provider or through DCAMRMD. These coverages are as follows:

- The buildings and contents are insured for replacement value. Each loss incident is subject to a \$750 deductible.
- General liability and tort claim coverages (including comprehensive general liability, auto liability, personal injury liability, aircraft liability, watercraft liability, leased vehicles and equipment) are purchased by the University from DCAMRMD. To complement coverage provided by State Statute, additional coverage is purchased based on specific departmental and institutional needs and risks, but the related risks are not considered material to the University as a whole.

Settled claims have not exceeded coverage in any of the three preceding years.

### **Self-funded programs**

The University's workers' compensation program is self-funded and is administered by a third party. The University maintains a cash deposit with the administrator and reimburses the administrator for claims paid on a monthly basis and administrative expenses are paid on a quarterly basis. Benefits provided are prescribed by State Statute and include lump sum payments for rated disabilities, in addition to medical expenses and a portion of salary loss, resulting from an on-the-job injury or illness. The University records a liability for workers' compensation in its financial statements based on annual actuarial valuations. As of June 30, 2016 and 2015, the accrued workers' compensation liability totaled approximately \$1,692,000 and \$2,189,000, respectively.

The University's unemployment compensation insurance program is also self-funded. Unemployment benefits that separated employees receive are determined by Oklahoma Statutes and are administered by the Oklahoma Employment Security Commission (OESC). As a reimbursing employer, the University is billed quarterly by the OESC for benefits paid to former employees. The University's reserve with the OESC is the average claims paid over the past three years. As of June 30, 2016 and 2015, the required reserves were \$292,000 and \$376,000, respectively. The minimum cash balance is considered each year during the fringe benefit rate-setting process.

Effective January 1, 2015 the University entered into an agreement for self-funded employee health insurance. The self-funded plan applies to non-HMO employee health coverage. The plan is administered and claims are paid by Blue Cross Blue Shield. The premiums for the insurance are collected and recorded in a self-insurance fund at the University. The claims and administrative expenses are paid as incurred directly from the fund. The University records the cash balance of the fund in its financial statements, as well as an actuarially determined liability for incurred but not reported claims. As of June 30, 2016, the cash balance for the plan was approximately \$10,142,000 and the accrued liability for claims not yet reported totaled approximately \$2,820,000.

Changes in the claims liability for the University from July 1, 2015 to June 30, 2016 are as follows:

	Workers' Compensations	Healthcare	Total
Claims liability and related payables, June 30, 2014	\$ 2,010,000	\$ -	\$ 2,010,000
Claims incurred and changes in estimates	2,599,000	19,833,000	22,432,000
Claims paid	<u>(2,420,000)</u>	<u>(16,721,000)</u>	<u>(19,141,000)</u>
Claims liability and related payables, June 30, 2015	2,189,000	3,112,000	5,301,000
Claims incurred and changes in estimates	1,464,000	35,370,000	36,834,000
Claims paid	<u>(1,961,000)</u>	<u>(35,662,000)</u>	<u>(37,623,000)</u>
Claims liability and related payables, June 30, 2016	<u>\$ 1,692,000</u>	<u>\$ 2,820,000</u>	<u>\$ 4,512,000</u>

As a result of legislation, the University, as an agency of the state of Oklahoma, is subject to the state of Oklahoma's self-insurance program with regard to comprehensive general liability, comprehensive auto liability, personal injury and general property insurance. Also, the University is self-insured relative to workers' compensation and unemployment insurance. Reserves relating to the University's self-insurance are calculated based on projected claims. These areas include stop-loss provisions that limit the University's exposure.

The Station participates in the insurance programs described above by virtue of it being a department of the University. The University does not separately allocate any of these liabilities to the Station as it does not represent a direct liability of the Station. Accordingly, no portion of these liabilities are reflected in the Station's financial statements.



CPAs & BUSINESS ADVISORS

**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***

Board of Regents of the University of Oklahoma  
KGOU-FM Radio Station  
Norman, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of KGOU-FM Radio Station (the Station), a department of the University of Oklahoma (the University), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 13, 2017. Our report includes an emphasis of matter paragraph stating that the Station is a department of the University and these financial statements reflect only the assets, liabilities and revenues and expenses of the Station and not the University as a whole.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Station's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Station's internal control. Accordingly, we do not express an opinion on the effectiveness of the Station's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Station's financial statements are free from 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
January 13, 2017