



Financial Statements  
June 30, 2017 and 2016

University of Oklahoma  
KGOU-FM Radio Station

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## 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, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years 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 audits. 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 audits 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.

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**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, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years 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, 2017 and 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.

**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 11 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 December 20, 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  
December 20, 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 2017, 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, 2017 and 2016. 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 \$510,607 for the June 30, 2017 fiscal year. This compares to fiscal years 2016 and 2015 when assets exceeded liabilities by \$574,004 and \$748,744 respectively.

Capital assets including property and equipment, net of accumulated depreciation was \$275,486, a decrease of 24.8% in fiscal year 2017 from \$366,309 in fiscal year 2016, which was a decrease of 23.2% compared to \$477,225 in fiscal year 2015. The decrease in fiscal year 2017 of \$90,823 was due to KGOU not having any capital projects during the fiscal year and normal depreciation for the year.

The Unrestricted Net Position of \$222,354 represents the portion available to maintain the Station's continuing obligations to citizens and creditors in fiscal year 2018. This is a decrease of 11.2% from fiscal year 2016 and a 37% decrease in fiscal year 2016 from fiscal year 2015. The Unrestricted Net Position in fiscal year 2016 was \$250,343 and in fiscal year 2015 totaled \$394,246.

During fiscal year 2017, total liabilities for the Station decreased by 29.3% or \$94,052 to \$227,319 due to a decrease in short and long term liabilities. During fiscal year 2016, total liabilities decreased by 16.8% or \$65,087 to \$321,371, from fiscal year 2015.

**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, 2017, 2016, and 2015, and the Station's revenue, expenses and changes in net position for the same dates.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Current assets	\$ 462,440	\$ 529,066	\$ 657,977
Capital assets, net of accumulated depreciation	<u>275,486</u>	<u>366,309</u>	<u>477,225</u>
Total assets	<u>\$ 737,926</u>	<u>\$ 895,375</u>	<u>\$ 1,135,202</u>
<b>Liabilities</b>			
Current liabilities	\$ 227,319	\$ 321,371	\$ 343,731
Long-term advance from OU, net of current	<u>-</u>	<u>-</u>	<u>42,727</u>
Total liabilities	<u>227,319</u>	<u>321,371</u>	<u>386,458</u>
<b>Net Position</b>			
Net investment in capital assets	275,486	323,582	354,498
Restricted - expendable	12,767	79	-
Unrestricted	<u>222,354</u>	<u>250,343</u>	<u>394,246</u>
Total net position	<u>510,607</u>	<u>574,004</u>	<u>748,744</u>
Total liabilities and net position	<u>\$ 737,926</u>	<u>\$ 895,375</u>	<u>\$ 1,135,202</u>
<b>Revenues, expenses and changes in net position</b>			
Operating revenue	\$ 1,486,889	\$ 1,365,953	\$ 1,348,342
Operating expenses	<u>2,079,763</u>	<u>2,066,534</u>	<u>2,164,779</u>
Operating loss	(592,874)	(700,581)	(816,437)
Nonoperating revenues	<u>529,477</u>	<u>525,841</u>	<u>716,034</u>
Change in net position	<u>\$ (63,397)</u>	<u>\$ (174,740)</u>	<u>\$ (100,403)</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, 2017, 2016 and 2015.

	2017	2016	2015
Operating revenues			
Corporation for Public Broadcasting (CPB) grant	\$ 158,107	\$ 161,556	\$ 161,252
CPB special grant	-	-	27,573
Underwriting	604,499	535,672	487,895
In-kind underwriting	75,427	69,145	49,240
Capital contributions	10,000	-	210
Memberships	572,436	516,018	517,056
StateImpact Oklahoma	57,183	76,130	92,871
Miscellaneous	9,237	7,432	12,245
Total operating revenues	<u>1,486,889</u>	<u>1,365,953</u>	<u>1,348,342</u>
Nonoperating revenues			
General allocations from OU	189,555	203,967	225,526
Donated facilities and administrative support	312,598	299,441	473,047
On-behalf payments for state pension	27,324	22,433	17,683
Loss on capital assets	-	-	(222)
Total nonoperating revenues	<u>529,477</u>	<u>525,841</u>	<u>716,034</u>
Total revenues	<u>\$ 2,016,366</u>	<u>\$ 1,891,794</u>	<u>\$ 2,064,376</u>

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, the operating revenue which 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, 2017, 2016, and 2015. Total operating revenue of \$1,486,889 in fiscal year 2017 increased \$120,936 or 8.9% compared to fiscal year 2016. The total operating revenue in fiscal year 2016 was \$1,365,953, an increase of \$17,611 or 1.3% when compared to 2015.

For 2017, the private giving total was \$1,262,362 and represented 62.6% of the station's operating and non-operating income. For 2016, the private giving total was \$1,120,835 and represented 59.2% of the station's operating and non-operating income.

Private giving in 2017 increased \$141,527 or 12.6% over the previous fiscal year. Private giving in 2016 increased \$66,434 or 6.3% over fiscal year 2015. Private giving was \$1,262,362 in fiscal year 2017, \$1,120,845 in fiscal year 2016, and \$1,054,401 in fiscal year 2015.

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

Membership increased 10.9% or \$56,418 in fiscal year 2017 from 2016. Membership decreased 0.2% or \$1,038 in fiscal year 2016 from 2015. Membership revenue was \$572,436 in fiscal year 2017; \$516,018 in fiscal year 2016; and \$517,056 in fiscal year 2015.

Underwriting, both cash and in-kind, increased \$75,109 or 12.4% in fiscal year 2017 over 2016. The same underwriting total increased \$67,682 or 12.6% in fiscal year 2016 over 2015. Underwriting revenue was \$679,926 in 2017, \$604,817 in 2016, and \$537,135 in 2015.

The grant from the Corporation for Public Broadcasting decreased in fiscal year 2017 from 2016. The grant decreased \$3,449 to \$158,107 from \$161,556 in 2016, about 2.1%. The grant was about 7.8% of the Station's operating and non-operating income in 2017. In 2016, the grant represented 8.5% of the Station's operating and non-operating income. In 2015, this grant represented 7.8% of the Station's operating and non-operating income.

StateImpact Oklahoma is a journalism project led by the Station on behalf of the Oklahoma Public Media Exchange (OPMX), a journalism consortium. In fiscal year 2017, StateImpact Oklahoma was funded with payments of \$56,518 from the consortium partners, \$28,259 from KGOU's own funds, and \$153,025 in underwriting which is included in the KGOU underwriting totals. Related expenses in fiscal year 2017 totaled \$247,362, an increase of 54.9% over the previous fiscal year. The increase is mostly a result of increased cost of obtaining business underwriting for the project.

In fiscal 2016, StateImpact Oklahoma received \$161,884 of revenue from a variety of sources, and the Station also provided \$25,377 from its own funds, for a total of \$187,261, an increase of 1.0% over the previous fiscal year when it had \$160,353. The Station received \$76,100 from partner stations. The station also raised \$60,377 in underwriting and \$230 in private donations, all of which was used in the 2016 fiscal year.

In fiscal year 2015, StateImpact Oklahoma received \$135,352 of revenue from a variety of sources, and the Station also provided \$25,101 from its own funds, for a total of \$160,353. This project received 16.667% of its revenue as additional payment from NPR. The Station received \$76,130 from partner stations. The station also raised \$901 in private donations, all of which was used the 2015 fiscal year.



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

Miscellaneous income generally 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 2017 was \$9,237 for studio rental and rental of space on the KGOU tower, an increase in income of \$1,805 or 24.3%. Fiscal year 2016 had studio rental income at \$7,432, down from \$12,245 in fiscal year 2015.

In fiscal year 2017, the University of Oklahoma provided \$189,555 in cash and \$312,598 of in-kind support, for a total of \$502,153. This category decreased 1% from the prior fiscal year, or \$1,256. In the 2016 fiscal year, the University provided \$203,967 in cash and \$299,442 of in-kind support and for a total of \$503,409 in non-operating revenue and expenses. This category decreased by \$195,165 or 27.9% in fiscal year 2016 from 2015.

Cash support from the University in fiscal year 2017 decreased \$14,412 or 7.1% due to rescissions by the State of Oklahoma. In fiscal year 2016, cash support from the University decreased by \$21,559 or 9.6% over fiscal year 2015, also due to decreased appropriations to the University by the State of Oklahoma.

In-kind support for 2017 increased \$13,157 or 4.4%. During fiscal year 2016, in-kind support decreased \$173,606 or 36.7% from fiscal year 2015, related in part to the decline in cash support, and for certain realignments of University units away from support for the Station.

**Operating Expenses**

The following table summarizes the station's operating expenses for the years ending June 30, 2017, 2016, and 2015.

	2017	2016	2015
Operating expenses			
Program services			
Programming and production	\$ 808,982	\$ 831,710	\$ 861,279
Broadcasting	333,078	382,106	448,064
Program information	113,361	97,262	101,311
StateImpact Oklahoma Project	247,362	159,646	151,704
Total program services	1,502,783	1,470,724	1,562,358
Support services			
Fundraising and membership	159,765	161,126	117,424
Underwriting	140,934	188,791	217,933
Management and general	276,281	245,893	267,064
Total support services	576,980	595,810	602,421
Total operating expenses	\$ 2,079,763	\$ 2,066,534	\$ 2,164,779

### Operating Expenses (Continued)

Operating expenses in fiscal year 2017 were a \$2,079,763 increase of \$13,229 or 0.6% from the prior fiscal year. The increase in expenses in all areas of operation was the result of costs associated with a 12.4% increase in underwriting revenue. In comparison, fiscal year 2016 expenses were \$2,066,534, a decrease of \$98,245 or 4.5% over fiscal year 2015.

All programming expenses in fiscal year 2017, including the categories of Programming and Production, Program Information and StateImpact Oklahoma, totaled \$1,502,783 or 72.1% of the Station's total operating expense. These programming expenses in fiscal year 2016 totaled \$1,470,724 or 71.2% of the Station's total operating expense. This compares to 2015 when programming expenses totaled \$1,562,358 or 72.1% of total expenses.

Fiscal year 2017 programming expenses increased by \$32,059 or 2.2% from the prior fiscal year. Much of the increase is attributed to StateImpact Oklahoma's increase in underwriting expenses. Fiscal year 2016 programming expenses decreased by \$91,634 or 5.9% from fiscal year 2015.

All support expenses in fiscal year 2017, including the categories of Management and General, Fundraising, Membership, and Underwriting totaled \$576,980 or 27.7% of the Station's total operating expenses. This compares to fiscal year 2016 when these expenses totaled \$595,810 or 28.8% of the Station's total operating expenses. Fiscal year 2015 expenses totaled \$602,421 or 27.9% of the Station's operating expenses.

This amount decreased by \$18,830 or 3.2% in fiscal year 2017 from the prior fiscal year. In 2016, these expenses decreased by \$6,611 or 1.1% from fiscal year 2015. There were decreases in the indirect support by the University, and cuts in Outside Services, and Advertising because of the State of Oklahoma rescission.

In the largest category of expense, Salaries, Wages and Benefits in fiscal year 2017 totaled \$839,932 and comprised 40.4% of all expenses. This expense was an increase of .1% over the prior fiscal year or \$759.

In fiscal year 2016, salaries, wages and fringe benefits constituted 40.6% of all expenses, an increase over fiscal year 2015 when this category consumed 27.9% of all expenses.

The second largest category of expense is the cost of purchased programming and satellite fees. In fiscal year 2017, this category decreased to \$398,200, a reduction of 1.0% or \$4,217 over the prior fiscal year. This category consumed 19.1% of all expenses. The slight decrease is the result of some program changes and discount negotiations from program suppliers.

The cost of purchased programming and satellite fees increased about \$16,024 or 4.1% in fiscal year 2016 over 2015. In fiscal year 2016, this category of expense was 19.5% of all expenses, and in 2015, was 17.8% of all expenses.

### **Operating Expenses (Continued)**

The third largest category of expense, in-kind or indirect expenses from the University of Oklahoma, was \$221,885 in fiscal year 2017 and represents 10.7% of all expenses. This support and related expenses increased 10.0% over the prior fiscal year. In-kind support and related expenses from the University was \$201,653 in fiscal year 2016, compared to \$365,073 in fiscal year 2015.

Outside services in fiscal year 2017 totaled \$230,946, and increased 21.2% or \$40,421 from the prior fiscal year. This increase was largely due to hiring a search firm to assist in locating a replacement for the General Manager, who retired effective October 1, 2016, and underwriting sales commissions paid to the Station's underwriting specialist.

Outside Services in fiscal year 2016 totaled \$190,525 compared to \$217,488 in 2015. This was a decrease of \$26,963 or 12.4% from 2015. The decrease in fiscal year 2016 is a result of the final quarter of the Tornado Project occurring in fiscal 2015 and not being 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.

Depreciation in fiscal year 2017 totaled \$95,933, decreasing \$47,797 or 33.3% from the prior fiscal year. This was a result of no major capital purchases in 2017 and represents 4.6% of the Station's expenses. Depreciation in fiscal year 2016 totaled \$143,730 compared to \$145,544 in 2015. This was a small decrease of \$1,814 or 1.2% from 2015 as a result of no major equipment purchases in 2016. In fiscal year 2016, this category represents 7.0% of all expenses.

University-donated professional services showed no change in fiscal year 2017 from the prior fiscal year. 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 \$2,215 or 1.5% in fiscal year 2016 from 2015.

All other categories of expenses totaled just 12.6% of all expenses in 2017, compared to 12.5% of all expenses in fiscal year 2016, and 11.2% of the fiscal year 2015 expenses. The station wrote off no bad debt in fiscal year 2017. These remaining categories increased \$3,796 or 1.5% in fiscal year 2017 over 2016.

### **Capital Assets**

At June 30, 2017, the Station had \$275,486 in capital assets, net of accumulated depreciation, compared to 2016 when the Station had \$366,309 in capital assets, net of accumulated depreciation. At the end of 2015, the Station had \$477,225 in capital assets, net of accumulated depreciation. Depreciation for 2017, 2016, and 2015 was \$95,933, \$143,730 and \$145,544. The Station did not have any major capital projects in fiscal years 2017, 2016 or 2015.

### **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 was due and paid in fiscal year 2017, leaving a zero balance at June 30, 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 year 2017.

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.

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.

### **Economic Outlook**

The economic outlook for the Station is dependent on the station's three main sources of funding – Corporation for Public Broadcasting ("CPB") grant, private funding (membership and underwriting) and the University of Oklahoma.

The CPB is funded three years in advance by the U.S. Congress. The appropriation to the Corporation for Public Broadcasting was \$446 million for fiscal years 2016 and 2017. CPB has requested \$446 million for 2019 to be appropriated as part of the federal fiscal year 2017. The Station must continue to meet all criteria of the CPB to be eligible for the grant.

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 includes physical and general administrative support.

Due to a series of year-to-year state budget shortfalls, legislative appropriations to Higher Education have been declining over the last several years, resulting in cuts in direct support for the Station from the University. The accumulated decreases have forced the station to seek increases in private funding and cost reductions. This approach is expected for the foreseeable future, as the state of Oklahoma is forecasting a budget shortfall of \$500-700 million in FY19.

### **Economic Outlook (continued)**

Economic conditions for Oklahoma, however, forecasted by the OSU Spears College of Business Economic Outlook and the State Treasurer's office indicate an upturn in the state economy and an eight year growth market with no recession in sight.

Audience figures from Nielsen, Inc. in the last two quarters of FY17 show a 30% increase in listeners over 2016, with an average of 91,000 different listeners each week. This number places the Station in the top 10 of the 30 stations measured by Nielsen in the Oklahoma City metro radio market. This dramatic increase in number of listeners (up 20,000 weekly) suggests strengthening brand loyalty and should lead to an increase in private giving that will be needed to offset further funding cuts expected from the state of Oklahoma.

### **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, 2017 and 2016

	2017	2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 66,440	\$ 30,497
Accounts receivable	160,671	217,690
Funds held for the benefit of the Station	235,329	280,879
Total current assets	462,440	529,066
Capital assets, net of accumulated depreciation	275,486	366,309
Total assets	\$ 737,926	\$ 895,375
 <b>Liabilities and Net Position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 24,356	\$ 25,792
Accrued salaries	18,652	4,237
Accrued compensated absences	59,960	74,322
Unearned revenue	124,351	174,293
Current portion of long-term advance from OU	-	42,727
Total liabilities	227,319	321,371
<b>Net position</b>		
Net investment in capital assets	275,486	323,582
Restricted for		
Expendable	12,767	79
Unrestricted net position	222,354	250,343
Total net position	510,607	574,004
Total liabilities and net position	\$ 737,926	\$ 895,375

KGOU-FM Radio Station  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Grants	\$ 158,107	\$ 161,556
Underwriting	604,499	535,672
In-kind donations	75,427	69,145
Capital contributions	10,000	-
Memberships	572,436	516,018
StateImpact Oklahoma	57,183	76,130
Miscellaneous income	9,237	7,432
Total operating revenues	<u>1,486,889</u>	<u>1,365,953</u>
Operating expenses		
Salaries and wages	619,390	621,436
Personnel benefits	220,542	217,737
Supplies	10,080	9,599
Travel	13,165	17,379
Communications	26,311	27,403
Other communications	4,860	4,320
Postage and shipping	7,278	9,851
Printing	6,137	4,957
Memberships and subscriptions	15,479	13,334
Outside services	230,946	190,525
Purchased programming	398,200	402,417
Advertising	60,421	48,515
Donated rent of space	26,030	26,030
Other operating expense	378	657
Computer expense	22,585	24,933
Equipment rental	63,507	62,949
Repairs and maintenance	6,245	8,758
Depreciation	95,933	143,730
Professional services	30,391	30,351
Indirect support	221,885	201,653
Total operating expenses	<u>2,079,763</u>	<u>2,066,534</u>
Operating loss	<u>(592,874)</u>	<u>(700,581)</u>
Nonoperating revenues (expenses)		
General allocations from OU	189,555	203,967
Donated facilities and administrative support	312,598	299,441
On-behalf payments for OTRS	27,324	22,433
Total nonoperating revenues	<u>529,477</u>	<u>525,841</u>
Net decrease in net position	(63,397)	(174,740)
Net position, beginning of year	<u>574,004</u>	<u>748,744</u>
Net position, end of year	<u>\$ 510,607</u>	<u>\$ 574,004</u>

KGOU-FM Radio Station  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from contributions, grant, underwriting and miscellaneous receipts	\$ 1,493,966	\$ 1,384,482
Cash paid to suppliers	(832,736)	(792,820)
Cash paid to employees	(812,555)	(805,491)
Net Cash used in Operating Activities	(151,325)	(213,829)
Cash Flows from Noncapital Financing and Other Activities		
Cash received from University allocations	189,555	203,967
Cash Flows from Capital and Related Financing Activities		
Cash paid for capital assets	(5,110)	(32,814)
Repayment of long-term advance	(42,727)	(80,000)
Net Cash used in Capital and Related Financing Activities	(47,837)	(112,814)
Cash Flows from Investing Activities		
Change in funds held for the benefit of the Station	45,550	100,872
Net Increase (Decrease) in Cash and Cash Equivalents	35,943	(21,804)
Cash and Cash Equivalents, Beginning of Year	30,497	52,301
Cash and Cash Equivalents, End of Year	\$ 66,440	\$ 30,497
Reconciliation of Operating Loss to Net Cash Used In Operating Activities		
Operating loss	\$ (592,874)	\$ (700,581)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	95,933	143,730
On-behalf contributions from OTRS	27,324	22,433
Facilities and administrative support	312,598	299,441
Changes in assets and liabilities		
Accounts receivable	57,019	6,235
Accounts payable	(1,436)	10,417
Accounts payable to OU	-	(19,047)
Accrued expenses	53	11,249
Unearned revenue	(49,942)	12,294
Total adjustments	441,549	486,752
Net Cash from Operating Activities	\$ (151,325)	\$ (213,829)



## **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 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.

### **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.

### **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, 2017 and 2016 consists of \$124,351 and \$174,293, 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, 2017 and 2016, 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 \$221,885 and \$201,653 were recorded for the years ended June 30, 2017 and 2016, 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 \$75,427 and \$69,145 for the years ended June 30, 2017 and 2016, 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.

## **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, 2017 and 2016, 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, 2017 and 2016, the Station did not have any deferred inflows of resources.

**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, 2017 and 2016, the Foundation maintained cash balances on behalf of the Station totaling \$235,329 and \$280,879 respectively.

**Note 3 - Accounts Receivable**

Accounts receivable consists of underwriting receivables of \$160,671 and \$217,690 at June 30, 2017 and 2016, respectively. All underwriting accounts receivable and grants receivable are due in one year or less.

During the years ended June 30, 2017 and 2016, management wrote off \$0 and \$577, respectively, of underwriting receivables as uncollectable. An allowance for accounts receivable is not recorded at June 30, 2017 and 2016 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, 2017 and 2016:

	Balance June 30, 2016	Additions	Transfers and Retirements	Balance June 30, 2017
Cost of capital assets				
Broadcasting equipment	\$ 1,759,340	\$ 3,122	\$ -	\$ 1,762,462
Office Equipment	188,529	1,988	-	190,517
Total cost of capital assets	<u>\$ 1,947,869</u>	<u>\$ 5,110</u>	<u>\$ -</u>	<u>\$ 1,952,979</u>
Less accumulated depreciation				
Broadcasting equipment	(1,417,878)	\$ (89,406)	\$ -	(1,507,284)
Office equipment	(163,682)	(6,527)	-	(170,209)
Total accumulated depreciation	<u>(1,581,560)</u>	<u>(95,933)</u>	<u>-</u>	<u>(1,677,493)</u>
Capital assets, net	<u>\$ 366,309</u>	<u>\$ (90,823)</u>	<u>\$ -</u>	<u>\$ 275,486</u>

	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>

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

The long-term advance and compensated balances and activity for the years ended June 30, 2017 and 2016 were as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>	Amount Due <u>Within One Year</u>
Compensated absences	\$ 74,322	\$ 59,960	\$ 74,322	\$ 59,960	\$ 59,960
Long-term advance from OU	<u>42,727</u>	<u>-</u>	<u>42,727</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>\$ 117,049</u>	<u>\$ 59,960</u>	<u>\$ 117,049</u>	<u>\$ 59,960</u>	<u>\$ 59,960</u>

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

Additional discussion of the long-term advance from OU is at Note 9. As of June 30, 2017, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program services		
Programming and production	\$ 808,982	\$ 831,710
Program information	113,361	97,262
Broadcasting	333,078	382,106
StateImpact Oklahoma	247,362	159,646
Support services		
Fundraising and membership	159,765	161,126
Underwriting	140,934	188,791
Management and general	<u>276,281</u>	<u>245,893</u>
	<u>\$ 2,079,763</u>	<u>\$ 2,066,534</u>

## 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.trs.state.ok.us](http://www.trs.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, 2017 and 2016, the contribution rate for System members of 7 percent was applied to their total compensation.

For fiscal years 2017 and 2016, the local employer contribution rate was 8.55 percent. For the years ended June 30, 2017 and 2016, 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 \$27,324 and \$22,433 for the years ended June 30, 2017 and 2016, 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, 2017, 2016 and 2015 were \$106,464, \$105,661 and \$92,277, 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 approximately \$409,362,000 and \$302,466,000 as of June 30, 2017 and 2016, respectively. The liability has not been recorded at the department level of the Station as this liability does not represent 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 - 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, 2017 and 2016:

	2017	2016
In-kind support		
Benefits	\$ 60,322	\$ 67,438
Budget support from other University units	30,391	30,351
Facility and administrative support	221,885	201,653
Total in-kind support	312,598	299,442
Cash support		
Direct allocation	189,555	203,967
	\$ 502,153	\$ 503,409

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 zero interest rate. At June 30, 2017 and 2016, the amount outstanding on this deficit authorization was \$0 and \$42,727, respectively. The loan was paid from membership and other revenues received by the Foundation in support of the Station.

Included in accounts receivable was \$14,350 and \$6,425 due from University departments and colleges as of June 30, 2017 and 2016, respectively. Included in accounts payable was \$ 2,208 and \$2,052 due to University departments and colleges as of June 30, 2017 and 2016, respectively.

**Note 9 - 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 \$64,000 and \$55,000 for the years ended June 30, 2017 and 2016, 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, 2017:

2018		\$ 55,205
2019		53,139
2020		54,932
2021		39,814
2022		41,087
2023 - Thereafter		<u>119,913</u>
		<u><u>\$ 364,090</u></u>

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, 2017 and 2016, are included in-kind contributions in the statements of revenues, expenses and changes in net position.

**Note 10 - 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 2017 grant guidelines classify the 2017 grant as 74 percent unrestricted and 26 percent restricted; there are no restricted funds remaining at June 30, 2017. 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, 2017 and 2016, the Station received and expended \$158,107 and \$161,556, respectively, in grant revenue in relation to CSGs.

## Note 11 - 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, 2017 and 2016, the accrued workers' compensation liability totaled approximately \$2,433,000 and \$1,692,000, 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, 2017 and 2016, the required reserves were \$302,000 and \$292,000, 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 (through December 31, 2016) and Cigna (beginning January 1, 2017). 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, 2017, the cash balance for the plan was approximately \$11,401,000 and the accrued liability for claims not yet reported totaled approximately \$4,458,000.

Changes in the claims liability for the University from July 01, 2016 to June 30, 2017 are as follows:

	Workers' Compensations	Healthcare	Total
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	(1,961,000)	(35,662,000)	(37,623,000)
Claims liability and related payables, June 30, 2016	1,692,000	2,820,000	4,512,000
Claims incurred and changes in estimates	2,502,000	41,186,000	43,688,000
Claims paid	(1,761,000)	(39,548,000)	(41,309,000)
Claims liability and related payables, June 30, 2017	\$ 2,433,000	\$ 4,458,000	\$ 6,891,000

These liabilities have not been recorded at the department level of the Station as these liabilities do not represent a direct liability of the Station.

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.



**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, 2017, 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 December 20, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
December 20, 2017