



Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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 14 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 18, 2018, 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 solely 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 effectiveness of the Station's 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 18, 2018

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 2018, the staff of the Station includes 11 full-time and 2 part-time employees. The station also employs and houses 3 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 five transmitters and four translators to more than one million residents of central, western and northwestern Oklahoma. The Station also streams the broadcast audio over the internet and has a robust service on its webpage, 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), K286BZ (Shawnee, OK) and KQOU (Clinton, 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, 2018 and 2017. 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 \$551,862 for the June 30, 2018 fiscal year. This compares to fiscal years 2017 and 2016 when assets exceeded liabilities by \$510,607 and \$574,004, respectively.

Capital assets including property and equipment, net of accumulated depreciation was \$224,776, a decrease of 18.4% in fiscal year 2018 from \$275,486 in fiscal year 2017, which was a decrease of 24.8% compared to \$366,309 in fiscal year 2016. The decrease in fiscal year 2018 of \$50,710 was due mostly to depreciation.

The Unrestricted Net Position of \$242,290 represents the portion available to maintain the Station's continuing obligations to citizens and creditors in fiscal year 2019. This is an increase of 9.0% over fiscal year 2017 and a 11.2% decrease in fiscal year 2017 over fiscal year 2016. The Unrestricted Net Position in fiscal year 2017 was \$222,354 and in fiscal year 2016 totaled \$250,343.

During fiscal year 2018, total liabilities for the Station increased by 48.0% or \$108,846 to \$336,165 due to an increase in unearned revenue. During fiscal year 2017, total liabilities decreased by 29.3% or \$94,052 to \$227,319, from fiscal year 2016.

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, 2018, 2017, and 2016, and the Station's revenue, expenses and changes in net position for the same dates.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 663,251	\$ 462,440	\$ 529,066
Capital assets, net of accumulated depreciation	<u>224,776</u>	<u>275,486</u>	<u>366,309</u>
Total assets	<u>\$ 888,027</u>	<u>\$ 737,926</u>	<u>\$ 895,375</u>
Liabilities			
Current liabilities	<u>\$ 336,165</u>	<u>\$ 227,319</u>	<u>\$ 321,371</u>
Total liabilities	<u>336,165</u>	<u>227,319</u>	<u>321,371</u>
Net Position			
Net investment in capital assets	224,776	275,486	323,582
Restricted - expendable	84,796	12,767	79
Unrestricted	<u>242,290</u>	<u>222,354</u>	<u>250,343</u>
Total net position	<u>551,862</u>	<u>510,607</u>	<u>574,004</u>
Total liabilities and net position	<u>\$ 888,027</u>	<u>\$ 737,926</u>	<u>\$ 895,375</u>
Revenues, expenses and changes in net position			
Operating revenue	\$ 1,545,067	\$ 1,486,889	\$ 1,365,953
Operating expenses	<u>2,016,123</u>	<u>2,079,763</u>	<u>2,066,534</u>
Operating loss	(471,056)	(592,874)	(700,581)
Nonoperating revenues	<u>512,311</u>	<u>529,477</u>	<u>525,841</u>
Change in net position	<u>\$ 41,255</u>	<u>\$ (63,397)</u>	<u>\$ (174,740)</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, 2018, 2017 and 2016.

	2018	2017	2016
Operating revenues			
Corporation for Public Broadcasting (CPB) grant	\$ 144,652	\$ 158,107	\$ 161,556
Other private grants	75,000	-	-
Underwriting	548,357	604,499	535,672
In-kind underwriting	32,046	75,427	69,145
Capital contributions	-	10,000	-
Memberships	558,352	572,436	516,018
StateImpact Oklahoma	180,800	57,183	76,130
Miscellaneous	5,860	9,237	7,432
Total operating revenues	<u>1,545,067</u>	<u>1,486,889</u>	<u>1,365,953</u>
Nonoperating revenues			
General allocations from OU	178,181	189,555	203,967
Donated facilities and administrative support	310,394	312,598	299,441
On-behalf payments for state pension	23,736	27,324	22,433
Total nonoperating revenues	<u>512,311</u>	<u>529,477</u>	<u>525,841</u>
Total revenues	<u>\$ 2,057,378</u>	<u>\$ 2,016,366</u>	<u>\$ 1,891,794</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, private grants, 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, 2018, 2017, and 2016. Total operating revenue of \$1,545,067 in fiscal year 2018 increased \$58,178 or 3.9% compared to fiscal year 2017. The total operating revenue in fiscal year 2017 was \$1,486,889, an increase of \$120,936 or 8.9% when compared to 2016.

For 2018, the private giving total was \$1,213,755 and represented 59.0% of the station's operating and non-operating income. For 2017, the private giving total was \$1,262,362 and represented 62.6% of the station's operating and non-operating income.

Private giving in 2018 decreased \$48,608 or 4% from the previous fiscal year. Private giving in 2017 increased \$141,527 or 12.6% over fiscal year 2016. Private giving was \$1,213,755 in fiscal year 2018, \$1,262,362 in fiscal year 2017, and \$1,120,835 in fiscal year 2016.

Operating and Non-Operating Revenues Discussion (Continued)

Membership decreased 2.5% or \$14,084 in fiscal year 2018 from 2017. Membership increased 10.9% or \$56,418 in fiscal year 2017 over 2016. Membership revenue was \$558,352 in fiscal year 2018; \$572,436 in fiscal year 2017; and \$516,018 in fiscal year 2016.

Underwriting, both cash and in-kind, decreased \$99,523 or 14.6% in fiscal year 2018 over 2017. The same underwriting total increased \$75,109 or 12.4% in fiscal year 2017 over 2016. Underwriting revenue was \$580,403 in 2018, \$679,926 in 2017, and \$604,817 in 2016.

The grant from the Corporation for Public Broadcasting decreased in fiscal year 2018 from 2017. The grant decreased \$13,455 to \$144,652 from \$158,107 in 2017, about 8.5%. The grant was about 7.0% of the Station's operating and non-operating income. In 2017, the grant represented 7.8% of the Station's operating and non-operating income. In 2016, this grant represented 8.5% 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 2018, StateImpact Oklahoma was funded with payments of \$12,000 from the consortium partners, \$6,000 from KGOU's own funds, and \$127,374 in underwriting which is included in the KGOU underwriting totals. Related expenses in fiscal year 2018 totaled \$231,096, an increase of 10.3% over the previous fiscal year. The increase is mostly a result of increased cost of obtaining business underwriting for the project.

In fiscal 2017, StateImpact Oklahoma received \$209,543 of revenue from a variety of sources, and the Station also provided \$28,259 from its own funds, for a total of \$237,802, an increase of 26.9% over the previous fiscal year when it had \$187,261. The Station received \$56,518 from partner stations. The station also raised \$153,025 in underwriting and \$84,800 in private donations, all of which was used in the 2017 fiscal year.

In fiscal year 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. The Station received \$76,100 from partner stations. The station also raised \$60,377 in underwriting and \$230 in private donations, all which were used in the 2016 fiscal year.

Operating and Non-Operating Revenues Discussion (Continued)

In fiscal year 2018, the University of Oklahoma provided \$178,181 in cash and \$310,394 of in-kind support, for a total of \$488,575. This category decreased 2.7% from the prior fiscal year, or \$13,578. In the 2017 fiscal year, the University provided \$189,555 in cash and \$312,598 of in-kind support and for a total of \$502,153 in non-operating revenue and expenses. This category decreased by \$1,255 or 0.2% in fiscal year 2017 over 2016.

Cash support from the University in fiscal year 2018 decreased \$11,374 or 6.0% due to rescissions by the State of Oklahoma. In fiscal year 2017, cash support from the University decreased by \$14,412 or 7.1% over fiscal year 2016, also due to decreased appropriations to the University by the State of Oklahoma.

In-kind support for 2018 decreased \$2,204 or less than 1%, related in part to the decline of cash support, and for certain realignments of University units away from support for the station. During fiscal year 2017, in-kind support increased \$13,157 or 4.4% over fiscal year 2016.

Operating Expenses

The following table summarizes the station's operating expenses for the years ending June 30, 2018, 2017, and 2016.

	2018	2017	2016
Operating expenses			
Program services			
Programming and production	\$ 788,884	\$ 808,982	\$ 831,710
Broadcasting	346,488	333,078	382,106
Program information	65,738	113,361	97,262
StateImpact Oklahoma Project	231,096	209,458	159,646
Total program services	1,432,206	1,464,879	1,470,724
Support services			
Fundraising and membership	139,931	159,765	161,126
Underwriting	171,178	178,838	188,791
Management and general	272,808	276,281	245,893
Total support services	583,917	614,884	595,810
Total operating expenses	\$ 2,016,123	\$ 2,079,763	\$ 2,066,534

Operating Expenses (Continued)

Operating expenses in fiscal year 2018 were \$2,016,123, a decrease of \$63,640 or 3.1% from the prior fiscal year. The decrease in expenses in all areas of operation was the result of costs associated with a decrease in underwriting revenue. In comparison, fiscal year 2017 expenses were \$2,079,793 an increase of \$13,229 or 0.6% over fiscal year 2016.

All programming expenses in fiscal year 2018, including the categories of Programming and Production, Distribution, Program Information and StateImpact Oklahoma, totaled \$1,432,206 or 71.0% of the Station's total operating expense. These programming expenses in fiscal year 2017 totaled \$1,464,879 or 70.4% of the Station's total operating expense. This compares to 2016 when programming expenses totaled \$1,470,724 or 71.2% of total expenses.

Fiscal year 2018 programming expenses decreased by \$32,673 or 2.2% from the prior fiscal year. Fiscal year 2017 programming expenses decreased by \$5,845 or 0.4% from fiscal year 2016.

All support expenses in fiscal year 2018, including the categories of Management and General, Fundraising, Membership, and Underwriting totaled \$583,917 or 29.0% of the Station's total operating expenses. This compares to fiscal year 2017 when these expenses totaled \$614,884 or 29.6% of the Station's total operating expenses. Fiscal year 2016 expenses totaled \$595,810 or 28.8% of the Station's operating expenses.

This amount decreased by \$30,967 or 5.0% in fiscal year 2018 from the prior fiscal year. In 2017, these expenses increased by \$13,229 or 0.6% over fiscal year 2016.

In the largest category of expense, Salaries, Wages and Benefits in fiscal year 2018 totaled \$882,114 and comprised 43.8% of all expenses. This expense was an increase of 5.0% over the prior fiscal year or \$42,182.

In fiscal year 2017, salaries, wages and fringe benefits constituted 40.4% of all expenses, a decrease over fiscal year 2016 when this category consumed 40.6% of all expenses.

The second largest category of expense is the cost of purchased programming and satellite fees. In fiscal year 2018, this category decreased to \$377,558, a reduction of 5.2% or \$20,642 over the prior fiscal year. This category consumed 18.7% of all expenses. The decrease is the result of some program changes and discount negotiations from program suppliers.

The cost of purchased programming and satellite fees decreased about \$4,217 or 1.0% in fiscal year 2017 over 2016. In fiscal year 2017, this category of expense was 19.1% of all expenses, and in 2016, was 19.5% of all expenses.

Operating Expenses (Continued)

The third largest category of expense, in-kind or indirect expenses from the University of Oklahoma, was \$210,786 in fiscal year 2018 and represents 10.5% of all expenses. This support and related expenses decreased 5.0% percent over the prior fiscal year. In-kind support and related expenses from the University was \$221,885 in fiscal year 2017, compared to \$201,653 in fiscal year 2016.

Outside services in fiscal year 2018 totaled \$195,445, and decreased 15.4% or \$35,501 from the prior fiscal year. This decrease was due to the decrease in underwriting which resulted in a decrease in underwriting commissions, also not utilizing any hiring firms in fiscal year 2018.

Outside Services in fiscal year 2017 totaled \$230,946 compared to \$190,525 in 2016. This was an increase of \$40,421 or 21.2% over 2016. The increase in fiscal year 2017 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.

Depreciation in fiscal year 2018 totaled \$70,870 decreasing \$25,063 or 26.1% from the prior fiscal year. This was a result of no major capital purchases in 2018 and represents 3.5% of the Station's expenses. Depreciation in fiscal year 2017 totaled \$95,933 compared to \$143,730 in 2016. This was a decrease of \$47,727 or 33.3% from 2016 because of no major equipment purchases in 2017. In fiscal year 2017, this category represents 4.6% of all expenses.

University-donated electric (formerly professional services) totaled \$40,760 in fiscal year 2018 an increase of \$10,369 from the prior fiscal year. This was a result of the addition of the Clinton transmitter site. There was no change in fiscal year 2017 from the fiscal year 2016. This represents 2.0% 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.

All other categories of expenses totaled just 12.0% of all expenses in 2018, compared to 12.6% of all expenses in fiscal year 2017, and 12.5% of the fiscal year 2016 expenses. The station wrote off no bad debt in fiscal year 2018.

Capital Assets

At June 30, 2018, the Station had \$224,776 in capital assets, net of accumulated depreciation, compared to 2017 when the Station had \$275,486 in capital assets, net of accumulated depreciation. At the end of 2016, the Station had \$366,309 in capital assets, net of accumulated depreciation. Depreciation for 2018, 2017, and 2016 was \$70,870, \$95,933 and \$143,730. The Station did not have any major capital projects in fiscal years 2018, 2017 or 2016. See note 4 for additional information.

Other Significant Information and Future Activities

KGOU continued to be the lead station and administrative partner for the StateImpact Oklahoma (SIO) 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 has been funded by private gifts, business sponsorships (underwriting) and equal payments from each of the contributing partners. In May, 2017, the partners agreed to extend the project through June 30, 2019.

During fiscal year 2017, SIO received a major gift from the Records-Johnston Family Foundation, Inc. The three-year gift enabled the SIO partners to increase their editorial output by adding an additional full-time reporter who is dedicated primarily to criminal justice reporting.

During fiscal year 2018, KGOU received a \$25,000 private grant from The Anne and Henry Zarrow Foundation for the purpose of maintenance and replacement of the Station's Oklahoma City metropolitan area (KROU) transmitter, licensed in Spencer, Oklahoma. The replacement is expected to occur by October 1, 2019.

During fiscal year 2018, KGOU received a \$50,000 private grant from the Ethics & Excellence in Journalism Foundation to fund election reporting. The grant was used in conjunction with a grant of \$50,000 from the Kirkpatrick Foundation obtained by another public radio partner to fund the data-based collaborative election reporting project, Oklahoma Engaged. Grant funding allowed KGOU and its partners to provide expanded in-depth election reporting, web-based election resources, community engagement events and a live election night program simulcast from the non-partisan Oklahoma Engaged Watch Party.

During fiscal year 2018, in addition to receiving its Community Service Grant (CSG) from the Corporation for Public Broadcasting (CPB), KGOU applied for and received a grant from CPB for the MetaPub Tornado Alley Project. The grant provided funding for purchase and installation of equipment and software necessary for KGOU to expand its emergency notification services. The new system allows KGOU to deliver text and graphics severe weather and emergency alerts on mobile phones, HD radios, connected-car devices, RDS displays and online applications. KGOU was one of 27 public radio stations to receive the grant in the world.

During fiscal year 2018, the Station received the FCC license for a full-power transmitter located in Clinton, Oklahoma from Cameron University. The 40,000 watt transmitter had been operated by KCCU-FM at Cameron University (using call sign KYCU) until the license was transferred to the University of Oklahoma on December 1, 2017. Upon assuming the license (at no cost to the University or KGOU), KGOU began operating the transmitter and providing programming at the Clinton facility using the new call sign, KQOU. The addition of the Clinton transmitter license increased KGOU's total broadcast coverage area to more than 32 counties in Oklahoma.

Other Significant Information and Future Activities (Continued)

The addition of the Clinton transmitter led KGOU management to evaluate methods to monetize the Station's regional transmitter service in its cities of license outside the Oklahoma City metropolitan area. Using technology added through the MetaPub Tornado Alley Project and updating other station equipment and software, the Station developed a method to provide localized service to the areas served by its full-power transmitters in Clinton, Ada and Woodward. This initiative was scheduled for implementation early in FY2019 and is expected to provide additional membership and underwriting income. Due to this innovation and the potential for revenue growth it provides, KGOU's director of business sponsorships expanded underwriting capacity by adding a second underwriting salesperson to serve KGOU and SIO.

Efficiencies, risk reduction and cost savings were achieved during FY18 by:

- Not replacing a development assistant who left KGOU for another job at the University
- Terminating the Station's news service agreement with the Associated Press (AP)
- Outsourcing pledge phone answering duties to a professional organization, eliminating the need for volunteers to perform this task (which reduced staff time previously needed for volunteer training and reduced potential exposure to liability related to possible unauthorized disclosure of sensitive donor and credit card information)
- Adding a new web module to the Allegiance donor database which enabled the Station to use a different credit card processing company with improved credit card processing capabilities; the module provides real-time information about credit card donations to allow KGOU to be more responsive to donors, more effectively track donations and reduce staff time needed to process credit card donations
- Purchasing liability insurance for the KGOU tower location in Norman, Oklahoma

Economic Outlook

KGOU's economic outlook is dependent on the Station's main sources of funding: CPB Community Service Grant, state appropriation to the University of Oklahoma, membership and underwriting.

CPB Community Service Grant

About 7.0% of the Station's total operating and non-operating income in fiscal year 2018 was from the Corporation for Public Broadcasting ("CPB"). CPB in turn relies on annual appropriations from the Federal government. Congress has approved CPB funding of \$445 million for FY2020.

The Station submits annual reports to CPB to receive its annual CSG funding and must comply with various grant requirements including discrete accounting, open meeting notifications and completion of harassment prevention training by all employees and students. CPB funding is critical to most public radio stations, including KGOU, and while some federal elected officials have proposed cutting the CPB appropriation, Congress has shown no interest in doing so.

Economic Outlook (continued)

State Appropriation to the University of Oklahoma

About 8.7% 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 16.2% 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.

Station management has received no indication of expected further cuts in support from the University in fiscal year 2019 or beyond. Further, station management does not expect any increases in direct University funding in the foreseeable future. Management will continue to closely monitor expenses and discretionary spending and continue to develop ways to significantly increase fundraising efforts. Station management believes 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.

Membership and Underwriting

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 19.0% in fiscal year 2018 over 2017. In fiscal year 2017, the station had an average of 70,500 different listeners per week; in fiscal year 2018, the station saw its number of weekly listeners increase to a high of 90,500 in the third quarter, with a weekly average of 83,900 over the course of the fiscal year. KGOU ranked in the top 10 of all Oklahoma City area radio stations within the period. These measurements are generally considered a precursor to private giving as it measures audience loyalty, brand perception and impact of service by those who consider making a private financial gift.

KGOU's online (digital) services are evaluated using a variety of measures available from Google Analytics. Overall, year-over-year website usage (monthly users) is up 17% in the third quarter of fiscal year 2018 and year-over-year content "streaming" is up 30% in the third quarter of fiscal year 2018. The Station also has increased its footprint through social media interaction on Facebook, Twitter and Instagram and launched two podcasts in fiscal year 2017; they are both available on Apple Podcasts and Spotify.

About 40% of the Station's total operating budget comes from private donations of listeners and consumers of KGOU's digital services. KGOU receives these donations from slightly more than 3,000 donors who support the mission of KGOU and public service media and want to see its programming continue to be available for their families and in their communities.

About 28.1% of the Station's total operating budget comes from business sponsorships (underwriting) received from businesses and organizations that support the mission of KGOU and public service media. These businesses and organizations see the value of being associated with KGOU's and NPR's strong brand, trusted content and ability to reach important target audiences.

Economic Outlook (continued)

Analysis of Capital Assets, Long-Term Debt, Budget Variations and Overall Financial Position

KGOU management continues to work with staff, public radio partners, CPB, NPR, University officials and financial supporters (current and prospective) to monitor and improve the Station's overall financial position. Management continually looks for ways to reduce costs, streamline and modernize operations (to improve efficiency and effectiveness), manage discretionary spending and increase private fundraising. Fundraising innovations, outreach and donor development are a primary goal for fiscal year 2019.

These methods are all necessary to strengthen KGOU's current financial position and establish the foundation for sustained viability. Management is cognizant of incremental increases in programming, tower lease and other costs and the cumulative effect of those increases and previous cuts in state funding. Programming costs are increasing at about 3% per year and tower lease accelerator clauses (usually tied to the Consumer Price Index) are adding 1-3% in increased annual fees. Other products and services are showing similar increases.

To operate in a fiscally prudent manner, KGOU held the line on salaries in fiscal year 2018 and expects to do the same in fiscal year 2019. Fringe benefits have held stable at 32-33%, and are actually expected to decrease to 32.33% in fiscal year 2019 from 33.0% in fiscal year 2018.

The station has no long-term debt; the cost of maintenance and replacement of equipment and software likely presents the Station's most significant known financial challenge. While management expects to replace the KROU transmitter in fiscal year 2019, other transmitters, translators and associated equipment continue to edge toward the end of their natural life. KGOU management has kept these costs down as much as possible by deferring maintenance where feasible and through the practices of the Station's chief engineer, who frequently finds low-cost solutions to extend the life of equipment. However, maintenance and replacement of necessary equipment will require attention, and additional funding, over the next 3-5 years.

This is a major reason KGOU senior management has been working on reimagining and modernizing the Station's private fundraising model and capacity. The goal is to grow the Station's private savings account year-over-year to create the balance needed to address these expected expenditures.

The state's economic outlook for 2018-19 will influence the Station's ability to raise unrestricted donations in 2018 and beyond in order to fund all its obligations.

The economic position of the State of Oklahoma improved significantly during fiscal year 2018. The state has a low jobless rate (3.8% reported for July, 2018), its seven public pension systems saw average returns of 9.5% in FY2018 (outperforming 86% of all public pensions), and gross receipts to the treasury showed double-digit expansion over the past twelve months. Gross receipts to the treasury grew 11.9% from August 2017 to August 2018, to \$12.4 billion. (*Oklahoma Economic Report: August/September 2018*).

The positive performance in gross receipts to the treasury was consistent with the year-over-year growth shown in July, at the end of the fiscal year and before revenue from tax increases that took effect on July 1, 2018 were collected. In July, income tax collections were up 10%, sales tax collections were up almost 9% and gross production (oil and gas) taxes were up 64%. The large increase in gross production taxes, in particular, indicates strength in the energy sector and is a continued sign of ongoing growth. (*Oklahoma Economic Report: July/August 2018*).

Economic Outlook (Continued)

Economic conditions for Oklahoma are forecasted by the Oklahoma State University Spears College of Business Economic Outlook. The briefing in early December 2017 projected the economic health of Oklahoma for 2018 would continue with slow, steady growth and with “plenty of runway in front of us.” Inflation and wages did not show the kind of sharp increase that would indicate a looming slowdown or recession. (*The Oklahoman*: December 7, 2017)

The December 2018 Economic Outlook indicated the state would continue to see “a lot of growth,” in line with the vibrant national economy. (*The Journal Record*: November 14, 2018) Economic expansion in Oklahoma, however, will always be a function of the health of the energy sector. The impact of a rising oil and gas prices and a robust economy (and increased tax revenue) on state appropriations is difficult to determine. The legislature’s recent performance indicates a preference to cut taxes when the economy grows, rather than increasing funding for government services, including Higher Education. As a result, while the state has weathered the recession and its economy is performing well, KGOU management will operate cautiously and plan conservatively in fiscal year 2019.

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, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 96,592	\$ 66,440
Accounts receivable	313,881	160,671
Funds held for the benefit of the Station	252,778	235,329
Total current assets	663,251	462,440
Capital assets, net of accumulated depreciation	224,776	275,486
Total assets	\$ 888,027	\$ 737,926
 Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 20,995	\$ 24,356
Accrued salaries	18,013	18,652
Accrued compensated absences	78,037	59,960
Unearned revenue	219,120	124,351
Total liabilities	336,165	227,319
Net position		
Net investment in capital assets	224,776	275,486
Restricted for		
Expendable	84,796	12,767
Unrestricted net position	242,290	222,354
Total net position	551,862	510,607
Total liabilities and net position	\$ 888,027	\$ 737,926

KGOU-FM Radio Station
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Grants	\$ 219,652	\$ 158,107
Underwriting	548,357	604,499
In-kind donations	32,046	75,427
Capital contributions	-	10,000
Memberships	558,352	572,436
StateImpact Oklahoma	180,800	57,183
Miscellaneous income	5,860	9,237
	1,545,067	1,486,889
Operating expenses		
Salaries and wages	654,464	619,390
Personnel benefits	227,650	220,542
Supplies	10,831	10,080
Travel	15,130	13,165
Communications	30,059	26,311
Other communications	4,958	4,860
Postage and shipping	8,787	7,278
Printing	6,287	6,137
Memberships and subscriptions	10,103	15,479
Outside services	195,445	230,946
Purchased programming	377,558	398,200
Advertising	18,349	60,421
Donated rent of space	26,030	26,030
Other operating expense	-	378
Computer expense	28,493	22,585
Equipment rental	72,305	63,507
Repairs and maintenance	6,945	6,245
Depreciation	70,870	95,933
Professional services	-	30,391
Donated electric	40,760	-
Fleet	313	-
Indirect support	210,786	221,885
	2,016,123	2,079,763
Total operating expenses		
Operating loss	(471,056)	(592,874)
Nonoperating revenues		
General allocations from OU	178,181	189,555
Donated facilities and administrative support	310,394	312,598
On-behalf payments for OTRS	23,736	27,324
	512,311	529,477
Total nonoperating revenues		
Net increase (decrease) in net position	41,255	(63,397)
Net position, beginning of year	510,607	574,004
Net position, end of year	\$ 551,862	\$ 510,607

KGOU-FM Radio Station
 Statements of Cash Flows
 Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from contributions, grant, underwriting and miscellaneous receipts	\$ 1,486,626	\$ 1,493,966
Cash paid to suppliers	(756,106)	(832,736)
Cash paid to employees	(840,940)	(812,555)
Net Cash used in Operating Activities	(110,420)	(151,325)
Cash Flows from Noncapital Financing and Other Activities		
Cash received from University allocations	178,181	189,555
Cash Flows from Capital and Related Financing Activities		
Cash paid for capital assets	(20,160)	(5,110)
Repayment of long-term advance	-	(42,727)
Net Cash used in Capital and Related Financing Activities	(20,160)	(47,837)
Cash Flows from Investing Activities		
Change in funds held for the benefit of the Station	(17,449)	45,550
Net Increase in Cash and Cash Equivalents	30,152	35,943
Cash and Cash Equivalents, Beginning of Year	66,440	30,497
Cash and Cash Equivalents, End of Year	\$ 96,592	\$ 66,440
Reconciliation of Operating Loss to Net Cash Used In Operating Activities		
Operating loss	\$ (471,056)	\$ (592,874)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	70,870	95,933
On-behalf contributions from OTRS Facilities and administrative support	23,736	27,324
310,394	310,394	312,598
Changes in assets and liabilities		
Accounts receivable	(153,210)	57,019
Accounts payable	(3,361)	(1,436)
Accrued expenses	17,438	53
Unearned revenue	94,769	(49,942)
Total adjustments	360,636	441,549
Net Cash used in Operating Activities	\$ (110,420)	\$ (151,325)

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), K286BZ (Shawnee, OK) and KQOU (Clinton, 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 acquisition 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 is earned when the airplay has been performed and memberships is reported as revenue when earned. Contributions are from fundraising from special events and are reported as operating revenue when earned.

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, 2018 and 2017 consists of \$219,120 and \$124,351, 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, 2018 and 2017, 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 \$210,786 and \$221,885 were recorded for the years ended June 30, 2018 and 2017, respectively.

In-kind contributions

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 \$32,046 and \$75,427 for the years ended June 30, 2018 and 2017, respectively. 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

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, 2018 and 2017, 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, 2018 and 2017, the Station did not have any deferred inflows of resources.

Reclassification

Certain reclassifications of amounts previously reported in functional expenses have been made to the accompanying notes to the financial statements to maintain consistency between periods presented. The reclassifications had no impact on net position or change in net position.

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, 2018 and 2017, the Foundation maintained cash balances on behalf of the Station totaling \$252,778 and \$235,329, respectively.

Note 3 - Accounts Receivable

Accounts receivable consists of underwriting receivables of \$313,881 and \$160,671 at June 30, 2018 and 2017, respectively. All underwriting accounts receivable and grants receivable are due in one year or less.

During the years ended June 30, 2018 and 2017, management did not write off any underwriting receivables as uncollectable. An allowance for accounts receivable is not recorded at June 30, 2018 and 2017 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, 2018 and 2017:

	Balance June 30, 2017	Additions	Transfers and Retirements	Balance June 30, 2018
Cost of capital assets				
Broadcasting equipment	\$ 1,762,462	\$ 9,996	\$ -	\$ 1,772,458
Office Equipment	190,517	10,164	-	200,681
Total cost of capital assets	\$ 1,952,979	\$ 20,160	\$ -	\$ 1,973,139
Less accumulated depreciation				
Broadcasting equipment	(1,507,284)	\$ (64,860)	\$ -	(1,572,144)
Office equipment	(170,209)	(6,010)	-	(176,219)
Total accumulated depreciation	(1,677,493)	(70,870)	-	(1,748,363)
Capital assets, net	\$ 275,486	\$ (50,710)	\$ -	\$ 224,776
	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	\$ 1,947,869	\$ 5,110	\$ -	\$ 1,952,979
Less accumulated depreciation				
Broadcasting equipment	(1,417,878)	\$ (89,406)	\$ -	(1,507,284)
Office equipment	(163,682)	(6,527)	-	(170,209)
Total accumulated depreciation	(1,581,560)	(95,933)	-	(1,677,493)
Capital assets, net	\$ 366,309	\$ (90,823)	\$ -	\$ 275,486

Note 5 - Compensated Absences and Long-term Advance

The long-term advance and compensated balances and activity for the years ended June 30, 2018 and 2017 were as follows:

	June 30, 2017	Additions	Reductions	June 30, 2018	Amount Due Within One Year
Compensated absences	\$ 59,960	\$ 78,037	\$ 59,960	\$ 78,037	\$ 78,037
Total long-term liabilities	\$ 59,960	\$ 78,037	\$ 59,960	\$ 78,037	\$ 78,037

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

Note 6 - Functional Expense Classification

The Station's operating expenses by functional classification were as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Program services		
Programming and production	\$ 788,884	\$ 808,982
Program information	65,738	113,361
Broadcasting	346,488	333,078
StateImpact Oklahoma	231,096	209,458
Support services		
Fundraising and membership	139,931	159,765
Underwriting	171,178	178,838
Management and general	272,808	276,281
	\$ 2,016,123	\$ 2,079,763

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.tr.s.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, 2018 and 2017, the contribution rate for System members of 7 percent was applied to their total compensation.

For fiscal years 2018 and 2017, the local employer contribution rate was 8.55 percent. For the years ended June 30, 2018 and 2017, 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 University's contributions to OTRS for the Station's employees for the years ended June 30, 2018 and 2017 were \$23,736 and \$27,324, 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. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The University follows 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 University recognize a net pension liability of approximately \$312,042,000 and \$409,362,000 as of June 30, 2018 and 2017, 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 - Other Post-Employment Benefits (OPEB)

The University's retiree insurance plan is considered a single-employer defined benefit plan and does not issue a stand-alone financial report. The University has the authority to establish and amend the benefit provisions offered to retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB No. 75.

The University's plan is funded on a pay-as-you-go cash basis. The funding policy may be amended by the Regents of the University of Oklahoma. For the years ended June 30, 2018 and 2017, the University made benefit payments in the amount of \$6.8 million and \$6.0 million, respectively, for current retirees.

Effective July 1, 2017, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB No. 75 was issued in June 2015 and replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. The University recognized a net OPEB liability of approximately \$270,950,000 as of June 30, 2018 under GASB 75. Under GASB 45, the University recognized a net OPEB liability of approximately \$118,739,000 as of June 30, 2017. 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.

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, 2018 and 2017:

	2018	2017
In-kind support		
Benefits	\$ 58,848	\$ 60,322
Budget support from other University units	40,760	30,391
Facility and administrative support	210,786	221,885
Total in-kind support	310,394	312,598
Cash support		
Direct allocation	178,181	189,555
	\$ 488,575	\$ 502,153

Included in accounts receivable was \$54,913 and \$14,350 due from University departments and colleges as of June 30, 2018 and 2017, respectively. Included in accounts payable was \$2,452 and \$2,208 due to University departments and colleges as of June 30, 2018 and 2017, respectively.

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 \$60,200 and \$64,000 for the years ended June 30, 2018 and 2017, 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, 2018:

2019		\$	60,804
2020			62,649
2021			47,587
2022			48,919
2023			50,296
Thereafter			75,790
			75,790
		\$	346,045

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, 2018 and 2017, 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 2018 grant guidelines classify the 2018 grant as 74 percent unrestricted and 26 percent restricted; there are no restricted funds remaining at June 30, 2018. 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, 2018 and 2017, the Station received and expended \$144,652 and \$158,107, respectively, in grant revenue in relation to CSGs.

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, 2018 and 2017, the University's accrued workers' compensation liability totaled approximately \$1,948,000 and \$2,433,000, 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, 2018 and 2017, the University's required reserves were \$284,000 and \$302,000, 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, 2018, the University's cash balance for the plan was approximately \$9,083,000 and the accrued liability for claims not yet reported totaled approximately \$5,652,000.

Changes in the claims liability for the University from July 1, 2017 to June 30, 2018 are as follows:

	Workers' Compensations	Healthcare	Total
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
Claims incurred and changes in estimates	1,544,000	53,129,000	54,673,000
Claims paid	(2,029,000)	(51,935,000)	(53,964,000)
Claims liability and related payables, June 30, 2018	\$ 1,948,000	\$ 5,652,000	\$ 7,600,000

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, 2018, 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 18, 2018. 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. We did identify a certain deficiency in internal control, described as 2018-A below, that we consider to be a significant deficiency.

**2018-A Revenue Cutoff Procedures
 Significant Deficiency in Internal Control over Financial Reporting**

- Criteria: Proper controls should be in place to ensure proper revenue recognition for purposes of accurate financial reporting under Generally Accepted Accounting Principles.
- Condition: We selected revenue transactions and unearned revenue balances during our audit procedures and noted instances where the revenue was not properly recognized in the proper period, mostly at or near year-end. Thirteen of the 50 revenue transactions tested had a variance in revenue recognition for a projected variance of approximately \$3,000. Seven of the 18 unearned revenue balances tested had a variance in the revenue recognition for a projected variance of approximately \$5,000. In most cases, June revenue was recognized in July which is in the following fiscal year.
- Cause: Revenue transactions are not closely monitored for proper cut-off procedures at or near year-end.
- Effect: Revenue and unearned revenue balances were misstated for the year ended June 30, 2018.
- Recommendation:
 We recommend that management evaluate controls around revenue cutoff at year-end to ensure revenue is recorded in the proper period.
- Views of Responsible Officials:
 Management acknowledges the finding and in response will implement a procedure to track and incorporate underwriting revenue earned each June into the accounting of revenue for the relevant fiscal year that concludes on June 30.

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*.

KGOU-FM Radio Station's Response to the Finding

The Station's response to the findings identified in our audit are described above. The Station's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 18, 2018