tvo

Audited Financial Statements 2017–18

Ontario Educational Communications Authority

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Management's Responsibility for Financial Statements

The accompanying financial statements of the Ontario Educational Communications Authority have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 21, 2018.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. The Internal Audit Department independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board reviews and approves the financial statements. The Audit Committee of the Board meets periodically with management, Internal Audit, and the Office of the Auditor General of Ontario to discuss audit, internal control, accounting policy, and financial reporting matters.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and opinion.

On behalf of Management:

Lisa de Wilde
Chief Executive Officer

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Ontario Educational Communications Authority
and to the Minister of Education

I have audited the accompanying financial statements of the Ontario Educational Communications Authority, which comprise the statement of financial position as at March 31, 2018 and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Educational Communications Authority as at March 31, 2018 and the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 21, 2018

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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Statement of Financial Position

As of March 31, 2018

($000s)		2018	2017
Assets			
	Current Assets		
	Cash and cash equivalents (note 3)	11,104	13,542
	Short term investments (note 3)	11,774	8,796
	Accounts receivable (note 3)	970	1,051
	Prepaid expenses	1,057	1,123
	Inventories	145	150
		25,050	**24,662**
Broadcast rights and production costs (note 7)		**20,037**	**20,653**
Investments held for Capital Renewal (note 5)		**5,176**	**5,112**
Net capital assets (note 6)		**15,507**	**13,983**
Total Assets		**65,770**	**64,410**
Liabilities and Net Assets			
	Current Liabilities		
	Accounts payable and accrued liabilities	9,070	9,443
	Deferred revenue (note 8)	6,157	4,981
		15,227	**14,424**
	Deferred capital contributions (note 9)	9,446	8,857
	Employee future benefits (note 4)	15,152	20,973
	Asset retirement obligation (note 6)	205	196
		24,803	**30,026**
	Net Assets		
	Invested in broadcast rights and production costs	20,037	20,653
	Invested in capital assets	10,840	9,870
	Internally restricted (note 12a)	-	354
	Unrestricted	(5,137)	(10,917)
		25,740	**19,960**
Total Liabilities and Net Assets		**65,770**	**64,410**

Commitments and contingencies (notes 14 and 16)
See accompanying Notes to Financial Statements.

On behalf of the Board:

Chair **Director**

Statement of Operations

For the year ended March 31, 2018

($000s)	2018	2017
Revenues		
Government operating grants (note 10)	40,046	40,045
Independent Learning Centre and Homework Help contracts (note 15)	9,142	9,727
Earned revenue (note 12)	11,039	11,668
Government project funding (note 11)	3,690	1,741
Amortization of deferred capital contributions (note 9)	670	740
	64,587	**63,921**
Expenses		
Content and programming	18,446	18,686
Technical and production support services	15,893	17,042
Independent Learning Centre (note 15)	15,615	12,512
Management and general expenses	5,711	6,740
Employee future benefits (note 4)	(2,463)	3,493
Cost of earned revenue (note 12)	2,915	3,165
Amortization of capital assets and accretion expense (note 6)	2,690	2,626
	58,807	**64,264**
Excess / (Deficiency) of revenues over expenses	**5,780**	**(343)**

See accompanying Notes to Financial Statements.

Statement of Changes in Net Assets

For the year ended March 31, 2018

($000s) 2018	Invested in Broadcast Rights and Production Costs	Invested in Capital Assets	Internally Restricted	Unrestricted	Total
Balance, beginning of year	**20,653**	**9,870**	**354**	**(10,917)**	**19,960**
Excess/(deficiency) of revenues over expenses	(7,529)	(2,023)	-	15,332	5,780
Invested in assets during the year	6,913	2,993	-	(9,906)	-
Inter-fund transfers (note 12)	-	-	(354)	354	-
Balance, end of year	**20,037**	**10,840**	**-**	**(5,137)**	**25,740**

($000s) 2017	Invested in Broadcast Rights and Production Costs	Invested in Capital Assets	Internally Restricted	Unrestricted	Total
Balance, beginning of year	**21,221**	**8,414**	**1,726**	**(11,058)**	**20,303**
Excess/(deficiency) of revenues over expenses	(7,251)	(1,893)	-	8,801	(343)
Invested in assets during the year	6,683	3,349	-	(10,032)	-
Inter-fund transfers (note 12)	-	-	(1,372)	1,372	-
Balance, end of year	**20,653**	**9,870**	**354**	**(10,917)**	**19,960**

See accompanying Notes to Financial Statements.

Statement of Cash Flows

For the year ended March 31, 2018

($000s)	2018	2017
Operating Activities		
(Deficiency) / excess of revenues over expenses	5,780	(343)
Add/(deduct) non-cash items:		
Amortization of capital assets and accretion expense (note 6)	2,690	2,626
Amortization of deferred capital contributions	(670)	(740)
Amortization of broadcast rights and production costs	7,529	7,251
Employee future benefits expense	(3,414)	3,059
Loss / (gain) on disposal of capital assets	(3)	10
Net changes in non-cash working capital:		
Accounts receivable	81	235
Inventories	5	(2)
Prepaid expenses	66	251
Deferred revenue	1,176	2,357
Accounts payable and accrued liabilities	(373)	1,027
Contributions to employee benefit plans	(2,407)	(2,466)
Cash provided by operating activities	**10,460**	**13,265**
Capital transactions		
Broadcast rights additions	(6,913)	(6,683)
Capital asset additions	(4,212)	(4,183)
Proceeds from disposal of capital assets	10	-
Cash applied to capital transactions	**(11,115)**	**(10,866)**
Investing and financing transactions		
Increase short term investments	(2,978)	(2,536)
Current year's deferred capital contributions	1,195	715
Cash provided by investing and financing activities	**(1,783)**	**(1,821)**
Net increase (decrease) in cash position during the year	**(2,438)**	**579**
Cash and cash equivalents, beginning of year	**13,542**	**12,964**
Cash and cash equivalents, end of year	**11,104**	**13,542**

See accompanying Notes to Financial Statements.

Notes to Financial Statements

For the year ended March 31, 2018

1. AUTHORITY AND MANDATE

The Ontario Educational Communications Authority (the "Authority") is a Crown Corporation of the Province of Ontario that was created in June 1970 by the Ontario Educational Communications Authority Act (the "Act"). In accordance with the Act, the Authority's main objective is to initiate, acquire, produce, distribute, exhibit or otherwise deal in programs and materials in the educational broadcasting and communications fields. The Authority is licenced by the Canadian Radio-television and Telecommunications Commission ("CRTC") to broadcast English-language educational television programs. The broadcasting licence is subject to renewal by the CRTC and the current licence is for the period September 1, 2015 to August 31, 2022.

The Authority is a registered charitable organization which may issue donation receipts for income tax purposes. As a Crown Corporation of the Province of Ontario, the Authority is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Authority have been prepared by management in accordance with Canadian Public Sector Accounting Standards for Government Not-for-Profit Organizations.

(b) Cash and Cash Equivalents

Cash includes balances with banks, net of any overdrafts. Cash equivalents consist of short-term, high-grade Canadian dollar investments maturing within 90 days.

(c) Inventories Held for Consumption

Inventories held for consumption, consisting of maintenance supplies and media tapes, are valued at cost where cost is determined on a first-in-first-out basis, net of an allowance for obsolescence.

(d) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Capital assets are amortized on a straight line basis over the following terms beginning the year following acquisition:

Capital Assets	Amortization Period
Building	30 years
Computer Equipment	5 years
Computer Software	3-5 years
In-House Technical Equipment	7 years
Leasehold Improvements	5 years
Office Equipment	10 years
Office Furniture and Fixtures	15 years
Transmitters	17 years
Transmitters - Asset Retirement Obligation	17 years
Transmitter Monitoring Equipment	7 years
Vehicles	5 years

The Authority reviews the carrying amounts of its capital assets on an annual basis. When a capital asset no longer has any long-term service potential, the Authority will recognize an expense (write-down) equal to the excess of its net carrying amount over any residual value.

Work in progress is not amortized until the completed assets are placed into operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Revenue Recognition

1. The Authority follows the deferral method of accounting for grants and contributions whereby restricted grants, contributions and bequests are recognized as revenue in the year in which the related expenses are incurred. Unrestricted grants, contributions and bequests are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
2. Revenue from grants and contributions restricted for the purchase of capital assets is deferred and amortized over the same period of use as the related capital asset.
3. Revenue from the licensing of program material is recognized when the program material is delivered.
4. Individual donations are recorded on a cash basis. Contributions from corporate sponsors are recognized equally over the period the sponsorship program is delivered by the Authority.
5. Revenue from sponsorship is recognized when the content is broadcast or webcast.
6. Student fees for courses offered by the Independent Learning Centre ("ILC") and registration fees for General Education Development ("GED") are recognized as revenue at the time of enrolment.

(f) Employee Future Benefits

For all employee service up to December 31, 2017, the Authority accrues its obligations under employee defined benefit pension plans and the related costs, net of plan assets. The following accounting policies have been adopted:

1. The cost of pension benefits and other post-retirement benefits is determined by independent actuaries based on management's best estimate assumptions using the projected benefits method prorated on service.
2. Past service costs and any transitional asset or obligation are amortized over the expected average remaining service period of active plan members.
3. Actuarial gains and losses are recognized and amortized over the expected average remaining service period of active plan members.
4. The expected return on plan assets is based on the fair value of plan assets.

Effective January 1, 2018, eligible Authority employees are members of the Public Service Pension Plan (PSPP) and the Public Service Supplementary Benefits Account (PSSBA). The Authority accounts for its participation in the PSPP and PSSBA, which are multi-employer defined benefit pension plans, as defined contribution plans..

The Province of Ontario, who is the sole sponsor of the PSPP and PSSBA, determines the Authority's annual payments to the Plans and is responsible for ensuring that the pension funds are financially viable. Any surplus or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Authority. Therefore, the Authority's contributions are accounted for as if the plans were defined contribution plans with the Authority's contributions being expensed in the period they come due.

(g) Broadcast Rights and Production Costs

Broadcast rights and production costs are accounted for as follows:

- Current events and network promotion programs produced by the Authority are expensed in the year the costs are incurred.
- All other programs produced by the Authority and programs licensed under co-production, pre-buy and acquisition contracts are recorded at cost less accumulated amortization. Amortization is calculated on a straight line basis over the following periods:
    - Program licence acquired: term of contract
    - Program produced by the Authority: four years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial Instruments

The Authority's financial instruments are accounted for as follows:

- Cash and cash equivalents, including investments held for capital renewal, are measured at amortized cost.
- Accounts receivable are stated at amortized cost.
- Accounts payable and accrued liabilities are stated at cost.

(i) Asset Retirement Obligation

Liabilities are recognized for statutory, contractual or legal obligations, associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the asset. The obligations are initially measured at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is amortized on the same basis as the related asset and the discount accretion is included in determining the results of operations. The Authority recognizes a liability for future decommissioning of its transmitter facilities.

(j) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Items requiring the use of significant estimates include employee future benefit obligations and useful life of capital assets and broadcast rights. Actual results could differ from those estimates.

(k) Prepaid Expenses

Prepaid expenses include, property tax, cleaning, hydro, software support and other prepaids and are charged to expense over the period the Authority is expected to benefit from the expenditure.

(l) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

3. FINANCIAL INSTRUMENTS

Cash and cash equivalents

The Authority's cash equivalents consist of short-term, high-grade Canadian dollar investments. These investments mature within 90 days and had an average yield of 1.4% (2017 – 1.0%). The cash equivalent amount is $11,104,000 (2017 - $13,542,000)

Short term investments

The Authority's short term investments consist of high-grade Canadian dollar investments that have a maturity date greater than 90 days. All the investments were purchased with a term of 1 year or less. The short term amount is $11,774,000 (2017 – $8,796,000).

3. FINANCIAL INSTRUMENTS (CONT'D)

Accounts receivable

($000s)	2018	2017
ILC earned revenue, donations, sales and licensing, tower rentals and transmitter maintenance fees	578	581
HST rebate	332	436
Others	60	34
	970	**1,051**

Operating line of credit

As part of its financial arrangements, the Authority negotiated a demand revolving line of credit with CIBC. The maximum available credit under the facility is $1.0 million (2017 – $1.0 million). The line of credit is unsecured and bears interest at the bank's prime lending rate. As at March 31, 2018, no amount (2017 – $0) was outstanding under the facility.

Risk disclosures

(a) Liquidity risk:

Liquidity risk is the risk that the Authority will not be able to meet its cash flow obligations as they fall due. The Authority manages its liquidity risk by monitoring its operating requirements and prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The Authority is not exposed to significant liquidity risk.

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Authority is exposed to credit risk arising from its accounts receivable. Given the amount of the Authority's accounts receivable and past experience regarding payments, the Authority is not exposed to significant credit risk.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Due to the short-term nature of the Authority's financial instruments, their carrying value approximates fair value and as a result the Authority is not exposed to significant interest rate risk.

(d) Foreign currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Authority maintains a U.S. dollar bank account. Its balance was not large enough at any time during the year to expose the Authority to significant currency risk.

4. EMPLOYEE FUTURE BENEFITS

Plan Merger and Curtailment

Effective January 1, 2018, the Authority's Main and Executive Pension Plans were merged with the Public Service Pension Plan (PSPP) and the Authority's Supplementary Retirement Plan was merged with the Public Service Supplementary Benefits Plan (PSSBP), (collectively, the "Merger").

The PSPP and PSSBP are contributory defined benefit plans. PSPP members receive benefits based on length of service and the average annualized earnings during the five consecutive years that provide the highest earnings prior to retirement, termination or death. The PSPP is funded by contributions from participating employers and members, and by the investment earnings from the Public Service Pension Fund. Contributions from members and employers are remitted to the Ontario Pension Board (OPB). The portion of these contributions that exceeds Income Tax Act (Canada) limits is transferred to the PSSBP.

4. EMPLOYEE FUTURE BENEFITS (CONT'D)

As a result of the Merger, the Authority's plans have been curtailed to cease member contributions and freeze credited service effective December 31, 2017. The impact of this curtailment is the immediate recognition of previously unrecognized net actuarial gains of $5,955,000 through defined benefit pension expense. There is no gain or loss to the current obligation for this change.

Pending regulatory approval of the Merger and transfer of Authority plan assets to the PSPP and PSSBP, the Authority continues to account for its obligations under the Main, Executive and Supplementary Plans as defined benefit pension plans and the related costs, net of plan assets for all employee service accrued up to December 31, 2017. Upon approval of the Merger and transfer of Authority plan assets, the Main, Executive and Supplementary Plans will be fully settled and therefore, cease to exist.

Contributions to PSPP and PSSBP made during the year by the Authority on behalf of its employees amounted to $572,000 and are included in employee future benefits expenses.

The Authority recorded the following (gain) / expense for the year:

($000s)	**2018**	**2017**
Related to the Authority's plan	2,920	3,493
Net actuarial gain to Plan curtailment	(5,955)	-
Net (gain) / expense	(3,035)	3,493
Contributions to the PSPP	572	-
Total Employee Future Benefit net (gain) / expense	**(2,463)**	**3,493**

Authority-sponsored pension and other post-employment benefit plans have the following components:

(a) Registered pension plans:

- Main Pension Plan – Most employees of the Authority are members of this plan, which consists of three elements – a non-contributory, defined benefit, best average earnings and years of service element; a contributory, defined contribution element; and a non-contributory, defined contribution element.
- Executive Pension Plan – Executives are members of this non-contributory, defined benefit, best average earnings and years of service plan. On August 28, 2017, this plan was amended to require members to make contributions.

(b) Supplementary retirement plan:

- Certain employees are members of this unregistered and non-contributory plan which funds the portion of pension entitlements in excess of the maximum allowed for registered pension plans under the federal Income Tax Act.

The future benefits payable to employees under the defined benefit plans are adjusted for inflation based on the consumer price index up to a maximum of 3% per year.

(c) Post-employment benefits plan:

- The Authority offers post-employment benefits such as health care, dental care, and life insurance on a shared cost basis.

The most recent actuarial valuation for funding purposes of the registered defined benefit pension plans was performed as of January 1, 2017.

Information about the Authority's pension and other benefit plans is presented in the following tables.

4. EMPLOYEE FUTURE BENEFITS (CONT'D)

($000s)	Registered Pension Plans 2018	2017	Supplementary Retirement Plan 2018	2017	Post-employment Benefit Plan 2018	2017	Total 2018	2017
Plan deficit as of January 1:								
Accrued benefit obligation	100,306	99,892	2,056	1,551	13,217	12,541	115,579	113,984
Fair value of plan assets	(102,274)	(99,862)	-	-	-	-	(102,274)	(99,862)
	(1,968)	30	2,056	1,551	13,217	12,541	13,305	14,122
Balance of unamortized actuarial (gains)/losses as of January 1	-	4,897	-	331	1,966	2,235	1,966	7,463
Contributions – Jan 1 to Mar 31	(54)	(558)	-	-	(65)	(54)	(119)	(612)
Employee future benefits liability as at March 31	**(2,022)**	**4,369**	**2,056**	**1,882**	**15,118**	**14,722**	**15,152**	**20,973**

($000s)	Registered Pension Plans 2018	2017	Supplementary Retirement Plan 2018	2017	Post-employment Benefit Plan 2018	2017	Total 2018	2017
Expenses for the year:								
Defined benefit plan:								
Service cost (employer portion)	2,132	2,126	192	193	415	501	2,739	2,820
Amortization of actuarial (gains)/losses	(518)	(277)	(44)	(41)	(230)	(170)	(792)	(488)
Interest cost on accrued benefit obligation	5,674	5,593	64	55	472	463	6,210	6,111
Expected return on plan assets	(5,616)	(5,384)	-	-	-	-	(5,616)	(5,384)
Net actuarial gains on curtailment	(5,917)	-	(38)	-	-	-	(5,955)	-
Total defined benefit expense	(4,245)	2,058	174	207	657	794	(3,414)	3,059
Defined contribution plan expense	379	434	-	-	-	-	379	434
Total expenses	**(3,866)**	**2,492**	**174**	**207**	**657**	**794**	**(3,035)**	**3,493**
Contributions made to the plans:								
Pension plan contributions - Authority	2,241	2,674	-	18	250	291	2,491	2,983
Pension plan contributions - employees	809	1,018	-	-	-	-	809	1,018
Payments made from all the plans as of January 1:								
Pension benefits paid	4,959	4,782	-	-	-	-	4,959	4,782
Termination benefits paid	5,517	2,656	-	-	-	-	5,517	2,656

The significant assumptions adopted in measuring the employee benefit obligations and pension expenses are as follows:

	Registered Pension Plans 2018	2017	Supplementary Retirement Plan 2018	2017	Post-employment Benefit Plan 2018	2017
Discount rate to determine the accrued benefit obligation	5.75% to 6.00%	5.75% to 6.00%	3.70%	3.70%	3.70%	3.70%
Discount rate to determine the benefit cost	5.75% to 6.00%	5.75% to 6.00%	3.60%	3.70%	3.60%	3.70%
Expected investment return	5.75% to 6.00%	5.75% to 6.00%	N/A	N/A	N/A	N/A
Pension indexation	2.00%	2.25%	2.00%	2.25%	N/A	N/A
Salary rate increase	2.00% yr 1, 2.50% thereafter	2.00% yr 1, 2.50% thereafter	2.00% yr 1, 2.50% thereafter	2.00% yr 1, 2.50% thereafter	N/A	N/A
Health cost rate increase	N/A	N/A	N/A	N/A	4.50%	4.50%
Drug cost rate increase	N/A	N/A	N/A	N/A	6.95%	6.95%
Dental cost rate increase	N/A	N/A	N/A	N/A	4.50%	4.50%
Employee average remaining service lifetime (years)	9 to 11	11	9	11	11	12

The drug cost rate increase assumption is expected to decrease to 4.5% by 2023.

4. EMPLOYEE FUTURE BENEFITS (CONT'D)

Defined benefit plan assets as at January 1 measurement date consisted of:

	Percentage of Total Fair Value of Plan Assets	
	2018	**2017**
Asset category		
Equity securities	57%	55%
Debt securities	37%	39%
Real estate fund	6%	6%

The actual investment return on pension plan assets was 7.2% in 2018 (2017 – 8.05%).

5. INVESTMENTS HELD FOR CAPITAL RENEWAL

To ensure that the Authority's technical capital assets keep pace with technological changes and can be maintained or replaced when needed, the Capital Renewal Fund was established in 1984. Up to fiscal 2008/09, the Authority set aside up to 2% of the funding received as a contribution to the Capital Renewal Fund. Available funds are invested in short-term deposits maturing within 365 days that earned an average interest rate of 1.3% (2017 – 1.2%) during the fiscal year. The changes in the fund are as follows:

($000s)	2018	2017
Balance, beginning of year	5,112	5,329
Purchase of capital assets	-	(273)
Interest earned	64	56
	5,176	**5,112**

6. CAPITAL ASSETS AND ASSET RETIREMENT OBLIGATION

Capital Assets

Capital assets consist of the following:

($000s)			2018			2017
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	186	-	186	186	-	186
Building	1,988	1,939	49	2,268	2,197	71
Transmitters	7,179	5,025	2,154	7,421	5,064	2,357
Transmitters - asset retirement obligation	557	472	85	557	463	94
Transmitter monitoring equipment	2,061	1,897	164	2,061	1,766	295
In house technical equipment	20,758	19,191	1,567	21,703	19,900	1,803
Leasehold improvements	9,559	8,868	691	9,299	8,706	593
Computer equipment	6,593	5,184	1,409	6,677	5,075	1,602
Office furniture and fixtures	2,106	1,580	526	2,065	1,460	605
Office equipment	175	175	-	905	899	6
Vehicles	303	177	126	317	223	94
Computer software	10,785	3,430	7,355	5,623	2,403	3,220
Work-in-progress – software	1,195	-	1,195	3,057	-	3,057
Total	**63,445**	**47,938**	**15,507**	**62,139**	**48,156**	**13,983**

Amortization expense for the year was $2,681,623 (2017 - $2,618,469) and is included in Amortization of capital assets and accretion expense in the Statement of Operations.

Work-in-progress constitutes web sites construction and gaming development that have not been launched.

6. CAPITAL ASSETS AND ASSET RETIREMENT OBLIGATION (CONT'D)

Asset Retirement Obligation

The Authority recognized a liability for future decommissioning of its transmitter and low power repeat transmitter (LPRT) facilities which was required under their respective leases. In determining the fair value of its asset retirement obligations, the Authority discounted the associated cash flows at credit-adjusted risk free rates. The total undiscounted amount of the estimated future obligations is $316,000 (2017 – $316,000).

($000s)	2018	2017
Opening balance	196	188
Accretion expense	9	8
Closing balance	**205**	**196**

7. BROADCAST RIGHTS AND PRODUCTION COSTS

Broadcast rights and production costs consist of the following:

($000s)			2018			2017
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Broadcast rights and completed productions	72,240	55,372	16,868	65,318	47,843	17,475
Work in progress	3,169	-	3,169	3,178	-	3,178
	75,409	**55,372**	**20,037**	**68,496**	**47,843**	**20,653**

Amortization expense for the year was $7,529,020 (2017 – $7,250,625) and is included in Content and programming expense.

8. DEFERRED REVENUE

($000s)	2018	2017
ILC – Ministry of Education grant and provincial project funding (note 15)	2,720	2,637
Funding for ILC adoption of new learning environment deferred (note 11)	1,716	1,056
Accessibility for Ontarians for Disability Act project funding	47	(40)
Bequest (note 12)	69	88
Gift to be utilized for Local Hubs (note 12)	1,208	861
Transmitter tower rental and maintenance	158	168
Sponsorship revenue	164	163
Other	75	48
	6,157	**4,981**

Expenditures related to the above deferrals, except for the bequest, have been budgeted for the 2019 fiscal year.

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent contributions received for the purchase of capital assets and are recorded as revenue (amortization of deferred capital contributions) in the Statement of Operations when the related capital assets are amortized. The changes in the deferred contributions balance are as follows:

9. DEFERRED CAPITAL CONTRIBUTIONS (CONT'D)

($000s)			2018
	Unamortized Capital Contributions	Unspent Funds	Total
Deferred capital contributions, beginning of year	**3,745**	**5,112**	**8,857**
Homework Help website rebuild (note 15)	1,095	-	1,095
Student record system (note 15)	100	-	100
Interest earned	-	64	64
Amortization of deferred capital contributions to revenue	(670)	-	(670)
Deferred capital contributions, end of year	**4,270**	**5,176**	**9,446**

($000s)			2017
	Unamortized Capital Contributions	Unspent Funds	Total
Deferred capital contributions, beginning of year	**3,769**	**5,330**	**9,099**
Capital Maintenance Fund	273	(273)	-
Master Control Room Ingest Upgrades	46	-	46
Agenda Studio Lighting Upgrade	210	-	210
Web Infrastructure	187	-	187
Interest earned	-	55	55
Amortization of deferred capital contributions to revenue	(740)	-	(740)
Deferred capital contributions, end of year	**3,745**	**5,112**	**8,857**

10. GOVERNMENT OPERATING GRANTS

($000s)	2018	2017
Ontario Ministry of Education		
Base grant	38,446	38,445
Capital maintenance grant	1,600	1,600
	40,046	**40,045**

11. GOVERNMENT PROJECT FUNDING

($000s)	2018	2017
Provincial project funding		
Ministry of Education		
Accessibility for Ontarians with Disabilities Act funding	350	597
Special one-time capital grant		
Capital Expenditure Grant	-	443
Capital Expenditure Grant – deferred	-	(443)
Funding for ILC – transition to Virtual Learning Environment	5,056	2,199
Funding for ILC – transition to Virtual Learning Environment deferred (note 8)	(1,716)	(1,056)
Corporate project funding		
Funding deferred from prior year (note 8)	-	1
Total government and project funding	**3,690**	**1,741**

12. EARNED REVENUE AND COST

($000s)			2018			2017
	Revenue	Cost	Net Revenue	Revenue	Cost	Net Revenue
Individual and corporate donations and sponsorships	5,767	2,915	2,852	5,705	3,165	2,540
Green Family Gift (b)	558	-	558	-	-	-
Donald Pounder Bequest (a)	19	-	19	144	-	144
ILC earned revenue	2,685	-	2,685	2,804	-	2,804
Tower rental and transmitter maintenance	1,044	-	1,044	1,028	-	1,028
Net proceeds from insurance settlement (note 18)	-	-	-	1,075	-	1,075
Interest income	402	-	402	302	-	302
Sales and licensing	131	-	131	272	-	272
Property tax rebate program for charities	219	-	219	245	-	245
Asset disposal	10	-	10	-	-	-
BDU affiliate fees	99	-	99	88	-	88
Cancellation fee received	75	-	75	-	-	-
Others	30	-	30	5	-	5
	11,039	**2,915**	**8,124**	**11,668**	**3,165**	**8,503**

(a) Donald Pounder Bequest

During the year ended March 31, 2014, the Authority was informed that it was a beneficiary of the estate of a TVO viewer. A total bequest of $2,592,000 (2016 – $37,000, 2015 – $127,000, 2014 – $2,428,000) was received. The donor stipulated in his will that 25%, or $648,000 (2016 – $10,000, 2015 – $32,000, 2014 – $606,000) of the bequest be applied toward The Agenda program. This restricted portion of the bequest is included in Deferred revenue in the Statement of Financial Position. Revenue is recognized when expenditures are incurred toward new projects associated with The Agenda.

The Authority has internally restricted the remaining 75%, or $1,944,000 (2016 – $27,000, 2015 – $95,000, 2014 – $1,822,000), of the bequest for new projects or enhancement of existing products or services as approved by the Board of Directors. During the year, the Authority applied $373,000 ($19,000 of the restricted portion and $354,000 of the internally restricted portion) to fund new projects.

The Bequest revenue of $19,000 recognized in the Statement of Operations is the total of the restricted portion utilized in the year.

Total bequest revenue received during fiscal years 2017 and 2018 has been accounted for as follows:

($000s)			2018			2017
	Restricted	Internally Restricted	Total	Restricted	Internally Restricted	Total
Bequest balance, beginning of year	88	354	442	232	1,726	1,958
Utilization of bequest	(19)	(354)	(373)	(144)	(1,372)	(1,516)
Bequest balance, end of year	**69**	**-**	**69**	**88**	**354**	**442**

(b) Green Family Gift to be Utilized for Local Hubs

In December 2016, the Authority received a $2,000,000 gift to be utilized in the set up and operation of 4 journalistic local hubs (“Local Hubs”) in the province to provide in-depth current affairs journalism in regions across Ontario. The gift consists of a $1,500,000 commitment plus an additional matching gift of up to $500,000 if the Authority raises $300,000 toward this project by June 2018. Revenue will be recognized in future years when expenditures are incurred for the set up and operation of the Local Hubs. There were expenditures of $558,000 for the year ended March 31, 2018. As at March 31, 2018, a total of $1,600,000 in respect of the gift had been received and $166,000 has been raised by the Authority. These amounts have been included in deferred revenue.

($000s)	2018	2017
Balance, beginning of year	861	-
Contributions received – Green Foundation	750	850
Contributions received – Individual Donor gifts	155	11
Utilization of gift	(558)	-
Balance, end of year	**1,208**	**861**

13. EXPENSES

(a) Allocated Expenses

The Authority allocates certain general expenses to major activities on the following bases:

Building cost – based on floor area occupied by the activity
Cost of mailing, shipping and printing – based on usage

Total general expenses allocated to major functional groups are as follows:

($000s)	2018	2017
Current affairs and documentaries	1,604	1,531
Technical and production support services	922	1,605
Independent Learning Centre	931	876
Management and general	493	567
Cost of other earned revenue	77	68
	4,027	**4,647**

(b) Expenses by Type

The Statement of Operations reports on expenses by activity. Expenses by type during the fiscal year are as follows:

($000s)	2018	2017
Salaries and wages	33,862	32,145
Licences and other	7,992	7,823
Advertising	1,560	2,460
Other services	1,948	1,156
Employee benefits	6,553	6,316
Facilities	4,818	4,757
Employee future benefits	(2,463)	3,493
Transportation and communication	2,013	2,069
Supplies and equipment	406	424
Amortization of capital assets and accretion expense	2,690	2,545
	58,807	63,188

14. COMMITMENTS

The Authority has entered into operating leases covering transmission facilities, offices, warehouses and equipment. Future lease payments are as follows:

Year ending March 31 ($000s)	Head Office Space	Others	Total
2019	1,297	1,119	2,416
2020	1,297	1,027	2,324
2021	1,275	698	1,973
2022	1,267	375	1,642
2023	1,307	104	1,411
2024 and beyond	5,898	-	5,898
	12,341	**3,323**	**15,664**

The lease of head office space expires on August 31, 2027 with options to extend the lease to August 31, 2047.

15. THE INDEPENDENT LEARNING CENTRE AND HOMEWORK HELP

The ILC provides a wide range of distance education courses, in English and in French that allow students and adults to earn secondary school diploma credits, upgrade their basic skills, or study for personal development. The General Education Development testing is also available.

TVO administers the Homework Help program, which provides free online math help resources for students in Grade 7 to 10.

The ILC receives funding for these activities pursuant to contracts with the Ministry of Education to provide services. The portion of the funding that has been identified for specific projects is deferred until the related expenses have been incurred.

(a) TVO recognized the following revenue in respect of these contracts:

($000s)	2018	2017
ILC and Homework Help Contracts:		
Ministry of Education ILC contract	6,420	6,420
Homework Help contract	4,000	4,000
Capital expenditure – deferred (note 9)	(1,195)	-
Funding deferred from prior year (note 8)	2,637	1,944
Funding deferred to a future year (note 8)	(2,720)	(2,637)
ILC grant and project funding recognized	**9,142**	**9,727**

(b) The ILC incurred the following non-project operating expenses:

($000s)	2018	2017
ILC Expenses during the year:		
Salaries and benefits	9,244	9,363
Transportation and communication	236	370
Services	584	465
Allocated general expenses (note 13)	931	876
Licences	522	232
Supplies, equipment and others	858	63
Total ILC expenses	**12,375**	**11,369**

(c) During the year, the ILC incurred expenses in connection with the transition to the Virtual Learning Environment. Funding for this project was provided by the Ministry of Education and is reported in Government Project Funding (note 11):

($000s)	2018	2017
ILC Adoption and preparation for new learning environment	**3,240**	**1,143**

Direct expenses related to the funding deferred to a future year have been budgeted for the 2019 fiscal year.

16. CONTINGENCIES

Contingencies refer to possible legal claims that have been made by or against the Authority, the ultimate outcome of which cannot be predicted with certainty. Management does not expect that the outcome of the claims against the Authority will have a material and adverse effect on its results and does not believe any provisions for losses are necessary at this time. No amounts have been recognized in the accounts for claims made by or against the Authority. Any settlements will be accounted for at the time of settlement.

17. RELATED PARTY TRANSACTIONS

The Authority is a Crown Corporation of the Province of Ontario and is therefore a related party to other organizations that are controlled by or subject to significant influence by the Province. Specifically, the Authority received revenue from Ontario school boards for Independent Learning Centre (ILC) course fees and sales of educational materials. These transactions were recorded at exchange amounts agreed to by the related parties.

Non-grant revenue received from related parties during the year are as follows:

($000s)	**2018**	**2017**
School boards	**436**	**682**

18. NET PROCEEDS ON INSURANCE SETTLEMENT

On August 27, 2014, the Authority incurred damage to its production facility and to a portion of the equipment in the facility from a flood.

($000s)	**2018**	**2017**
Proceeds of disposition - insurance settlement for flood damage	-	1,741
Less legal expenses	-	(666)
Net proceeds of disposition	-	**1,075**

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the basis of the financial statement presentation adopted in the current year.

Charitable Registration Number: 85985 0232 RR0001
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