PUBLIC CABLE TELEVISION AUTHORITY

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2019

PUBLIC CABLE TELEVISION AUTHORITY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Public Cable Television Authority
Fountain Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Public Cable Television Authority (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 auditors consider internal control relevant to the Authority'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 Authority'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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Subsequent Event

As discussed in Note 8 to the financial statements, in October 2019, the City of Huntington Beach and the Authority entered into a settlement agreement that resulted in certain payments to the City of Huntington Beach as a result of their termination as a member city. Our opinion is not modified with respect to this matter.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule for expenditures - governmental fund, identified as Required Supplementary Information (RSI) in the accompanying table of contents, 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Irvine, California
June 5, 2020

Our discussion and analysis of the Public Cable Television Authority's financial performance for the fiscal year ended June 30, 2019, provides year ending results based on the government-wide statements, an analysis of the Authority's overall financial position and results of operations and a discussion of significant changes that occurred in funds. Please read it in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's government-wide activity net position increased by $27,368, from $3,917,462 in 2018 to $3,944,830 in 2019.

- During the year, the Authority's total revenues were $5,528,462 and total expenditures were $5,501,094 resulting in an increase in net position of $27,368.

BASIC FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities report information about the Authority as a whole and about its activities in a way to answer the question: "Is the Authority as a whole better off as a result of the year's activities?"

Government-wide Financial Statements:

The Statement of Net Position presents information of the Authority's assets and liabilities with the difference between the two reported as net position. In the Statement of Activities, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Fund Financial Statements:

All of the Authority's basic activities are reported in a governmental fund, which has a focus on how money flows in and out and the balance left at year-end that is available for spending. This fund is reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Authority's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's program. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in the reconciliation statements and notes to the financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

Government-wide Financial Analysis:

The operations of the Authority are financed entirely by franchise fees and PEG fees paid by the cable and video system operators. Fees collected are used to pay off operating expenses for the current year while balances remaining are distributed to all participating member cities or restricted for specific purposes. Accordingly, the governmental fund balance of the Authority represents undistributed or restricted fund balance as of end of the year.

Net Position:

The Authority's total assets exceeded total liabilities by $3,944,830 which is an increase of $27,368 from the prior year. There was an increase in total assets of $353,490 principally brought about by the increase in other assets for prepaid capital equipment. The franchise fees payable represent unpaid distribution to the member cities as of June 30, 2019.

TABLE 1
Statements of Net Position

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total Percent Change
Assets:				
Cash and investments	$ 3,191,953	$ 3,009,488	$ 182,465	6.1%
Franchise fees receivable	1,084,771	1,176,960	(92,189)	-7.8%
PEG support fees receivable	216,954	235,392	(18,438)	-7.8%
Other assets	348,186	28,496	319,690	1121.9%
Capital assets	405,155	443,193	(38,038)	-8.6%
Total Assets	5,247,019	4,893,529	353,490	7.2%
Liabilities:				
Franchise fees payable	977,055	952,882	24,173	2.5%
Other liabilities	325,134	23,185	301,949	1302.3%
Total Liabilities	1,302,189	976,067	326,122	33.4%
Net Position:				
Investment in capital assets	405,155	443,193	(38,038)	-8.6%
Restricted	3,179,386	3,062,283	117,103	3.8%
Unrestricted	360,289	411,986	(51,697)	-12.5%
Total Net Position	$ 3,944,830	$ 3,917,462	$ 27,368	0.7%

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Net Position (Continued):

The unrestricted net position available for distribution to member cities as of June 30, 2019, amounted to $360,289, which includes prepaid items and deposits totaling $327,873.

Revenues, Expenses and Changes in Net Position:

The revenues increased during the year mainly due to the number of basic cable subscribers increasing (Charter, AT&T, and Frontier Communications). Consequently, the operating costs, which include PEG related expenditures, increased by $247,555.

TABLE 2
Statements of Activities

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total Percent Change
Revenues:				
Program revenues:				
PEG support fees and rental income	$ 910,132	$ 917,445	$ (7,313)	-0.8%
General revenues:				
Franchise fees	4,543,054	4,579,542	(36,488)	-0.8%
Investment income	75,276	41,007	34,269	83.6%
Other income	-	926	(926)	100.0%
Total Revenues	5,528,462	5,538,920	(10,458)	-0.2%
Expenses:				
Cable franchise	4,670,731	4,571,697	99,034	2.2%
Public, education and government programs	830,363	681,842	148,521	21.8%
Total Expenses	5,501,094	5,253,539	247,555	4.7%
Changes in net position	$ 27,368	$ 285,381	$ (258,013)	-90.4%

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Balance Sheet - Governmental Fund:

The Authority's total assets exceeded total liabilities by $3,539,675 which is an increase of $65,406 from the prior year. There was an increase in total assets of $391,528 principally brought about by the excess of revenues over expenses and a $319,690 increase in other assets for prepaid capital equipment. The increase in other liabilities of $301,949 is primarily due to a large capital purchase made at year-end that did not occur in the prior year.

TABLE 3
Balance Sheet - Governmental Fund

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total Percent Change
Assets:				
Cash and investments	$ 3,191,953	$ 3,009,488	$ 182,465	6.1%
Franchise fees receivable	1,084,771	1,176,960	(92,189)	-7.8%
PEG support fees receivable	216,954	235,392	(18,438)	-7.8%
Other assets	348,186	28,496	319,690	1121.9%
Total Assets	4,841,864	4,450,336	391,528	8.8%
Liabilities:				
Franchise fees payable	977,055	952,882	24,173	2.5%
Other liabilities	325,134	23,185	301,949	1302.3%
Total Liabilities	1,302,189	976,067	326,122	33.4%
Fund Balance:				
Nonspendable	327,873	14,402	313,471	2176.6%
Restricted	3,179,386	3,062,283	117,103	3.8%
Unrestricted	32,416	397,584	(365,168)	-91.8%
Total Fund Balance	$ 3,539,675	$ 3,474,269	$ 65,406	1.9%

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund:

The revenues decreased during the year mainly due to the number of basic cable subscribers decreasing (Charter, AT&T, and Frontier Communications). Consequently, the expenditures, which include PEG related expenditures, increased by $225,178, due to more programming being produced, higher insurance rates, building lease costs, salary increases for staff and contractors, and capital purchases.

TABLE 4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Total Percent Change
Revenues:				
General revenues:				
Franchise fees	$ 4,543,054	$ 4,579,542	$ (36,488)	-0.8%
PEG support fees and rental income	910,132	1,075,075	(164,943)	-15.3%
Investment income	75,276	41,007	34,269	83.6%
Other income	-	926	(926)	100.0%
Total Revenues	5,528,462	5,696,550	(168,088)	-3.0%
Expenditures:				
Cable franchise	4,670,027	4,574,863	95,164	2.1%
Public, education and government programs	793,029	663,015	130,014	19.6%
Total Expenditures	5,463,056	5,237,878	225,178	4.3%
Net Change In Fund Balance	$ 65,406	$ 458,672	$ (393,266)	-85.7%

Notes to Basic Financial Statements:

The notes provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

CAPITAL ASSETS

A summary of the Authority's capital assets follows:

	Balance at June 30, 2019	Balance at June 30, 2018	Increase (Decrease)
Capital assets, not being depreciated:			
Construction in progress	$ -	$ 11,399	$ (11,399)
Capital assets, being depreciated:			
Furniture, fixtures and equipment, net	405,155	431,794	(26,639)
Total capital assets, net	$ 405,155	$ 443,193	$ (38,038)

The decrease in capital assets of $38,038 was primarily the result of capital asset depreciation expense exceeding additions on the capital assets.

Additional information on the Authority's capital assets is presented in Note 4 of the Notes to Basic Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Finance Department.

PUBLIC CABLE TELEVISION AUTHORITY

STATEMENT OF NET POSITION

June 30, 2019

	Governmental Activities
ASSETS:	
Cash and investments (Notes 2C and 3)	$ 3,191,953
Franchise fees receivable	1,084,771
PEG support fees receivable	216,954
Interest receivable	20,313
Prepaid items and deposits	327,873
Capital assets (Note 4):	
Capital assets, being depreciated, net	405,155
TOTAL ASSETS	5,247,019
LIABILITIES:	
Accounts payable	318,148
Salaries and benefits payable	6,986
Franchise fees payable	977,055
TOTAL LIABILITIES	1,302,189
NET POSITION:	
Investment in capital assets	405,155
Restricted	3,179,386
Unrestricted	360,289
TOTAL NET POSITION	$ 3,944,830

See accompanying notes to basic financial statements.

PUBLIC CABLE TELEVISION AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:					
Cable franchise	$ 4,670,731	$ -	$ -	$ -	$ (4,670,731)
Public, Education and Government programs	830,363	910,132	-	-	79,769
Total governmental activities	$ 5,501,094	$ 910,132	$ -	$ -	(4,590,962)
GENERAL REVENUES:					
Franchise fees					4,543,054
Investment income					75,276
Total general revenues					4,618,330
CHANGE IN NET POSITION					27,368
NET POSITION - BEGINNING OF YEAR					3,917,462
NET POSITION - END OF YEAR					$ 3,944,830

See accompanying notes to basic financial statements.

PUBLIC CABLE TELEVISION AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2019

	General Fund
ASSETS	
Cash and investments (Notes 2C and 3)	$ 3,191,953
Franchise fees receivable	1,084,771
PEG support fees receivable	216,954
Interest receivable	20,313
Prepaid items and deposits	327,873
TOTAL ASSETS	$ 4,841,864
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 318,148
Salaries and benefits payable	6,986
Franchise fees payable	977,055
TOTAL LIABILITIES	1,302,189
FUND BALANCE (NOTE 2H):	
Nonspendable:	
Prepaid items and deposits	327,873
Restricted for:	
PEG channel facilities	3,179,386
Unassigned	32,416
TOTAL FUND BALANCE	3,539,675
TOTAL LIABILITIES AND FUND BALANCE	$ 4,841,864

See accompanying notes to basic financial statements.

PUBLIC CABLE TELEVISION AUTHORITY

RECONCILIATION OF THE BALANCE SHEET OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION

June 30, 2019

Fund balance for the governmental fund		$ 3,539,675
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental fund balance sheet.		
Capital assets	$ 1,669,601	
Accumulated depreciation	(1,264,446)	
		405,155
Net position of governmental activities		$ 3,944,830

See accompanying notes to basic financial statements.

PUBLIC CABLE TELEVISION AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

For the year ended June 30, 2019

	General Fund
REVENUES:	
Franchise fees (Note 6)	$ 4,543,054
PEG support fees (Note 7)	910,132
Investment income	75,276
TOTAL REVENUES	5,528,462
EXPENDITURES:	
Distributions to members (Note 6)	4,435,337
Professional fees	20,658
Payroll	56,938
Mileage	1,490
Executive Director's salary	92,747
Director's fees	4,000
Seminars and conventions	7,197
Dues and subscriptions	3,056
Insurance	36,433
Supplies, postage and communication	3,839
Rent	6,461
Miscellaneous	1,871
PEG channel (Note 7)	793,029
TOTAL EXPENDITURES	5,463,056
NET CHANGE IN FUND BALANCE	65,406
FUND BALANCE - BEGINNING OF YEAR	3,474,269
FUND BALANCE - END OF YEAR	$ 3,539,675

See accompanying notes to basic financial statements.

PUBLIC CABLE TELEVISION AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

Net change in fund balance - total governmental fund		$ 65,406
Amounts reported for governmental activities in the Statement of Activities are different because:		
When capital assets owned by the Authority are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental fund. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 59,689	
Depreciation expense	(97,727)	
		(38,038)
Change in net position of governmental activities		$ 27,368

See accompanying notes to basic financial statements.

1. DESCRIPTION OF REPORTING ENTITY:

The Public Cable Television Authority (the Authority or PCTA) is a public entity created in 1971 pursuant to a joint powers agreement between the Cities of Fountain Valley, Westminster and Huntington Beach (member cities). In 1981, the City of Stanton was admitted as a member of the Authority. The Authority was created for the purpose of exercising the common powers of the member cities to regulate the Community Antenna Television System (CATV) within these cities.

In 2004, the joint powers agreement was amended to include the regulation of open video systems, or cable television system (collectively "cable systems") and any and all services, including non-cable services provided on or through said cable systems. The powers of the Authority include, but are not limited to, granting franchises, administering franchises, renewing franchises, administering channels allocated for city, school, public safety or community uses, conducting research, appearing before or communicating with administrative or legislative bodies, acquiring, constructing, financing, managing and operating a community antenna television system or cable television system and all other necessary and incidental powers with respect to cable system and the services provided on or through those systems.

With the passage of California Assembly Bill 2987, the Digital Infrastructure and Video Competition Act of 2006 (DIVCA) into law, new competitive video service providers such as Verizon and AT&T were able to provide video services in all PCTA communities. In addition, pursuant to this law, Time Warner Cable's franchise with the PCTA was automatically converted to a state franchise as of January 2, 2008. Although the state became the franchisor of all video service providers serving the PCTA member cities at this time, the PCTA maintained the authority for the enforcement of customer services requirements and other standards as well as maintained its regulatory responsibilities over PEG access channel support and operations.

The Authority is financially accountable to the member cities and is being governed by the Board of Directors appointed by the City Council of each member city.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Measurement Focus and Basis of Accounting:

The basic financial statements of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Measurement Focus and Basis of Accounting (Continued):

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Under the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) associated with their activity are included on their statement of net position. Operating statements present increases (revenues) and decreases (expenses) in total net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under 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.

Program revenues include charges for services from Public, Education and Government programs fees. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program. Franchise fees and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on their balance sheets. The reported fund balance is considered to be a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Under the modified accrual basis of accounting, revenues are recognized as soon as they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Measurement Focus and Basis of Accounting (Continued):

Governmental Funds (Continued)

Franchise fees, PEG fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets.

B. New Accounting Pronouncements:

Current Year Standards

GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018, and did not impact the Authority.

GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018, and did not significantly impact the Authority.

Pending Accounting Standards

GASB has issued the following statements, which may impact the Authority's financial reporting requirements in the future:

- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.
- GASB 91 - *Conduit Debt Obligations*, effective for periods beginning after December 15, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued)

GASB has issued the following statements, which may impact the Authority's financial reporting requirements in the future (continued):

- GASB 92 – *Omnibus 2020*, effective for periods beginning after June 15, 2020.

C. Investments:

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair market value and the carrying amount is material.

D. Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods, which are accounted for under the consumption method and are recorded as prepaid items in both the government-wide and fund financial statements.

E. Capital Assets:

The Authority's policy is to capitalize assets with an initial individual cost of more than $500 and an estimated useful life of more than one year. All assets are depreciated on a straight-line basis. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net position. The lives used for depreciation purposes of each asset class are:

Computer equipment	4 - 5 years
Broadcast equipment	7 - 10 years

F. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Authority does not have any applicable deferred outflows of resources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. Deferred Outflows/Inflows of Resources (Continued):

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any applicable deferred inflows of resources.

G. Net Position:

In the government-wide financial statements, net position is classified in the following categories:

<u>Investment in capital assets</u> - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. The Authority has no debt related to capital assets.

<u>Restricted net position</u> - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

<u>Unrestricted net position</u> - This amount is all net position that does not meet the definition of "investment in capital assets" or "restricted net position".

Net Position Flow Assumptions

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Authority's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Fund Balances:

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Authority's nonspendable fund balance includes prepaid items and deposits totaling $327,873.

Restricted - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation. The Authority's restricted fund balance as of June 30, 2019, includes unspent PEG revenues in the amount of $3,179,386. This amount is restricted exclusively for PEG channel facilities and operating costs per Assembly Bill 2987.

Unassigned - This category is for any balances that have no restrictions placed upon them.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Authority's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed or unassigned fund balance classifications could be used, and all those funds are available, the Authority will spend in the order of the committed and unassigned.

I. Budget:

The Authority adopts a budget for expenditures only. Revenues are not budgeted.

J. Estimates:

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

3. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2019, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	$ 3,191,953

Cash and investments at June 30, 2019, consisted of the following:

Cash - deposits	$ -
Investment in Local Agency Investment Fund	3,191,953
Total Cash and Investments	$ 3,191,953

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Authority by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Entities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	$65 million

N/A -Not Applicable

3. CASH AND INVESTMENTS (CONTINUED):

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing shorter term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. The Authority's investments in LAIF are available on demand.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's investments in LAIF are not rated.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Authority's had no deposits with financial institutions that are insured by the Federal Deposit Insurance Corporation.

3. CASH AND INVESTMENTS (CONTINUED):

Investment in Local Agency Investment Fund

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Fair Value Measurements

The Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets (significant other observable inputs), and Level 3 inputs are significant unobservable inputs. The Authority's investment in LAIF is not subject to the fair value measurement hierarchy.

4. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2019, are as follows:

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Capital assets, not being depreciated:				
Construction in progress	$ 11,399	$ -	$ (11,399)	$ -
Capital assets, being depreciated:				
Furniture, fixtures and equipment	1,684,718	71,088	(86,205)	1,669,601
Less accumulated depreciation:				
Furniture, fixtures and equipment	(1,252,924)	(97,727)	86,205	(1,264,446)
Total capital assets being depreciated, net	431,794	(26,639)	-	405,155
Total capital assets, net	$ 443,193	$ (26,639)	$ (11,399)	$ 405,155

4. CAPITAL ASSETS (CONTINUED):

Depreciation expense of $97,024 and $703 was allocated to the Public, Education and Government program and Cable Franchise programs, respectively.

5. FRANCHISE AGREEMENT:

In August 1976, the Authority granted a franchise to Dickinson Communications, Ltd. On October 2, 1979, the franchise was assigned to Dickinson Pacific Cablesystems, a partnership (Grantee). The franchise provided for the construction and operation of a Community Antenna Television System (CATV) within the Cities of Fountain Valley, Westminster, Huntington Beach, and Stanton, financed entirely by the Grantee through use of its own funds or other private capital.

The original terms of the franchise gave the member cities, or their nominees, the option to purchase the CATV system upon expiration of the franchise term. Alternatively, the member cities could acquire the system by extending the franchise of the Grantee to operate the system for an additional 5 years, at the termination of which Grantee would convey title in the system to the member cities or their nominees. The original term of the franchise was for 15 years to 1994. This was subsequently extended to 1999.

In February of 1989, the Board approved the transfer of the franchise to KBL Cable, Inc., as well as an additional five year extension of the franchise to the year 2004. The Board also approved and the member cities accepted a settlement agreement of ten million dollars, which deleted from the original agreement their rights to purchase the CATV system at the end of the franchise term or to acquire the system at the end of the franchise extension. The Authority distributed the ten million dollars to its participating members in March, 1989.

In February, 1996, Time Warner, Inc. completed its purchase of KBL Cable, Inc. The terms of the Authority’s franchise agreement were not changed.

In August 2000, the Authority approved the transfer of control of the franchise granted to Time Warner Inc. to AOL Time Warner, Inc. (AOL).

In August 2002, AOL/Time Warner sought the Authority’s consent to the transfer of the franchise, from AOL to Time Warner Cable Inc. (TWC). The Authority approved the transfer in March 2003. The terms of the Authority’s franchise agreement were not changed.

The franchise agreement expired on September 30, 2004. However, the Authority continued to receive franchise fees equal to 5% of gross revenues under the terms of the expired franchise agreement until January 1, 2009, when the provisions of AB 2987 took effect for existing cable television franchisees.

5. FRANCHISE AGREEMENT (CONTINUED):

In January 2007, pursuant to AB 2987, the Authority became eligible to receive franchise fees from other video service providers, including Time Warner Cable, Inc. (collectively, the "cable system operators"). In addition to a franchise fee of 5% of gross revenue, new "PEG" (Public, Education and Government) facilities support fee, which is effective January 1, 2009 for existing cable system operators and effective immediately for any new cable system operators. AB 2987 provides that the cable system operators shall pay to the Authority a PEG support fee of 1% of the cable system operators' gross revenues per year from cable television operations within the franchised cities.

On February 15, 2017, the Board adopted ordinance 2017-1 that reauthorized the PEG support fee for Frontier and AT&T. On November 15, 2017, the Board adopted ordinance 2017-2 that reauthorized the PEG support fee for Charter/Spectrum.

6. FRANCHISE FEES:

Under the provisions of the expired franchise agreement, the existing cable system operator, Time Warner Cable, Inc., was required to pay to the Authority the greater of 5% of its gross revenues per year from cable television operations within the franchised cities or $85,000 per year, payable semiannually in July and January of each year for the preceding six months. This agreement was no longer effective beginning January 1, 2009, when AB 2987 became effective for existing cable system operators. Under the terms of AB 2987, cable system operators shall pay to the Authority 5% of the cable system operators' gross revenues per year from cable system operations within the franchised cities. For new cable system operators, AB 2987 requirements were effective beginning January 1, 2007. The cable system operators voluntarily made quarterly payments in fiscal year ended June 30, 2019, totaling $4,543,054.

The Authority uses the franchise fee revenue to pay for the operating expenses for the current year. Any balances remaining are distributed to the participating member cities. During the current year, the participating members total franchise fees (net of expenses) amounted to $4,435,337. Each member's distributable share was as follows:

Huntington Beach	$ 3,062,222
Westminster	578,828
Fountain Valley	569,419
Stanton	224,868
Total	$ 4,435,337

7. PUBLIC, EDUCATION AND GOVERNMENT (PEG) SUPPORT FEES:

Under DIVCA, local entities may require video service providers to provide PEG support fees up to 1% of gross revenues. PCTA has required the video service providers serving its communities to pay to the Authority 1% of the cable system operators' gross revenues per year. As a preexisting cable television franchisee, Time Warner was exempt from paying PEG support fees until January 2008, when Time Warner was transferred to a state franchise. All other video service providers were required to pay PEG support fees under their state franchises beginning as early as January 2007.

During the fiscal year ended June 30, 2019, the PEG support fees amounted to $910,132.

The Authority uses the PEG support fees to pay for the costs associated with the PEG access channel. During the current year, the Authority had the following PEG channel-related expenditures, which were paid for through PEG support fees:

Director fees	$	4,000
Rent		12,168
Insurance		5,045
Repairs and maintenance		4,754
Professional fees		103,838
Mileage		1,617
Telephone		1,563
Seminars and conventions		12,032
Dues and subscriptions		462
Supplies		8,034
Truck		170
Miscellaneous		1,704
Video production and streaming equipment		423,030
Equipment video production support		214,612
Total	$	793,029

8. SUBSEQUENT EVENTS:

On January 22, 2019, the City Council of the City of Huntington Beach approved a six-month prior written notice of intent to terminate from the Authority. On May 21, 2019, the City of Huntington Beach filed suit against the Authority seeking, among other things, to dissolve the Authority and force a distribution of its assets. In October 2019, the City of Huntington Beach and the Authority entered into a settlement agreement that resulted in the termination of the City of Huntington Beach as a member for which they received $1,000,000 cash plus receipt of certain capital assets with a net book value of $146,518 as of the date of transfer. Subsequent to the settlement agreement, the three remaining member cities are continuing operations of the Authority.

The Authority's operations are heavily dependent on the ability to receive franchise fees and PEG support fees from cable providers. The COVID-19 outbreak may have a material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation is expected to depress overall revenues. As such, this may hinder the Authority's ability to meet the needs of its member Cities. Therefore, the Authority's financial condition and liquidity may be negatively impacted for the fiscal year 2019-2020.

In preparing these financial statements, the Authority has evaluated other events and transactions for potential recognition or disclosure through June 5, 2020, the date the financial statements were available to be issued.

PUBLIC CABLE TELEVISION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR EXPENDITURES - GOVERNMENTAL FUND

For the year ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
BUDGETED EXPENDITURES:				
Professional fees	$ 15,500	$ 15,500	$ 20,658	$ (5,158)
Payroll and insurance	92,390	92,390	93,371	(981)
Mileage	1,350	1,350	1,490	(140)
Executive Director's salary	92,234	92,234	92,747	(513)
Director's fees	4,400	4,400	4,000	400
Seminars and conventions	9,500	9,500	7,197	2,303
Dues and subscriptions	3,100	3,100	3,056	44
Supplies, postage and communication	3,600	3,600	3,839	(239)
Rent	6,500	6,500	6,461	39
Miscellaneous	2,300	2,300	1,871	429
Administrative capital expenditures	1,300	1,300	-	1,300
PEG channel	797,310	797,310	793,029	4,281
TOTAL BUDGETED EXPENDITURES	$ 1,029,484	$ 1,029,484	1,027,719	$ 1,765
Distributions to members *			4,435,337	
TOTAL EXPENDITURES			$ 5,463,056	

* The Authority does not budget distributions to members.

BUDGETS AND BUDGETARY DATA:

The Authority's Executive Director prepares and submits an administrative and PEG budget to the Board of Directors each year. The budget is not adopted in accordance with generally accepted accounting principles. For certain expenditures which are budgeted, the budget does not differ substantially from the modified accrual basis of accounting. The Authority does not budget revenues or distributions to members. The Board of Directors must approve all supplemental appropriations to the budget between major accounts.