

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017**

**TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

Oklahoma Educational Television Authority
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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Oklahoma Educational Television Authority (OETA) financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2018 and June 30, 2017.

OETA was created by the Oklahoma Legislature in 1953 to "make educational television services available to all Oklahoma citizens on a coordinated statewide basis". (O.S. Title 74, section 23-101)

The Federal Communications Commission (FCC) licenses for all of the state-owned educational, non-commercial television transmitters (18) are administered through OETA. Sixteen other states have similar statewide educational television operations and support their networks through state appropriations. OETA receives approximately \$0.70 per citizen in state funding while other state networks receive as much as \$4.26 per citizen to support their educational television operations. Originally, the entire operating budget of OETA was funded by direct appropriation of state dollars. However, as equipment, broadcasting, programming and production expenses have increased and services have been expanded, the proportion of state funding remains at 39 percent however that does not include programming costs. As a state agency, the operating costs of the Authority are primarily funded through legislative appropriation and a small amount of self-generated funds. All programming and development are supported fully by the OETA Foundation based on the 1992 Partnership Agreement between the Authority and the Foundation. Foundation-generated dollars are received from viewers, corporations, foundations and other grants. The OETA Foundation is a legally separate and tax-exempt entity. The Foundation was formed to receive, invest and expend funds from the public and grantors for the benefit of OETA.

This report provides financial statements and related notes reflecting the general administrative, technical and programming activities of the Authority. Under Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and 34*, the OETA Foundation is considered a part of the overall reporting entity and its financials are reported separately after each Authority statement. Information relating to OETA Foundation included in the Authority's accompanying financial statements have been obtained from OETA Foundation's separately issued audited financial statements. This management discussion and analysis will be restricted to only the Authority's financial statements. The Authority financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION, AND STATEMENT OF CASH FLOWS

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of the Authority's financial condition. The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of legislation and statutes.

The Statement of Revenues, Expenses and Changes in Net Position reports all of the revenues and expenses during the time periods indicated. The Statement of Cash Flows reports the sources and uses of cash.

Statement of Net Position

	FY2016	FY2017	FY2018
Assets:			
Current asset	\$ 615,548	\$ 468,667	\$ 481,186
Capital assets, net	<u>8,006,235</u>	<u>7,218,130</u>	<u>6,475,951</u>
Total Assets	8,621,783	7,686,797	6,957,137
Deferred Outflows of Resources:			
Deferred costs on pension plan	711,044	1,248,967	552,353
Liabilities:			
Current liabilities	220,198	199,867	339,114
Noncurrent liabilities	<u>537,563</u>	<u>1,143,189</u>	<u>933,720</u>
Total Liabilities	757,761	1,343,056	1,272,834
Deferred Inflows of Resources:			
Deferred gain on pension plan	642,320	453,968	136,059
Net Position:			
Invested in capital assets, net	8,006,235	7,218,130	6,475,951
Unrestricted	<u>(73,489)</u>	<u>(79,390)</u>	<u>(375,354)</u>
Total Net Position	<u>\$ 7,932,746</u>	<u>\$ 7,138,740</u>	<u>\$ 6,100,597</u>

Statement of Revenues, Expenses, and Changes in Net Position

	FY2016	FY2017	FY2018
Operating revenues:			
Grant Revenue passed through			
OETA Foundation	\$1,224,347	\$ 1,017,574	\$ 961,142
Subsidy from OETA Foundation	588,790	608,441	374,802
Telecasting, production and other income	393,650	274,361	609,279
State grants	<u>299,986</u>	<u>287,109</u>	<u>-</u>
Total operating revenues	2,506,773	2,187,485	1,945,223
Operating expenses:			
Programming and Production	1,884,452	1,755,923	1,683,835
Broadcasting and Technical	3,094,290	3,186,091	2,783,275
Viewer Support	89,052	10,820	45,195
Depreciation	1,838,342	1,603,414	1,584,149
Administration	<u>574,024</u>	<u>525,851</u>	<u>810,281</u>
Total operating expenses	7,480,160	7,082,099	6,906,735
Operating loss	(4,973,387)	(4,894,614)	(4,961,512)
Non-Operating revenues (expenses):			
State appropriations	3,153,848	2,905,787	2,701,885

In-kind contributions	<u>368,461</u>	<u>379,515</u>	<u>379,515</u>
Total Non-Operating revenue (expenses)	3,522,309	3,285,302	3,081,400
Income (loss) before other revenues or expenses	(1,451,078)	(1,609,312)	(1,880,112)
Other revenues and expenses:			
Capital contributions:			
Grant funds passed through			
OETA Foundation	166,317	418,425	834,205
OETA Foundation capital subsidy	<u>2,399</u>	<u>396,881</u>	<u>7,764</u>
Total Other revenues and expenses	168,716	815,306	841,969
Net Changes in Position	<u>\$ (1,282,362)</u>	<u>\$ (794,006)</u>	<u>\$ (1,038,143)</u>

Statement of Cash Flows

	FY2016	FY2017	FY2018,
Cash provided (used) by:			
Operating activities	\$(3,748,526)	\$(2,941,009)	\$(2,690,980)
Noncapital financing activities	3,153,848	2,905,787	2,701,885
Capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash	(594,678)	(35,222)	10,905
Cash, beginning of year	<u>818,772</u>	<u>224,094</u>	<u>188,872</u>
Cash, end of year	<u>\$ 224,094</u>	<u>\$ 188,872</u>	<u>\$ 199,777</u>

OVERALL FINANCIAL POSITION

Although considered a “Proprietary Fund” for auditing and reporting purposes under GASB 34, the Oklahoma Educational Television Authority (OETA) does not generate sufficient funding necessary for continued operations and capital equipment improvements that have been required by the Federal Communication Commission for public broadcasting. The Authority requires both public and private funding sources to support its budget.

As noted above, **operating functions are almost entirely dependent upon State General Revenue appropriations**, while program acquisition relies solely on OETA Foundation funding. The net operating loss of (\$4,961,512) in FY18 is more than the (\$4,894,614) in FY17 which was lower than in FY16 (\$4,973,387). During FY16, the operating subsidy from the OETA Foundation totaled \$588,790 and grant pass through was \$1,224,347 while FY17 includes an operating subsidy of \$608,441 and grant pass through of \$1,017,574. In FY18, the OETA Foundation operating subsidy was \$374,802 and grant pass through of \$961,142. There were additional capital contributions from the OETA Foundation in the amount of \$2,399 and grant pass through of \$166,317 in FY16, and capital contributions from OETA Foundation of \$396,881 and a pass through of \$418,425 in FY17. In FY18, there was a capital subsidy of \$7,764 and grant pass through of \$834,205. The additional subsidies were required for operating expenses and capital improvements mostly related to maintenance repairs and equipment needs. As operating costs increase and if no additional state funding is received, this subsidy will need to increase more each year.

FY18 operating revenues which include grants, studio and tower rentals, tape dubbing charges, royalties, productions reimbursements, and the OETA Foundation subsidy account for 33.1% while in FY17 it was 34.8% and for FY16 40.4%. Non-operating and other revenues which include state appropriations and contributions account for 66.9% of all revenues received in FY18, 65.2% for FY17 and 59.6% in FY16. The operating revenues will need to continue to increase each year if state appropriations continue to decline.

Two important sources of financial support, not directly attributable to state appropriations and OETA Foundation programming expenditures are the other In-kind Contributions (Channel 9 land & tower rentals) and any Foundation Subsidy. Both of these revenue sources are vital to the on-going operations of the network.

The Statement of Cash Flows reveals the necessity for General Revenue Appropriations from the state of Oklahoma and any OETA Foundation subsidies. Operating activities do not generate sufficient cash to fund expenses without these crucial funding sources.

SIGNIFICANT CHANGES IN CAPITAL ASSETS

Each year as broadcasting and ancillary equipment is replaced; OETA's capital assets continue to expand. More information on total capital assets can be found in the notes to the financial statements.

A vigorous effort is made annually to reconcile the asset management system within the statewide network. A physical inventory is done annually and outdated or unusable assets are transferred to OMES – Surplus Property Division during the year for proper disposal. Unfortunately, due to limited operating funds available during each year, assets are only maintained and/or replaced on an emergency basis.

SIGNIFICANT MATTERS AFFECTING FUTURE FINANCIAL OPERATIONS

GRANT FROM THE OKLAHOMA STATE DEPARTMENT OF EDUCATION (“SDE”) – OETA did not receive this grant in FY18. This grant was used by the Educational Outreach Department to grow the Ready to Learn project. This project is a community-based early childhood literacy and math program that focuses efforts on preparing Oklahoma children for future school success. Unfortunately, with the loss of these funds, OETA will need to acquire additional funding or reduce this program in the future.

GRANT FROM CORPORATION FOR PUBLIC BROADCASTING – This grant is called the Community Collaborative for Early Learning Media and was in the amount of \$100,000 to introduce the new Ready to Learn resources to the Oklahoma market through a specific community which was the Northeast Oklahoma City area.

REPLACEMENT OF THE KOET TRANSMITTER – The KOET Channel 31 Harris Sigma CD Transmitter was installed in August of 2003. This transmitter is 15 years old. The Sigma series transmitter is a high power UHF utilizing old IOT tube technology. It is the only transmitter in the OETA network that is still using tube technology. The replacement cost of a tube is between \$36,000 to \$40,000 each. There are two of these tubes in the KOET Sigma CD Transmitter.

The Sigma Transmitter is old tube technology and is not efficient to operate compared to a solid-state transmitter of equal size. The difference in operating expense between our current Sigma transmitter and a GatesAir Solid State transmitter utilizing current solid state amp technology is approximately \$55,000 per year.

This transmitter is remotely located south of Enterprise, Oklahoma and serves the rural population of eastern Oklahoma. OETA will be including a request for one-time funds from the state legislature in the amount of \$1.7M this fiscal year to cover the cost of the KOET transmitter replacement.

OKLAHOMA LEGISLATURE - OETA was granted authority during the 2015 Legislative session to continue operating as a state agency, with appropriated funding, through June 30, 2020.

During the 2014 Legislative session, the Oklahoma State Legislature required OETA submit a plan on how OETA could operate without state appropriations over a three-year, a five-year, or seven-year period. The plan was completed and submitted to the state legislature for consideration.

The plan concludes that eliminating state funding to OETA, whether it's over three years, five years or seven years, will result in the loss of most of OETA's staff, reduced private investments and support, and a severe reduction of local programs. This would make OETA simply a "pass-through" entity of national programs. It would create a reduction in audience, the loss of infrastructure, including rural translators serving smaller Oklahoma communities, which would lead to the loss - probably permanently - of FCC licenses.

OPERATING EXPENSES EXPANDING

As stated in the financial statements and notes, there is much dependency by OETA on the OETA Foundation and other private donors. OETA depends on these sources to fund purchases of programs and continuing capital endeavors. OETA has received appropriation reductions since FY09 totaling more than \$2,415,100 (47%) which makes this need more apparent. Year-to-year, OETA is relying on these sources of funds for maintenance, replacement of digital equipment and personnel cost.

The OETA Foundation has continued to receive generous donations from individual viewers, foundations and corporations on behalf of OETA. These supporters are especially pleased to contribute because of the programming they depend on from OETA. Obviously, changes in the local economy, investment returns and/or state funding will disrupt the current balance of income.



INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
Oklahoma Educational Television Authority
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements and discretely presented component unit of Oklahoma Educational Television Authority (“OETA” or the “Authority”), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise OETA’s basic financial statements as listed in the table of contents.

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 audits in accordance with auditing standards generally accepted in the United States of America and, with regard to the Authority, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority and the discretely presented component unit as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HSPG & ASSOCIATES, PC

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of OETA's proportionate share of the net pension liability and schedule of OETA contributions on pages i–v and 24 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 October 18, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority's internal control over financial reporting and compliance.

HSPG & Associate, P.C.

October 18, 2018

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 199,777	\$ 188,872
Accounts receivable		
Trade receivables	17,000	233,481
Related parties - OETA Foundation	264,409	46,314
Total current assets	<u>481,186</u>	<u>468,667</u>
NONCURRENT ASSETS:		
Capital assets		
Land	26,272	26,272
Buildings and improvements	5,276,786	5,294,286
Broadcast equipment	33,920,466	33,432,829
Transportation equipment	108,853	108,853
Office furniture and equipment	765,407	795,261
	<u>40,097,784</u>	<u>39,657,501</u>
Less: Accumulated depreciation	(33,621,833)	(32,439,371)
Total capital assets	<u>6,475,951</u>	<u>7,218,130</u>
Total noncurrent assets	<u>6,475,951</u>	<u>7,218,130</u>
Total Assets	<u>\$ 6,957,137</u>	<u>\$ 7,686,797</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred costs on pension plan	<u>\$ 552,353</u>	<u>\$ 1,248,967</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 39,784	\$ 25,191
Deferred Revenue	138,919	-
Accrued payroll	2,816	9,531
Compensated absences, current portion	157,595	165,145
Total current liabilities	<u>339,114</u>	<u>199,867</u>
NONCURRENT LIABILITIES:		
Pension liability, net	564,719	1,087,088
Deferred revenue	310,000	-
Compensated absences	59,001	56,101
Total liabilities	<u>\$ 1,272,834</u>	<u>\$ 1,343,056</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on pension plan due to actuarial difference	<u>\$ 136,059</u>	<u>\$ 453,968</u>
NET POSITION		
Invested in capital assets, net	\$ 6,475,951	\$ 7,218,130
Unrestricted	(375,354)	(79,390)
Total net position	<u>\$ 6,100,597</u>	<u>\$ 7,138,740</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
COMPONENT UNIT STATEMENTS OF FINANCIAL POSITION (OETA FOUNDATION)
AS OF JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents, unrestricted	\$ 5,010,978	\$ 3,975,871
Restricted cash	2,294,146	2,384,018
Pledges receivable	539,454	499,402
Other receivables	165,112	132,439
Accrued investment income	3,146	7,181
Board designated assets for long-term use:		
Cash and cash equivalents	3,064,360	2,316,527
Investments	29,400,556	28,727,395
Accrued investment income	27,349	23,314
Prepaid expenses	125,386	223,759
Prepaid program costs	339,292	122,366
Fixed assets (net)	<u>2,800,541</u>	<u>2,756,208</u>
TOTAL ASSETS	<u>\$ 43,770,320</u>	<u>\$ 41,168,480</u>
LIABILITIES		
Accounts payable	\$ 136,124	\$ 137,567
Accrued salaries and vacation	77,547	61,654
Accounts payable - affiliate	263,267	46,182
TOTAL LIABILITIES	<u>476,938</u>	<u>245,403</u>
NET ASSETS		
Unrestricted:		
Programming services and operations	5,680,850	4,709,584
Net investment in fixed assets	2,800,541	2,756,208
Board designated endowments	<u>32,492,262</u>	<u>31,067,235</u>
	40,973,653	38,533,027
Temporarily restricted	<u>2,319,729</u>	<u>2,390,050</u>
TOTAL NET ASSETS	<u>43,293,382</u>	<u>40,923,077</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 43,770,320</u>	<u>\$ 41,168,480</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES:		
Grant revenue passed through OETA Foundation	\$ 961,142	\$ 1,017,574
Subsidy from OETA Foundation	374,802	608,441
Telecasting, production and other income	609,279	274,361
State grants	-	287,109
Total operating revenues	<u>1,945,223</u>	<u>2,187,485</u>
OPERATING EXPENSES:		
Programming and production	1,683,835	1,755,923
Broadcasting and technical	2,783,275	3,186,091
Viewer support	45,195	10,820
Depreciation	1,584,149	1,603,414
Administration	810,281	525,851
Total operating expenses	<u>6,906,735</u>	<u>7,082,099</u>
Operating loss	<u>(4,961,512)</u>	<u>(4,894,614)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	2,701,885	2,905,787
In-kind contributions	379,515	379,515
Net nonoperating revenues (expenses)	<u>3,081,400</u>	<u>3,285,302</u>
Income (loss) before other revenues, expenses, gains and losses	(1,880,112)	(1,609,312)
Capital contributions:		
Grant funds passed through OETA Foundation	834,205	418,425
OETA Foundation subsidy	<u>7,764</u>	<u>396,881</u>
Change in net position	(1,038,143)	(794,006)
NET POSITION, BEGINNING OF YEAR	<u>7,138,740</u>	<u>7,932,746</u>
NET POSITION, END OF YEAR	<u>\$ 6,100,597</u>	<u>\$ 7,138,740</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
COMPONENT UNIT STATEMENTS OF ACTIVITIES (OETA FOUNDATION)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES						
Contributions	\$ 4,363,708	\$ -	\$ 4,363,708	\$ 4,305,288	\$ 6,032	\$ 4,311,320
Grants	578,086	1,456,429	2,034,515	121,369	1,610,277	1,731,646
Interest and dividends	386,332	-	386,332	352,470	-	352,470
Realized and unrealized gain (loss) on investments	1,741,825	-	1,741,825	2,396,356	-	2,396,356
Underwriting revenues	533,261	-	533,261	553,712	-	553,712
Rental-affiliate	231,730	-	231,730	231,730	-	231,730
Other	45,904	-	45,904	246,523	-	246,523
Net assets released from restrictions and transfers	1,526,750	(1,526,750)	-	1,873,938	(1,873,938)	-
Total support and revenues	9,407,596	(70,321)	9,337,275	10,081,386	(257,629)	9,823,757
PROGRAM SERVICES						
Subsidy to OETA	2,177,913	-	2,177,913	2,441,321	-	2,441,321
Programming and production	2,172,584	-	2,172,584	2,210,486	-	2,210,486
Engineering	220	-	220	20	-	20
Program information	79,461	-	79,461	82,473	-	82,473
Special projects	140,608	-	140,608	234,158	-	234,158
Total program services	4,570,786	-	4,570,786	4,968,458	-	4,968,458
SUPPORTING SERVICES						
Administration and general	1,024,390	-	1,024,390	959,456	-	959,456
Fundraising:						
Solicitation	1,030,380	-	1,030,380	913,127	-	913,127
Membership services	341,414	-	341,414	403,185	-	403,185
Total fundraising expense	1,371,794	-	1,371,794	1,316,312	-	1,316,312
Total supporting services	2,396,184	-	2,396,184	2,275,768	-	2,275,768
Total expenses	6,966,970	-	6,966,970	7,244,226	-	7,244,226
CHANGE IN NET ASSETS	2,440,626	(70,321)	2,370,305	2,837,160	(257,629)	2,579,531
NET ASSETS, BEGINNING OF YEAR	38,533,027	2,390,050	40,923,077	35,695,867	2,647,679	38,343,546
NET ASSETS, END OF YEAR	\$ 40,973,653	\$ 2,319,729	\$ 43,293,382	\$ 38,533,027	\$ 2,390,050	\$ 40,923,077

The accompanying notes are an integral part of these financial statements.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Subsidy from OETA Foundation	\$ 138,118	\$ 447,159
Federal and state grants	147,495	279,016
Receipts from telecasting, production, and other income	909,089	394,113
Payments to vendors	(1,018,910)	(1,153,546)
Payments to employees	<u>(2,866,772)</u>	<u>(2,907,751)</u>
Net cash flows used in operating activities	<u>(2,690,980)</u>	<u>(2,941,009)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	<u>2,701,885</u>	<u>2,905,787</u>
Net cash flows provided by noncapital financing activities	<u>2,701,885</u>	<u>2,905,787</u>
NET CHANGE IN CASH	10,905	(35,222)
CASH, beginning of year	<u>188,872</u>	<u>224,094</u>
CASH, end of year	<u>\$ 199,777</u>	<u>\$ 188,872</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (4,961,512)	\$ (4,894,614)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Non-cash transactions:		
Depreciation	1,584,149	1,603,414
In-kind contributions	379,514	379,512
Changes in operating assets and liabilities:		
Accounts receivable	(1,614)	111,659
Accounts payable	14,593	(13,749)
Accrued payroll	(6,715)	(3,755)
Deferred revenue	448,919	-
Compensated absences	(4,650)	(22,308)
Pension liability and related deferred inflows and outflows	<u>(143,664)</u>	<u>(101,168)</u>
Net cash flows used in operating activities	<u>\$ (2,690,980)</u>	<u>\$ (2,941,009)</u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL FINANCING ACTIVITIES:		
Capital assets received through OETA Foundation subsidy	<u>\$ 7,764</u>	<u>\$ 396,881</u>
Capital assets received from grants passed through the OETA Foundation	<u>\$ 834,205</u>	<u>\$ 418,425</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2018 AND 2017

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization – Oklahoma Education Television Authority (“OETA” or the “Authority”) is an agency of the State of Oklahoma with the purpose of providing public television services to Oklahoma. OETA operates from state appropriations as well as support from Oklahoma Educational Television Authority Foundation, Inc. (“OETAF” or the “Foundation”) and from in-kind contributions by the corporate community and other educational institutions.

Reporting entity – The financial reporting entity, as defined in section 2600 of the Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards, includes the accounts of OETA and its discretely presented component unit, OETAF.

Discretely presented component unit – The Foundation is a legally separate, tax-exempt component unit of OETA. The Foundation was formed to receive, invest, and expend privately donated non-state appropriated funds for educational and eleemosynary purposes related to the support, promotion, development and growth of educational and public broadcasting in Oklahoma. The Foundation is to direct all its efforts to the support of the Authority. Although OETA does not control the timing or amount of receipts from OETAF, the resources held by OETAF can only be used by or on behalf of public broadcasting in Oklahoma. Since the Foundation’s efforts are to be used to support the Authority, the Foundation is considered a component unit of the Authority and is discretely presented in the Authority’s financial statements. Additional and selected disclosures for the Foundation are located in this report in Note 9. Complete financial statements for the Foundation may be obtained at OETAF’s office at 7403 N. Kelley Avenue, Oklahoma City, Oklahoma 73111.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial information in the Authority’s financial reporting for these differences.

Financial statement presentation – The Authority’s financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statement and Management’s Discussion and Analysis - For State and Local Governments*. The financial statement presentation required by GASB Statement No. 34 provides a comprehensive, entity-wide perspective of the Authority’s assets, liabilities, deferred inflows and outflows of resources, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting – For financial reporting purposes, the Authority is considered a proprietary fund. As such, the financial statements use the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund’s principal ongoing operations. The principal

operating revenues of OETA are charges for production and dubbing services, charges for the use of facilities or employees, certain subsidies or grants from or passed through the Foundation and the State of Oklahoma, and broadcast royalties. Operating expenses include the cost of providing these services, administrative expenses and depreciation on capital assets.

Nonoperating revenues include activities that have characteristics of nonexchange transactions as described in section 2450 *Cash Flows Statements* of the GASB Codification. State appropriations and in-kind contributions as well as transactions related to capital and financing activities, noncapital financing activities and investing activities are components of nonoperating revenues and expenses.

When OETA has both restricted or unrestricted resources available for use, it is their policy to use restricted resources first, and then unrestricted resources, as they are needed.

Cash – OETA considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer’s Cash Management Program are considered cash equivalents. At June 30, 2018 and 2017, the carrying amount of OETA’s deposit with the State Treasurer was \$199,777 and \$188,872, respectively.

By State Statute, the State Treasurer is required to ensure that all State funds are either insured by the Federal Deposit Insurance Corporation, collateralized by securities held by the Federal Reserve Bank, or invested in U.S. government obligations. OETA’s deposits with the State Treasurer are pooled with the funds of other State agencies, and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine in the State’s name.

Receivables and payables – OETA management considers all trade and related party receivables to be fully collectible. As such, there is no provision for potentially uncollectible accounts. Accounts payable represents trade payables payable from both restricted and unrestricted resources.

Capital assets – Capital assets include land, buildings, broadcast equipment, transportation equipment, and office furniture and equipment. Capital assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life of at least three years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Donations received from the Foundation are recorded at the Foundation’s cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life is not capitalized. Depreciation of capital assets is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are as follows:

Buildings and Improvements	5-40 years
Broadcast Equipment	5-15 years
Transportation Equipment	3-5 years
Office Furniture and Equipment	3-10 years

Compensated absences – It is OETA’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The maximum vacation that can be accumulated is 480 hours. There is no liability for unpaid accumulated sick leave since OETA does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred.

In-kind contributions – In-kind contributions are recorded as revenue and expenses. The contributions consist primarily of the use of land and facilities of commercial television stations and professional services. These donations are recorded at estimated fair value.

Noncurrent liabilities – Noncurrent liabilities include estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Deferred revenue – When the Authority receives funds from third parties before they have provided goods or services to the third party, the Authority records those funds as deferred revenue. Upon providing goods or services to the third party, the Authority recognizes these funds into income.

Pensions – Employees of the Authority participate in the Oklahoma Public Employers Retirement Plan (“OPERS” or the “Plan”) which is a multiple employer, cost sharing defined benefit pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of OPERS and additions to/deductions from OPERS’s fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Net position – OETA’s net position is classified as follows:

Invested in capital assets, net of debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position - expendable – consists of resources in which OETA is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – consists of all other net positions that do not meet the above definitions.

Types of Deferred Outflows and Inflows of Resources – Deferred outflows of resources are the consumption of net position that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position. Deferred inflows of resources are the acquisition of net position that is applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position.

Reclassifications – Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. Such reclassifications did not affect net position or the change in net position as of and for the year ended June 30, 2017.

2. CAPITAL ASSETS

OETA's capital assets activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Transfers/ Adjustments	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 26,272	\$ -	\$ -	\$ -	\$ 26,272
Total capital assets not being depreciated	26,272	-	-	-	26,272
Capital assets being depreciated:					
Building and improvements	5,294,286	-	(17,500)	-	5,276,786
Broadcast equipment	33,423,648	836,474	(348,837)	9,181	33,920,466
Transportation equipment	108,853	-	-	-	108,853
Office furniture and equipment	804,442	5,472	(35,327)	(9,181)	765,406
Total capital assets being depreciated	39,631,229	841,946	(401,664)	-	40,071,511
Less accumulated depreciation for:					
Building and improvements	(3,085,761)	(173,249)	17,500	-	(3,241,510)
Broadcast equipment	(28,529,564)	(1,383,405)	348,869	-	(29,564,100)
Transportation equipment	(107,789)	-	-	-	(107,789)
Office furniture and equipment	(716,257)	(27,471)	35,295	-	(708,433)
Total accumulated depreciation	(32,439,371)	(1,584,125)	401,664	-	(33,621,832)
Total capital assets being depreciated, net	7,191,858	(742,179)	-	-	6,449,679
Total capital assets	\$ 7,218,130	\$ (742,179)	\$ -	\$ -	\$ 6,475,951

OETA's capital assets activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Transfers/ Adjustments	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 26,272	\$ -	\$ -	\$ -	\$ 26,272
Total capital assets not being depreciated	26,272	-	-	-	26,272
Capital assets being depreciated:					
Building and improvements	5,242,865	51,421	-	-	5,294,286
Broadcast equipment	33,195,440	735,332	(507,124)	-	33,423,648
Transportation equipment	108,853	-	-	-	108,853
Office furniture and equipment	775,886	28,556	-	-	804,442
Total capital assets being depreciated	39,323,044	815,309	(507,124)	-	39,631,229
Less accumulated depreciation for:					
Building and improvements	(2,899,508)	(186,253)	-	-	(3,085,761)
Broadcast equipment	(27,649,404)	(1,387,284)	507,124	-	(28,529,564)
Transportation equipment	(107,789)	-	-	-	(107,789)
Office furniture and equipment	(686,380)	(29,877)	-	-	(716,257)
Total accumulated depreciation	(31,343,081)	(1,603,414)	507,124	-	(32,439,371)
Total capital assets being depreciated, net	7,979,963	(788,105)	-	-	7,191,858
Total capital assets	\$ 8,006,235	\$ (788,105)	\$ -	\$ -	\$ 7,218,130

Included in the above totals is \$1,261,562 at June 30, 2018 and 2017 in related cost from federal grants for the DTV conversion project that holds liens. OETA has granted a priority reversionary interest in this equipment back to the federal government per grant requirements. These grants expire in 3/2019 and 9/2021. The liens are for ten-year periods.

3. LEASES

The Authority is involved in various operating leases for office and production space and equipment, translator sites, satellite transponder services, transmission facilities and fiber connections. Leases are generally renewable on a monthly / annual basis or can be canceled within a short timeframe. Rental expense for the years ended June 30, 2018 and 2017 was \$1,058,948 and \$1,044,875, respectively. Included in rental expense is a subsidy of \$231,730 from the OETA Foundation each year for the use of the Tulsa studio. The Tulsa studio was constructed for the use of the Authority; therefore, the Authority will recognize a subsidy for the annual benefit for the use of the studio. Future minimum lease payments for non-cancelable leases that extend more than one year as of June 30, 2018 are as follows:

2019	\$ 15,600
2020	15,600
2021	15,600
2022	15,600
2023	15,600
Thereafter	<u>1,031,000</u>
	<u>\$ 1,109,000</u>

The Authority entered into a lease agreement to lease the Authority's excess capacity on various channels to a wireless communications provider at a rate of \$8,500 per month through January 2017. In February 2017, the Authority entered into a lease agreement to lease the Authority's excess capacity on various channels to a wireless communications provider at a rate of \$17,000 per month through February 2047. The February 2017 agreement included a \$600,000 incentive fee to be paid to the Authority which is to be repaid on a pro-rata basis if the contract is terminated within the first 60 months. The incentive fee was received by the Authority in July 2017. The Authority recognized \$120,000 and \$50,000 of the fee in income during the years ended June 30, 2018 and 2017, respectively. Lease income, excluding the incentive fee, earned by the Authority totaled \$204,000 and \$149,161 during the years ended June 30, 2018 and 2017, respectively. Future minimum rental income to be received by the Authority for non-cancelable leases as of June 30, 2018 includes \$204,000 to be received during the years ending through June 30, 2046 and \$119,000 for the year ended June 30, 2047.

4. LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2018 and changes for the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 221,246	\$ 129,935	\$ (134,585)	\$ 216,596	\$ 157,595
Deferred revenue	-	568,919	(120,000)	448,919	138,919
Pension liability	1,087,088		(522,369)	564,719	-
Total long-term liabilities	<u>\$1,308,334</u>	<u>\$698,854</u>	<u>\$(776,954)</u>	<u>\$1,230,234</u>	<u>\$ 296,514</u>

Long-term liabilities at June 30, 2017 and changes for the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 243,554	\$ 125,402	\$(147,710)	\$ 221,246	\$ 165,145
Pension liability	461,981	625,107	-	1,087,088	-
Total long-term liabilities	<u>\$ 705,535</u>	<u>\$ 750,509</u>	<u>\$(147,710)</u>	<u>\$ 1,308,334</u>	<u>\$ 165,145</u>

Additional information regarding pension liability is included in note 5.

5. RETIREMENT PLANS

General Information about the Pension Plan – Plan description. The following brief description of the Oklahoma Public Employees Retirement System (the “Plan”) is provided for general information purposes only. Participants should refer to Title 74 of the Oklahoma Statutes, Sections 901 through 932 and 935, as amended, for more complete information. The Plan is a multiple employer, cost sharing public employee retirement plan, which is a defined benefit pension plan covering substantially all state of Oklahoma (“State”) employees except employees covered by seven other plans sponsored by the State and also covers employees of participating counties and local agencies. Nearly all new State employees first employed by a Plan participating employer on or after November 1, 2015, will participate in the State’s new defined contribution plan. Therefore, the Plan is closed to nearly all new State employees, but remains open to new employees of participating counties and local agencies. The Plan is administered by the Oklahoma Employees Retirement System, a component unit of the State of Oklahoma. The authority to establish and amend benefit provisions rests with the State Legislature. The supervisory authority for the management and operation of the Plan is the Plan’s Board of Trustees, which acts as a fiduciary for investment of the funds and the application of Plan interpretations. The Plan issues a publicly available financial report that includes financial statements and supplementary information for the Plan which can be obtained at www.opers.ok.gov.

Benefits provided: Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member’s age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member’s age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Upon the death of a retired member, the Plan will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional \$200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to the Plan. In April 2001, limited benefit payments began for qualified retired members.

Contributions: The contribution rates for the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation. For 2017 and 2016, state agency employers contributed 16.5% on all salary, and state employees contributed 3.5% on all salary. Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional

contribution rate, 2.91% which is actuarially determined. Contributions of \$276,423, \$284,252 and \$322,459 were paid to the pension plan from OETA during the years ended June 30, 2018, 2017, and 2016. As the pension liability reflected in OETA's statements of net position are based on the previous year-end's measurement date, OETA's contributions are recorded in deferred outflows of resources in the year the contribution is paid and applied to the Plan's pension liability in the subsequent year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2018 and 2017, OETA reported a liability of \$564,719 and \$1,087,088, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 and 2016, respectively. OETA's proportion of the net pension liability was based on the manner in which contributions are made to the Plan by OETA relative to all participating employers' contributions, excluding those to separately finance specific liabilities of an individual employer. At June 30, 2017 and 2016, OETA's proportion was 0.10444925% and 0.10955996%, respectively.

For the years ended June 30, 2018 and 2017, OETA recognized pension expense (income) of \$132,758 and \$183,082 respectively.

At June 30, 2018 and 2017, OETA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 100,988	\$ -	\$ 47,771
Changes of assumptions	250,702	-	173,793	-
Net difference between projected and actual earnings on pension plan investments	25,228	-	790,922	336,056
OETA and employee contributions subsequent to the measurement date	276,423	-	284,252	-
Change in proportion	-	35,071	-	70,141
Total	<u>\$ 552,353</u>	<u>\$ 136,059</u>	<u>\$ 1,248,967</u>	<u>\$ 453,968</u>

\$276,423 and \$284,252 reported as deferred outflows of resources related to pensions resulting from OETA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019 and 2018, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (benefit) as follows:

Year ended June 30:	
2019	\$ 25,995
2020	163,883
2021	40,173
2022	(90,180)
	<u>\$ 139,871</u>

Actuarial assumptions: The total pension liability in the July 1, 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Investment return – 7.00% for 2017 and 7.25% for 2016, compounded annually net of investment expense and including inflation
- Salary increases – 3.5% to 9.5% per year including inflation for 2017 and 4.5% to 8.4% per year including inflation for 2016
- Mortality rates – Active participants and nondisabled pensioners:
 - 2017 – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
 - 2016 - RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 2.75% for 2017 and 3.0% for 2016
- Payroll growth – 3.5% per year for 2017 and 4.0% per year for 2016
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2017, valuation are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2016. The experience study is dated April 13, 2017. With the exception of the long-term rate of return used in the July 1, 2016, valuation, the actuarial assumptions used in the July 1, 2017 and 2016, valuations are based on the results of the most recent actuarial experience study, which covers the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014. The long-term rate of return was modified by the Board during 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2018 and 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0%	5.6%
U.S. Fixed Income	25.0%	0.7%
International Stock	18.0%	5.6%
Emerging Market Stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.00% for 2017 and 7.25% for 2016. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as

set out in state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of OETA’s proportionate share of the net pension liability to changes in the discount rate: The following presents OETA’s proportionate share of the net pension liability calculated using the discount rate of 7.00% for 2017 and 7.25% for 2016, as well as what OETA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	June 30, 2018			June 30, 2017		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
OETA's proportionate share of the net pension liability (asset)	\$ 1,669,049	\$ 564,719	\$ (370,390)	\$ 2,225,320	\$ 1,087,088	\$ 120,826

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued OPERS financial report.

6. RISK MANAGEMENT

OETA, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the state insurance fund, public risk pools. OETA pays an annual premium to the pools for its torts, property and workers compensation insurance coverage. The Oklahoma Risk Management Pool’s governing agreements specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carrier for claims in excess of specified stop-loss amounts.

7. GRANTS FROM CORPORATION FOR PUBLIC BROADCASTING

OETA receives several grants from the Corporation for Public Broadcasting. Funds from these grants, including the Community Service Grant (“CSG”), are received by the OETA Foundation as it has been designated the alternate payee by OETA. As the alternate payee, the Foundation receives the funds and disburses them at the discretion of OETA. OETA authorizes certain of its expenses to be paid directly by the Foundation from the grant funds received. Authorized disbursements paid by the Foundation on behalf of OETA are recorded as revenue by OETA and included in the line item labeled subsidy from OETA Foundation with the offsetting related expenses recorded in the statement of revenues, expenses and changes in net position or in fixed assets on the statement of net position as appropriate. Cash received by OETA from the Foundation to pay expenses is recorded in the cash flow statement as cash flows from operating activities. Cash received from the Foundation totaled \$138,118 and \$447,159 for the years ended June 30, 2018 and 2017, respectively.

Cash from grants received by the Foundation, but not yet disbursed, is recognized on the Foundation’s statement of financial position as restricted cash. This cash has not been recognized on OETA’s Statement of Net Position. The amount of revenue recognized related to the CSG for the years ended June 30, 2018 and 2017 totaled \$1,518,669 and \$1,542,588, respectively. The restricted cash reported on the Foundation’s statement of financial position held on-behalf of OETA at June 30, 2018 and 2017 totaled \$2,294,146 and \$2,384,018, respectively.

8. FUTURE OPERATING RELATIONSHIP WITH THE FOUNDATION

The Authority and the Foundation currently operate under a memorandum of understanding dated February 26, 1992 (the “1992 MOU”). The Board of Directors of both the Authority and the Foundation recognize that the 1992 MOU needs to be updated and both entities are evaluating the future operating models of their respective organizations. On May 29, 2018, the Authority passed a resolution, which is of public record, noting a potential outcome could include termination of the 1992 MOU. In management’s opinion, if the relationship between the Authority and Foundation ceases to exist, funds held by the Foundation raised to support the Authority would be transferred to another not-for-profit organization identified by the Authority.

9. OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC. – DISCRETELY PRESENTED COMPONENT UNIT

Nature of Organization and Summary of Significant Accounting Policies

Organization and nature of activities – Oklahoma Educational Television Authority Foundation, Inc. (the “Foundation”) was incorporated May 26, 1983. The Foundation was formed to receive, invest and expend funds from the public and grantors. The Foundation, through the contributions it receives and revenues it generates, provides funds for Oklahoma Educational Television Authority (“OETA”) projects and programs which are not funded by appropriations from the State of Oklahoma or for which existing appropriations are inadequate.

Basis of accounting – The financial statements of the Foundation have been prepared utilizing the accrual basis of accounting and accordingly reflect all significant receivables, payables, and liabilities.

Basis of presentation – The Foundation is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets as of June 30, 2018 or 2017.

Restricted cash – Restricted cash represents funds received from third parties who require such funds to be maintained separately for restricted use as directed by the third parties.

Contributions and promises to give – Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as

increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation provides for probable uncollectible amounts through a provision for bad debt and an adjustment to a valuation allowance based on its assessment of the current status of the individual pledges.

Prepaid program costs – Costs incurred for programs not yet telecast relate to programs that will be aired principally in the next fiscal year. As the programs are telecast, the costs incurred will be included in operating expenses.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Accounting Estimates – Estimates that are particularly susceptible to significant change include the valuation of investments. Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of these assets will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or use) in the reporting period in which the income and gains are recognized. Expenses relating to investment activity, including custodial fees and investment advisory fees, totaled \$117,345 and \$110,660 for the years ended June 30, 2018 and 2017, respectively, and have been netted against investment revenues and losses in the accompanying statements of activities.

Fair Value Measurements – The Foundation follows ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Unobservable and significant to the fair value measurement.

Financial assets subject to fair value measurement disclosure requirements include investments. The Foundation has no liabilities carried at fair value on a recurring basis and no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2018 or 2017.

Fixed assets and depreciation – Fixed assets include transportation equipment, furniture, computers and equipment, and buildings and improvements. Fixed assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life of more than one year.

Fixed assets are stated at cost or, in the case of donated fixed assets, at their estimated fair value at the date of receipt. Depreciation of fixed assets is provided over the estimated useful lives of the respective assets on a straight-line basis. No property impairments were recorded during the years ended June 30, 2018 or 2017. Estimated useful lives of fixed assets are as follows:

Transportation equipment	3 years
Furniture, computers and equipment	3-15 years
Buildings and improvements	5-40 years

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentration of credit risk – The Foundation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. At June 30, 2018 and 2017, the Foundation had \$4,809,986 and \$3,839,458, respectively, of deposits in excess of FDIC insured limits. Additionally, cash and cash equivalents include \$5,064,233 and \$4,351,493 at June 30, 2018 and 2017, respectively, held in trust accounts which are not subject to FDIC coverage. The Foundation has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

For the years ended June 30, 2018 and 2017, \$1,561,500 and \$1,610,277, respectively, of the Foundation's grant revenue (80% and 93%, respectively) are received from the Corporation for Public Broadcasting.

Subsequent events – The Foundation has evaluated subsequent events through October 15, 2018, which is the date the financial statements were available to be issued.

Pledges Receivable

Pledges receivables are unrestricted. These unconditional promises to give are expected to be received by the Foundation in less than one year, and are reported net of an allowance of \$134,864 and \$124,850 at June 30, 2018 and 2017, respectively. Unconditional promises to give are primarily from individuals located throughout the state of Oklahoma.

Fair Value Measurements

Fair values of assets measured on a recurring basis at June 30, 2018, are as follows:

	Carrying Value	Total Fair Total	Fair Value Measurements		
			Level 1	Level 2	Level 3
ASSETS					
Investments:					
Common and preferred stock	\$ 2,665,333	\$ 2,665,333	\$ 2,665,333	\$ -	\$ -
Mutual funds	24,200,082	24,200,082	24,200,082	-	-
Fixed income					
Collateralized mortgage					
Obligations	1,577	1,577	-	1,577	-
Corporate bonds	101,688	101,688	-	101,688	-
Mortgage-backed securities	1,236,515	1,236,515	1,236,515	-	-
Treasury bonds	1,195,361	1,195,361	1,195,361	-	-
Total Investments	29,400,556	29,400,556	29,297,291	103,265	-
Total assets accounted for at fair value	\$ 29,400,556	\$ 29,400,556	\$ 29,297,291	\$ 103,265	\$ -

Fair values of assets measured on a recurring basis at June 30, 2017, are as follows:

	Carrying Value	Total Fair Total	Fair Value Measurements		
			Level 1	Level 2	Level 3
ASSETS					
Investments:					
Common and preferred stock	\$ 2,225,995	\$ 2,225,995	\$ 2,225,995	\$ -	\$ -
Mutual funds	22,793,145	22,793,145	22,793,145	-	-
Fixed income					
Collateralized mortgage					
Obligations	44,776	44,776	-	44,776	-
Corporate bonds	102,142	102,142	-	102,142	-
Mortgage-backed securities	1,263,573	1,263,573	1,263,573	-	-
Treasury bonds	2,197,762	2,197,762	2,197,762	-	-
Real estate investment trust	100,002	100,002	-	-	100,002
Total Investments	28,727,395	28,727,395	28,480,475	146,918	100,002
Total assets accounted for at fair value	\$ 28,727,395	\$ 28,727,395	\$ 28,480,475	\$ 146,918	\$ 100,002

Investments: Level 1, the fair values of mutual funds, equity securities, U.S. treasuries, and mortgage-backed securities are based on quoted market prices for active markets, where available. *Level 2*, for collateralized mortgage obligations and corporate bonds, if quoted market prices for active markets are not available, fair values are obtained from pricing services, based on quoted market prices of comparable instruments, bid/ask quotes or the use of discounted cash flows models, using observable inputs such as current yields, credit risks, and prepayment speeds. *Level 3*, Real Estate Investment Trust (“REIT”): This holding in one REIT is valued on a bi-annual basis by the investment managers. They use a combination of two valuation methods, first the REIT asset is valued based on a valuation of assets and then an income based model is used. There were no transfers between classes.

Assets valued at fair value on a recurring basis using significant unobservable inputs (level 3) at June 30, 2018 and 2017 include:

	2018	2017
Balance at beginning of year	\$ 100,002	\$ 100,002
Settlements	(100,002)	-
Balance at end of year	<u>\$ -</u>	<u>\$ 100,002</u>

Board Designated Endowment Funds

As of June 30, 2018 and 2017, the Board of Trustees had designated \$32,492,262 and \$31,067,235 of unrestricted net assets into four general endowments to support the mission and programs of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Board has designated unrestricted net assets for the following purposes:

Programming-This fund is intended to be kept intact and only its earnings to be used for the underwriting of special projects of OETA and programming that OETA could not otherwise afford.

Facilities-This fund is intended to be kept intact and only its earnings to be used for the upgrade of facilities. The fund makes distributions into the Facilities Endowment Grant Account for matching purposes.

Facilities Endowment Grant-This fund is to be used as matching funds for grants from federal, state and other private sources in support of OETA's equipment and facility needs.

Legacy for Excellence-This fund is used to accept gifts from estates and trusts to be used for general purposes of OETA and the Foundation.

The Foundation distributes approximately 5% of its board-designated Legacy for Excellence fund and Facilities fund each year, based on the average fair value of the prior twelve quarters through the end of the fiscal year preceding the year in which the distribution is planned, as provided for in its related spending policy. In establishing this policy, the Foundation considered the long-term expected investment return on its endowments. Accordingly, over the long term, the Foundation expects the current spending policy to allow the endowments to grow at modest rates. This is consistent with the Foundation's objective to maintain the purchasing power of the assets as well as to provide additional real growth through investment return.

To achieve this objective, the Foundation has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes cash equivalents, fixed income and equity securities, liquid alternative investments (primarily mutual funds and real estate investment trusts), and mutual funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make the designated annual distributions, while growing the fund if possible. Accordingly, the Foundation expects its endowment assets, over time to produce an average rate of return to exceed its spending rate of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Composition of and changes in unrestricted endowment net assets for the year ended June 30, 2018, is as follows:

	<u>Programming</u>	<u>Facilities</u>	<u>Facilities Endowment Grant</u>	<u>Legacy for Excellence</u>	<u>Total</u>
Beginning of the year	\$ 16,088,185	\$ 12,258,043	\$ 981,157	\$ 1,739,850	\$ 31,067,235
Investment income	265,206	196,970	15,110	35,952	513,238
Investment fees	(59,366)	(45,049)	(5,052)	(7,877)	(117,344)
Contributions	-	-	817,502	291,579	1,109,081
Realized and unrealized gains (losses) on investments	903,289	746,864	-	91,672	1,741,825
Amounts appropriated for expenditure	<u>(616,903)</u>	<u>(587,113)</u>	<u>(539,098)</u>	<u>(78,659)</u>	<u>(1,821,773)</u>
	<u>\$ 16,580,411</u>	<u>\$ 12,569,715</u>	<u>\$ 1,269,619</u>	<u>\$ 2,072,517</u>	<u>\$ 32,492,262</u>

Composition of and changes in unrestricted endowment net assets for the year ended June 30, 2017, is as follows:

	<u>Programming</u>	<u>Facilities</u>	<u>Facilities Endowment Grant</u>	<u>Legacy for Excellence</u>	<u>Total</u>
Beginning of the year	\$ 15,240,703	\$ 11,688,857	\$ 998,004	\$ 1,556,346	\$ 29,483,910
Investment income	254,501	193,142	4,719	28,199	480,561
Investment fees	(56,152)	(43,012)	(4,724)	(6,771)	(110,659)
Contributions	-	-	588,520	120,973	709,493
Realized and unrealized gains (losses) on investments	1,270,004	1,007,576	-	118,776	2,396,356
Amounts appropriated for expenditure	<u>(620,871)</u>	<u>(588,520)</u>	<u>(605,362)</u>	<u>(77,673)</u>	<u>(1,892,426)</u>
	<u>\$ 16,088,185</u>	<u>\$ 12,258,043</u>	<u>\$ 981,157</u>	<u>\$ 1,739,850</u>	<u>\$ 31,067,235</u>

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OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION -- UNAUDITED
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE OF OETA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

<u>Fiscal year ended</u>	<u>OETA's proportion of the net pension liability</u>	<u>OETA's proportionate share of the net pension liability</u>	<u>OETA's covered-employee payroll</u>	<u>OETA's proportionate share of the net pension liability as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
6/30/2018	0.1445%	\$ 564,719	\$ 1,875,176	30.12%	94.28%
6/30/2017	0.1096%	1,087,088	1,688,489	64.38%	89.48%
6/30/2016	0.1284%	461,981	1,969,206	23.46%	96.00%
6/30/2015	0.1286%	236,029	2,275,912	10.37%	97.90%

SCHEDULE OF OETA CONTRIBUTIONS

<u>Fiscal year ended</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>OETA's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
6/30/2018	\$ 276,423	\$ (276,423)	\$ -	\$ 1,875,176	14.74%
6/30/2017	284,251	(284,251)	-	1,688,489	16.83%
6/30/2016	322,459	(322,459)	-	1,969,206	16.38%
6/30/2015	371,848	(371,848)	-	2,275,912	16.34%
6/30/2014	359,437	(359,437)	-	2,153,255	16.69%
6/30/2013	372,047	(372,047)	-	2,236,757	16.63%
6/30/2012	371,047	(371,047)	-	2,235,945	16.59%
6/30/2011	387,079	(387,079)	-	2,474,962	15.64%
6/30/2010	435,369	(435,369)	-	2,739,614	15.89%
6/30/2009	400,690	(400,690)	-	2,835,649	14.13%

See independent auditor's report.



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*

To the Board of Directors
Oklahoma Educational Television Authority
Oklahoma City, Oklahoma

We have audited the financial statements and discretely presented component unit of the Oklahoma Educational Television Authority (“OETA” or the “Authority”), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 18, 2018. We conducted our audit in accordance with the 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. The financial statements of Oklahoma Educational Television Authority Foundation, Inc. (the “Foundation”) were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’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 Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2018-001, that we consider to be a material weakness.

HSPG & ASSOCIATES, PC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority'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.

HSPG & Associates, P.C.

October 18, 2018

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

2018-001

Finding: The Authority's operating revenue for telecasting, production and other income was overstated by \$449,000 for the year ended June 30, 2018.

Criteria: Reporting in accordance with US GAAP requires recognition of revenue to be deferred until it is earned and measurable. Considerations for whether revenue has been earned include satisfying all substantive contingencies which could cause the revenue to be repaid.

Condition: In August 2017, the Authority received a \$600,000 prepaid fee from a third-party vendor upon entering into a long-term agreement. The prepaid fee is to be refunded on a pro rata basis if the agreement is terminated within the first five years by reason of uncured default by the Authority.

Cause: The Authority experienced turnover in the Vice President of Finance position during the current year. The prepaid fee was received prior to the interim Vice President of Finance's arrival who was not aware of the refund contingency in the agreement.

Effect: Operating revenues for the year ended June 30, 2018 were overstated by \$449,000.

Recommendation: The Authority should implement policies and procedures to review and summarize pertinent financial aspects of significant contracts. During each month-end close, accounting personnel should review the financial summary of significant contracts to ensure appropriate accounting treatment is recognized in the proper period.

Response and Corrective Action Plan: OETA management agrees with the above finding. OETA will put in place a process for monthly review of all significant contracts to ensure appropriate accounting procedures are taken.