



**FINANCIAL REPORT  
JUNE 30, 2012**

**Oklahoma Educational Television Authority**

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**June 30, 2012**

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**Report Required by *Government Auditing Standards***

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Oklahoma Educational Television Authority

We have audited the accompanying financial statements of Oklahoma Educational Television Authority (the "Authority"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2012 and 2011. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits. We have also audited the financial statements of the separately presented component unit, Oklahoma Educational Television Authority Foundation, Inc., (the "Foundation") as of and for the years ended June 30, 2012 and 2011, which, along with the Authority's financial statements, collectively comprise the basic financial statements of the Oklahoma Educational Television Authority. The financial statements of the Authority referred to above do not include the financial information of its component unit, the Foundation. Rather, a complete set of financial statements of the Foundation are presented separately.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Oklahoma Educational Television Authority Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oklahoma Educational Television Authority and its separately presented component unit, Oklahoma Educational Television Authority Foundation, Inc., as of June 30, 2012 and 2011, and the respective changes in net assets, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

*HBC CPA's & Advisors*

Yukon, Oklahoma

October 25, 2012

## MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Oklahoma Educational Television Authority (OETA - The Oklahoma Network) financial performance provides an overview of the Authority’s financial activities for the fiscal year ended June 30, 2012.

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. Twelve other states have similar statewide educational television operations and support their networks through state appropriations. OETA receives approximately \$1.02 per citizen in state funding while other state networks receive as much as \$5.54 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 has decreased from 100 percent to now approximately 40 percent. 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, promotion 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 public broadcasting.

The current financial support structure of OETA and the OETA Foundation are often cited by Oklahoma policy-makers as an ideal example of a successful “Public/Private” partnership.

This report provides financial statements and related notes reflecting the general administrative, technical and programming activities of the Authority. Under GASB 39, the OETA Foundation is considered a part of the overall reporting entity and its financials are reported separately after each Authority statement. This management discussion and analysis will be restricted to only the Authority’s financial statements. The Authority financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows.

# STATEMENT OF NET ASSETS AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS, AND STATEMENT OF CASH FLOWS

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets provide an indication of the Authority's financial condition. The Statement of Net Assets includes all of the Authority's assets and liabilities, 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 Fund Net Assets reports all of the revenues and expenses during the time periods indicated. The Statement of Cash Flows reports the sources and uses of cash.

Condensed financial information comparison for FY12 and FY11 include the following:

	FY12	FY11
Current assets	\$ 855,003	\$ 1,079,401
Noncurrent assets	<u>14,547,719</u>	<u>17,239,479</u>
Total Assets	\$15,402,722	\$ 18,318,880
Current liabilities	\$ 213,506	\$ 406,273
Noncurrent liabilities	<u>143,626</u>	<u>151,513</u>
Total Liabilities	\$ 357,132	\$ 557,786
Invested in Capital assets	\$14,547,719	\$ 17,239,479
Other restricted assets	-	-
Unrestricted	<u>497,871</u>	<u>521,615</u>
Total Net Assets	\$15,045,590	\$ 17,761,094
 Total Operating Revenues	 \$ 7,273,822	 \$ 9,038,411
Expenses:		
Programming/Production	\$ 2,020,202	\$ 2,413,408
Broadcasting/Technical	4,318,457	4,150,672
Solicitation & Membership	106,119	112,688
Administration	666,575	665,775
Depreciation	<u>2,877,973</u>	<u>2,823,589</u>
Total Expenses	\$ 9,989,326	\$ 10,166,132
Income	\$ (2,715,504)	\$ (1,127,721)
Change in Net Assets	\$ (2,715,504)	\$ (1,127,721)
Ending Net Assets	\$ 15,045,590	\$17,761,094

## 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. FY11 OETA had an operating income/loss of (\$1,127,721) and a subsidy from the Foundation in the amount of \$2,618,275. During FY12 OETA’s operating income/loss was (\$2,715,504) and a subsidy from the Foundation in the amount of \$1,853,111. The subsidy declined in FY12 due to all digital conversion projects being completed.

In the case of OETA, operating revenues are comprised of studio and tower rentals, tape dubbing charges and royalties and production reimbursements. This list also includes state appropriations and OETA Foundation programming and capital equipment acquisitions support. State appropriations, Federal grants, In-kind and Foundation support account for approximately 94.9% of total revenues received.

Two important sources of financial support, not directly attributable to state appropriations and OETA Foundation programming expenditures are the other In-kind Contributions 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 and any OETA Foundation subsidies. Operating activities do not generate sufficient cash to fund expenses without these funding sources.

## SIGNIFICANT CHANGES IN CAPITAL ASSETS

Each year as broadcasting and ancillary equipment is replaced, OETA’s capital assets continue to expand. With the completion of all digital conversion projects in FY2012, OETA added in excess of \$29,000,000 in capital assets. More information on total capital assets can be found in the audit notes.

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 the Department of Central Services 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

### Digital Television

OETA has successfully completed the entire conversion of its broadcasting system in order to meet the federal mandate set by the FCC. All four of the full-power stations (Cheyenne, Eufaula, Oklahoma City and Tulsa) and 14 strategically-located low-power translator stations are now broadcasting full high-definition television signals. The two studios in Oklahoma City and Tulsa are now fully digital and producing high-definition television programs. OETA has fiber optic interconnection to all four of its full-power transmission facilities and the 14 low-power translators are receiving the OETA broadcast signal via satellite interconnection.

The total digital conversion process for OETA has cost \$29,032,772. State appropriations have been made to OETA of over \$12,000,000. The first phase was funded by the state beginning in FY2001 with appropriations of \$5,600,000. This funding was matched by the OETA Foundation and other sources. In FY2008 and FY2009 additional funds of \$6,400,000 were appropriated by the state were also matched by the Foundation and other sources. The more than \$29 million was used to replace all transmitters in the state, totally convert the master control and studio in Oklahoma City.

### TULSA RELOCATION

As noted above, OETA's Tulsa studio and offices are now located on the OSU-Tulsa campus. The facility at 811 North Sheridan was shut down and the new studio and offices were operational by May 1, 2011. The new facility and the Oklahoma City headquarters are linked via for voice, video and data communication.

The OETA Foundation provided the funding for the new 10,000 square-foot studio and offices.

### FREDERICK TOWER RELOCATION

OETA had a unique opportunity in FY12 to substitute an additional low-power transmitter site in Grandfield, Oklahoma, that covers the same area as the former Frederick, Oklahoma. The new location added several hundred square miles of coverage in the southern part of Oklahoma and northern Texas. An existing tower, transmission line and antenna previously owned by a commercial broadcaster allow OETA to gain several hundred feet in altitude and also increase the power and the reach of the OETA signal. OETA pays a monthly rental fee of \$1,000.

Negotiations are underway to transfer the existing tower in Frederick to the Oklahoma Department of Transportation for use in their two-way communications network. The transfer would hopefully allow reimbursement to OETA for the Frederick building and tower. This reimbursement will help defray the approximate \$33,285 in moving cost of the transmission site from Frederick to Grandfield.



## 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 purchasing of programs and continuing capital endeavors, and now that OETA received operations reductions over the last few years totaling more than \$1,300,000 this need will even become more apparent year to year relying on these sources of funds for maintenance, replacement of digital equipment and even personnel cost if the state funds are not restored.

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 partnership between the public and private sectors. Obviously, changes in the local economy, investment returns and/or state funding can disrupt the current balance of income.

**OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2012 and 2011**

Assets	2012	2011
Current Assets:		
Cash	\$ 673,405	\$ 355,933
Accounts Receivable	181,598	723,468
Total Current Assets	<u>855,003</u>	<u>1,079,401</u>
Noncurrent Assets:		
Capital Assets		
Construction in progress	-	147,990
Land	26,272	26,272
Buildings and Improvements	5,421,486	5,421,311
Broadcast Equipment	32,560,027	34,411,870
Transportation Equipment	108,853	108,853
Office Furniture and Equipment	808,381	762,887
	<u>38,925,019</u>	<u>40,879,183</u>
Less Accumulated Depreciation	<u>(24,377,300)</u>	<u>(23,639,704)</u>
Total Capital Assets	<u>14,547,719</u>	<u>17,239,479</u>
Total Noncurrent Assets	<u>14,547,719</u>	<u>17,239,479</u>
Total Assets	<u>15,402,722</u>	<u>18,318,880</u>
Liabilities		
Current Liabilities:		
Accounts Payable	38,691	231,288
Accrued Payroll	7,348	8,492
Compensated Absences, current portion	167,467	166,493
Total Current Liabilities	<u>213,506</u>	<u>406,273</u>
Noncurrent Liabilities:		
Compensated Absences	143,626	151,513
Total Liabilities	<u>357,132</u>	<u>557,786</u>
Net Assets		
Invested in Capital Assets	14,547,719	17,239,479
Restricted for DTV Conversion	-	-
Unrestricted	497,871	521,615
Total Net Assets	<u>\$ 15,045,590</u>	<u>\$ 17,761,094</u>

See accompanying notes.

**OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
State Appropriations	\$ 3,822,328	\$ 4,200,360
Subsidy from OETA Foundation	1,853,111	2,618,275
In-Kind Contributions	1,227,765	1,305,589
Federal Grants	-	675,753
Telecasting, Production and Other Income	370,618	238,434
Total Operating Revenues	<u>7,273,822</u>	<u>9,038,411</u>
Operating Expenses:		
Programming and Production	2,020,202	2,413,408
Broadcasting and Technical	4,318,457	4,150,672
Viewer Support	106,119	112,688
Depreciation	2,877,973	2,823,589
Administration	666,575	665,775
Total Operating Expenses	<u>9,989,326</u>	<u>10,166,132</u>
Operating Income (Loss)	<u>(2,715,504)</u>	<u>(1,127,721)</u>
Changes in Net Assets	(2,715,504)	(1,127,721)
Net Assets, Beginning of Year	<u>17,761,094</u>	<u>18,888,815</u>
Net Assets, End of Year	<u><u>\$ 15,045,590</u></u>	<u><u>\$ 17,761,094</u></u>

See accompanying notes.

**OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
State Appropriations	\$ 3,822,328	\$ 4,200,360
Subsidy from OETAF	1,080,278	981,625
Federal Grants	649,705	770,442
Receipts from Users and Donors	370,618	238,434
Payments to Vendors	(1,527,527)	(1,178,097)
Payments to Employees	(3,606,098)	(3,902,907)
Net Cash Flows from Operating Activities	<u>789,304</u>	<u>1,109,857</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Purchases of Capital Assets	(471,833)	(1,329,709)
Net Cash Flows from Capital Financing Activities	<u>(471,833)</u>	<u>(1,329,709)</u>
Net Increase (Decrease) in Cash	317,471	(219,852)
Cash, Beginning of Year	<u>355,934</u>	<u>575,786</u>
Cash, End of Year	<u><u>\$ 673,405</u></u>	<u><u>\$ 355,934</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating Income (Loss)	\$ (2,715,504)	\$ (1,127,721)
Adjustments to Reconcile Operating Income to Net		
Cash Flows From Operating Activities		
Non-cash transactions		
Depreciation	2,877,973	2,823,589
Cost Basis of Asset Disposal	-	-
In-kind contributions	1,227,765	1,305,589
Subsidy	772,833	868,133
Operating expenses accrued with noncash revenue	(1,714,979)	(2,239,555)
Changes in Operating Assets and Liabilities		
Accounts Receivable	541,870	94,689
Accounts Receivable from OETA Foundation	-	(623,176)
Accounts Payable	(192,597)	(10,232)
Accrued Payroll	(1,153)	3,306
Compensated Absences	(6,904)	15,235
Total Adjustments	<u>3,504,808</u>	<u>2,237,578</u>
Net Cash Flows from Operating Activities	<u><u>\$ 789,304</u></u>	<u><u>\$ 1,109,857</u></u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 1. Summary of Significant Accounting Policies**

*Organization*

The accompanying financial statements include the accounts of Oklahoma Educational Television Authority ("OETA"). OETA 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") and from in-kind contributions by the corporate community and other educational institutions. OETAF is a legally separate, tax-exempt component unit of OETA. OETAF was formed to receive, invest, and expend funds from the public and grantors for the benefit of public broadcasting in Oklahoma. OETAF provides funds for OETA projects and programs, which are not funded by appropriations from the State of Oklahoma or for which existing appropriations are not adequate. 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. Complete financial statements for OETAF may be obtained at OETAF's office at 7403 N. Kelly Avenue, Oklahoma City, OK 73111.

*Measurement focus, basis of accounting, and financial statement presentation*

OETA has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "Basis Financial Statement-and Management's Discussion and Analysis-For State and Local Governments" ("GASB"). As permitted by GASB 34 OETA is considered a proprietary fund. As such the financing 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 and broadcast royalties. Operating expenses include the cost of providing these services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 1. Summary of Significant Accounting Policies, (Continued):**

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. OETA has the option of following subsequent private-sector guidance, subject to the same limitation. OETA has elected to follow this option.

***Assets and Liabilities***

***Cash and Investments***

At June 30, 2012 and 2011, the carrying amount of OETA's deposit with the State Treasurer was \$673,405 and \$355,933, 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***

Accounts receivable for OETA represent trade receivables. As OETA management considers all these accounts to be fully collectible there is no provision for potentially uncollectible accounts. Accounts payable represents trade payables payable from both restricted and unrestricted resources.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 1. Summary of Significant Accounting Policies, (Continued):**

*Prepaid Expenses*

Prepaid expenses consist of payments to vendors for costs applicable to future accounting periods. This includes costs incurred for programming not yet telecast. The expense will be recognized when the programs are aired.

*Capital Assets*

Capital assets include land, buildings, broadcast equipment, vehicles, 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 purchases or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are 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 televisions and professional services. These donations are recorded at estimated fair value. The donation is considered operating revenue while the expense is operational.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 1. Summary of Significant Accounting Policies, (Continued):**

*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 revenues, expenses, and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*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 assets*

In the financial statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related 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.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – are all other net assets that do not meet the above definitions.

When an expense is incurred that can be paid either using restricted or unrestricted resources, the Authority's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.



OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 2. Capital Assets**

OETA's capital assets activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Transfers/ Adjustments	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 26,272	\$ -	\$ -	\$ -	\$ 26,272
Construction in progress	147,989	-	-	(147,989)	-
Total Capital Assets Not Being Depreciated	174,261	-	-	(147,989)	26,272
Capital Assets, Being Depreciated:					
Building and Improvements	5,421,312	4,810	(4,635)	-	5,421,487
Broadcast Equipment	34,411,870	254,653	(2,118,684)	12,188	32,560,027
Transportation Equipment	108,852	-	-	-	108,852
Office Furniture and Equipment	762,885	64,379	(18,886)	-	808,378
Total Capital Assets, Being Depreciated	40,704,919	323,842	(2,142,205)	12,188	38,898,744
Less Accumulated Depreciation for:					
Building and Improvements	(2,057,971)	(225,418)	4,635	-	(2,278,754)
Broadcast Equipment	(20,821,839)	(2,590,939)	2,117,698	-	(21,295,080)
Transportation Equipment	(72,746)	(19,504)	-	-	(92,250)
Office Furniture and Equip.	(687,145)	(42,112)	18,044	-	(711,213)
Total Accumulated Depreciation	(23,639,701)	(2,877,973)	2,140,377	-	(24,377,297)
Total Capital Assets, Being Depreciated, Net	17,065,218	(2,554,131)	(1,828)	12,188	14,521,447
Total Capital Assets	<u>\$ 17,239,479</u>	<u>\$ (2,554,131)</u>	<u>\$ (1,828)</u>	<u>\$ (135,801)</u>	<u>\$ 14,547,719</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 2. Capital Assets (continued)**

OETA's capital assets activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Transfers/ Adjustments	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 26,272	\$ -	\$ -	\$ -	\$ 26,272
Construction in progress	1,128,269	48,099	-	(1,028,379)	147,989
Total Capital Assets Not Being Depreciated	1,154,541	48,099	-	(1,028,379)	174,261
Capital Assets, Being Depreciated:					
Building and Improvements	5,437,600	-	(16,288)	-	5,421,312
Broadcast Equipment	32,528,103	1,377,047	(521,659)	1,028,379	34,411,870
Transportation Equipment	108,852	-	-	-	108,852
Office Furniture and Equipment	723,971	51,319	(12,405)	-	762,885
Total Capital Assets, Being Depreciated	38,798,526	1,428,366	(550,352)	1,028,379	40,704,919
Less Accumulated Depreciation for:					
Building and Improvements	(1,839,867)	(233,248)	15,144	-	(2,057,971)
Broadcast Equipment	(18,831,943)	(2,511,284)	521,388	-	(20,821,839)
Transportation Equipment	(53,163)	(19,583)	-	-	(72,746)
Office Furniture and Equip.	(640,076)	(59,474)	12,405	-	(687,145)
Total Accumulated Depreciation	(21,365,049)	(2,823,589)	548,937	-	(23,639,701)
Total Capital Assets, Being Depreciated, Net	17,433,477	(1,395,223)	(1,415)	1,028,379	17,065,218
Total Capital Assets	<u>\$ 18,588,018</u>	<u>\$ (1,347,124)</u>	<u>\$ (1,415)</u>	<u>\$ -</u>	<u>\$ 17,239,479</u>

Included in the above totals is approximately \$26,778,000 for June 30, 2012 and 2011 related to the DTV conversion project. Federal grant funds were used to pay for a portion of these costs. As a condition of these grants, OETA has granted a priority reversionary interest in this equipment back to the Federal government. These liens are for ten years.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 3. Rental Expense**

Rental expense is as follows:

	2012	2011
Land	\$ 89,736	\$ 89,736
Buildings & Equipment	<u>1,864,384</u>	<u>1,618,803</u>
	\$ 1,954,120	\$ 1,708,539

The above rental expense was funded primarily by in-kind contributions of \$1,277,765 for 2012 and 2011.

Also included above is a subsidy of \$210,660 for 2012 from the OETA Foundation 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.

OETA has entered into a lease agreement for satellite transponder services with the Public Broadcasting System (PBS) beginning April 1, 2009. This lease agreement replaces the one with Oklahoma State University but until the new satellite uplink/downlink system is completed in November 2009 both systems are required. The current monthly payment which began April 1, 2009 is \$34,925. Rent expense was \$419,100 and \$419,100 for year ended June 30, 2012 and 2011, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2013	\$ 419,100
2014	419,100
2015	<u>314,325</u>
	<u>\$ 1,152,525</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 3. Rental Expense, (Continued):**

Commencing July 1, 2002 OETA has entered into a lease agreement for five translator sites. The lease is for ten-year periods. Monthly payments increased during the fiscal year 2009 to \$3,031. The payment is scheduled to increase 5% annually for the remainder of the lease term which expires June 30, 2013. OETA Foundation made all payments due under the lease, a total of \$21,053 and \$40,103 for June 30, 2012 and 2011, respectively. These amounts are reflected in the subsidy paid from OETA Foundation.

OETA has also entered into a lease agreement for tower space for channel 38 with Tulsa Tower Joint Venture for OETA's Tulsa DTV transmission facility. The lease began January 1, 2003 and is renewable year by year. Monthly payments began May 2003 and were \$4,000. As with the Oklahoma City lease, there are scheduled increases beginning 2004, with a 5% minimum increase. Rent expense totaled \$72,691 and \$50,400 for fiscal year 2012 and 2011, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2013	\$	76,325
2014		80,138
2015		84,149
2016		88,356
2017		92,774
Thereafter		<u>523,211</u>
	\$	<u><u>944,953</u></u>

OETA has also entered into a lease agreement with University Center at Tulsa Authority for space at the Oklahoma State University Tulsa campus. The lease began May 1, 2010 has a term of ninety-nine years. Monthly payments of \$1,000 usage fee began May 2010. Future minimum payments are as follows:

2013	\$	12,000
2014		12,000
2015		12,000
2016		12,000
2017		12,000
Thereafter		<u>1,103,000</u>
	\$	<u><u>1,163,000</u></u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 4. Noncurrent Liabilities**

Noncurrent liabilities at June 30, 2012 and changes for the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 318,006	\$ 165,423	\$ (172,336)	\$ 311,093	\$ 167,467

Noncurrent liabilities at June 30, 2011 and changes for the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 302,771	\$ 175,147	\$ (159,912)	\$ 318,006	\$ 166,493

**Note 5. Retirement Plans**

OETA contributions to the Oklahoma Public Employees Retirement Plan (the "Plan"), a cost sharing multiple-employer defined benefit pension plan administered by the Oklahoma Employees Retirement System, a component unit of the State of Oklahoma. The Plan provides retirement and disability benefits, and death benefits to Plan members and beneficiaries. Title 74 of the Oklahoma Statutes, Section 901 through 943 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. The plan issues a publicly available financial report that includes financial statements and supplementary information for the Plan. That report may be obtained by writing to Oklahoma Public Employees Retirement System, 580 Jim Thorpe Building, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007 or by calling 1-800-733-9008.

Plan members are required to contribute a specified percentage of their annual salaries as defined in the Plan. OETA is also required to contribute to the plan at an actuarially determined rate. The rate for June 30, 2012 and 2011 was 16.5% of covered payroll. The contribution requirements of the Plan members and OETA are established and may be amended by the State Legislature, and are based on actuarial calculations, which are performed to determine the adequacy of such contribution rates. OETA's contributions to the Plan for the year ended June 30, 2012 and 2011, were approximately \$371,047 and \$402,487, respectively.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Note 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.

**Note 7. Digital Television Conversion**

In the early 1990s, the Federal Communications Commission (FCC) set in motion a mandate for all U.S. television broadcasters to convert from analog to digital transmission technology. OETA completed conversion for its full power transmitters ahead of the federal deadline of June 12, 2009. Also, the 14 translators across the state were converted to digital broadcasting by December 2009, which is also ahead of the deadline set for low-power television transmitters. All production capability at the Oklahoma City operation was converted to digital during 2009 and the conversion of the Tulsa studio was completed subsequent to June 30, 2011. The total cost of the digital conversion through June 30, 2011, was \$26,778,759.

**Note 8. Grants from Corporation for Public Broadcasting**

OETA receives several grants from the Corporation for Public Broadcasting. These grants, including the Community Service Grant ("CSG"), are received by the OETA Foundation that has been designated as the alternate payee by OETA. As the alternate payee, the Foundation receives the funds and disburses them at the discretion of OETA. The amount that OETA has authorized for disbursements on this grant is included in as revenue labeled "Subsidy from OETA Foundation" and in the appropriate expense classification on the Statements of Revenues, Expenses and Changes in Net Assets. The cash from the grant that has been received, but not yet disbursed, is recognized on the Foundation's Balance Sheets as restricted cash held on-behalf of OETA. This cash has not been recognized on OETA's Statements of Net Assets. The amount of revenue and expenses recognized related to the CSG for June 30, 2012 and 2011 were \$1,390,246 and \$1,090,109, respectively. The restricted cash reported on the Foundation's Balance Sheets held on-behalf of OETA for June 30, 2012 and 2011 were \$2,229,025 and \$2,226,739, respectively.



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**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

We have audited the financial statements of the Oklahoma Educational Television Authority (the "Authority"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2012 and 2011 have issued our report thereon dated October 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*HBC CPAs & Advisors*

Yukon, Oklahoma

October 25, 2012



***Exhibit I***

**Oklahoma Educational Television Authority Foundation, Inc.**

**June 30, 2012 Financial Statements**



**FINANCIAL STATEMENTS**

**JUNE 30, 2012**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Oklahoma Educational Television Authority Foundation, Inc.,

We have audited the accompanying statement of financial position of Oklahoma Educational Television Authority Foundation, Inc. (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from Oklahoma Educational Television Authority Foundation, Inc.'s 2011 financial statements and in our report, dated October 25, 2011; we expressed our opinion that these financial statements were fairly presented in conformity with accounting principles generally accepted in the United States of America.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Educational Television Authority Foundation, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*HBC CPAs & Advisors*

Oklahoma City, Oklahoma  
October 25, 2012

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR 2011)

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,760,909	\$ 5,684,800
Restricted cash	2,229,025	2,226,739
Pledges receivable	98,422	93,792
Other receivables	37,957	65,792
Accrued investment income	56,570	59,445
Prepaid expenses	48,886	46,446
Prepaid program costs	144,721	70,166
Investments	25,412,923	24,890,865
Fixed assets (net)	<u>3,487,156</u>	<u>3,572,628</u>
Total Assets	<u>\$ 35,276,569</u>	<u>\$ 36,710,673</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 38,280	\$ 32,758
Accrued salaries and vacation	71,727	37,182
Accounts payable - affiliate	<u>206,977</u>	<u>722,655</u>
Total Liabilities	<u>316,984</u>	<u>792,595</u>
<b>NET ASSETS</b>		
Unrestricted:		
Programming services and operations	1,654,909	981,721
Net investment in fixed assets	3,487,156	3,572,628
Board designated endowments	<u>27,588,495</u>	<u>29,136,990</u>
	32,730,560	33,691,339
Temporarily restricted	<u>2,229,025</u>	<u>2,226,739</u>
Total Net Assets	<u>34,959,585</u>	<u>35,918,078</u>
Total Liabilities and Net Assets	<u>\$ 35,276,569</u>	<u>\$ 36,710,673</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
Support and revenues:				
Contributions	\$ 2,196,093	\$ -	\$ 2,196,093	\$ 2,233,472
Grants	-	1,632,140	1,632,140	1,708,198
Special projects	9,662	-	9,662	53,281
Interest and dividends	457,489	-	457,489	481,687
Realized and unrealized gain (loss) on investments	(391,230)	-	(391,230)	3,359,982
Underwriting revenues	271,354	-	271,354	240,032
Rental-affiliate	210,666	-	210,666	-
Other	112,294	-	112,294	88,166
Net assets released from restrictions and transfers	1,629,854	(1,629,854)	-	-
Total revenues, gains (losses) and other support	4,496,182	2,286	4,498,468	8,164,818
Program expense:				
Subsidy to OETA	1,853,117	-	1,853,117	2,618,275
Programming and production	1,958,789	-	1,958,789	1,788,794
Engineering	31,486	-	31,486	874
Program information	105,002	-	105,002	117,216
Special projects	44,145	-	44,145	28,444
Total program expense	3,992,539	-	3,992,539	4,553,603
Supporting services:				
Management and general	805,043	-	805,043	681,019
Fundraising:				
Solicitation	520,193	-	520,193	483,322
Membership services	139,186	-	139,186	99,586
Total fundraising expense	659,379	-	659,379	582,908
Total supporting services	1,464,422	-	1,464,422	1,263,927
Total expenses	5,456,961	-	5,456,961	5,817,530
Net change in net assets	(960,779)	2,286	(958,493)	2,347,288
Net Assets at Beginning of Year	33,691,339	2,226,739	35,918,078	33,570,790
Net Assets at End of Year	\$ 32,730,560	\$ 2,229,025	\$ 34,959,585	\$ 35,918,078

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION , INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR 2011)

	Program Services						Supporting Services					
	Subsidy to OETA	Programming and Production	Engineering	Program Information	Special Projects	Total Program Services	Administration and General	Fundraising: Solicitation	Fundraising: Member Services	Total Supporting Services	Total	2011
Compensation and Related Expenses:												
Salaries	\$ -	\$ -	\$ -	\$ 26,682	\$ -	\$ 26,682	\$ 362,151	\$ 51,339	\$ 53,865	\$ 467,355	\$ 494,037	\$ 494,916
Contract Labor	-	-	-	9,939	-	9,939	-	239	1,160	1,399	11,338	10,612
Talent	-	-	-	-	-	-	-	6,848	-	6,848	6,848	11,820
Professional Services	-	89,926	30,520	3,554	4,363	128,363	165,328	41,764	1,901	208,993	337,356	188,187
Employee Benefits:												
Group Insurance	-	-	-	11,223	-	11,223	100,489	63,001	23,273	186,763	197,986	182,367
Employee Deferred Compensation	-	-	-	2,475	-	2,475	31,679	4,633	2,281	38,593	41,068	40,144
Management Assistance Program	-	-	-	-	-	-	979	367	-	1,346	1,346	1,405
Payroll Taxes	-	-	-	2,084	-	2,084	27,571	3,784	4,206	35,561	37,645	38,170
Bank Service Charges	-	-	-	-	-	-	978	-	37,169	38,147	38,147	17,194
Dues and Fees	-	-	-	-	-	-	1,893	-	-	1,893	1,893	1,724
Travel, Lodging, Public Relations	-	-	-	-	-	-	499	-	-	499	499	512
Freight	-	-	-	-	-	-	12	-	-	12	12	(8)
Telephone	-	-	-	-	-	-	-	91	-	91	91	-
Vending	-	-	-	-	-	-	6,543	-	-	6,543	6,543	8,272
Postage	-	-	-	20,750	1,113	21,863	-	28,453	1,020	29,473	51,336	74,613
Equipment Repairs & Maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Auto Expense & Maintenance	-	-	-	-	162	162	1,264	-	-	1,264	1,426	3,389
Insurance	-	-	-	-	-	-	-	-	-	-	-	636
Printing	-	-	-	25,046	-	25,046	590	3,547	10,003	14,140	39,186	32,478
Promotional	-	4,000	-	-	38,201	42,201	1,532	253,353	-	254,885	297,086	224,802
Advertising	-	66,862	-	-	-	66,862	-	-	-	-	66,862	49,639
Office Supplies	-	-	-	-	-	-	320	-	-	320	320	1,503
Set Construction	-	-	-	-	-	-	-	65	-	65	65	-
Facility Usage Fees	-	-	-	-	-	-	-	46,710	-	46,710	46,710	45,060
Utilities	-	-	-	-	-	-	9,401	-	-	9,401	9,401	6,810
Unallocated payment to affiliate	1,853,117	-	-	-	-	1,853,117	-	-	-	-	1,853,117	2,618,275
Program Fees	-	1,737,905	-	-	-	1,737,905	-	-	-	-	1,737,905	1,654,097
Depreciation	-	60,096	966	3,249	306	64,617	93,814	15,999	4,308	114,121	178,738	110,914
Total:	\$ 1,853,117	\$ 1,958,789	\$ 31,486	\$ 105,002	\$ 44,145	\$ 3,992,539	\$ 805,043	\$ 520,193	\$ 139,186	\$ 1,464,422	\$ 5,456,961	\$ 5,817,530

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
OPERATING ACTIVITIES:		
Changes in net assets	\$ (958,493)	\$ 2,347,288
Adjustments to reconcile change in net assets to net cash used in operations		
Depreciation	178,738	110,914
Net unrealized (gain) loss on investments	621,397	(3,359,982)
(Increase) decrease in pledges receivable	(4,630)	2,065
(Increase) decrease in other receivables	27,835	49,885
(Increase) decrease in accrued investment income	2,875	7,376
(Increase) decrease in prepaid expenses	(2,440)	(1,370)
(Increase) decrease in prepaid program costs	(74,555)	(42,271)
Increase (decrease) in accounts payable	5,522	(239,510)
Increase (decrease) in accounts payable affiliate	(515,678)	18,901
Increase (decrease) in accrued salaries and vacation	34,545	444,941
Net cash provided by (used in operating activities)	(684,884)	(661,763)
INVESTING ACTIVITIES:		
Proceeds from disposal of securities	25,945,519	34,674,474
Purchase of fixed assets	(93,266)	(889,184)
Purchase of investments	(27,088,974)	(33,410,105)
Net cash provided by (used in) investing activities	(1,236,721)	375,185
Increase (decrease) in cash and cash equivalents	(1,921,605)	(286,578)
Cash and cash equivalents at beginning of year	7,911,539	8,198,117
Cash and cash equivalents at end of year	<u>\$ 5,989,934</u>	<u>\$ 7,911,539</u>
Reconciliation to Statement of Financial Position:		
Cash and cash equivalents	\$ 3,760,909	\$ 5,684,800
Restricted cash	2,229,025	2,226,739
	<u>\$ 5,989,934</u>	<u>\$ 7,911,539</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 1- 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 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. The Board of Trustees of the Foundation and the Board of Directors of OETA function independently of each other.

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 Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying amount approximates fair value.

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 considers pledges and other receivables to be fully collectible and any provision for doubtful accounts to be immaterial. This method approximates generally accepted accounting principles.



## **Note 1- Summary of Significant Accounting Policies (continued)**

### Contributed services

Contributed services represent the estimated fair value of programming and other services provided. The contribution of services is recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

### 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.

### 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.

### 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.

### 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 at least three years.

Fixed assets are stated at cost or, in the case of donated fixed assets, at their estimated fair value at the date of receipt. Use of operating funds for fixed asset acquisitions are accounted for as transfers to the fixed asset fund. Proceeds from the sale of fixed assets are transferred to operating or endowment funds. 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 in 2012 or 2011. 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

**Note 1 - Summary of Significant Accounting Policies (Continued):**

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. 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.

Prior year information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011, from which the summarized information was derived. Certain reclassifications of prior year comparative totals have been made in order to conform to the current year presentation.

Date of management's review

Subsequent events were evaluated through October 25, 2012, which is the date the financial statements were available to be issued.

**Note 2 - 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 \$46,124. Unconditional promises to give are primarily from individuals located throughout the state of Oklahoma. Due to the short term nature of these pledges, carrying value approximates fair value.

**Note 3 - Investments**

Investments at June 30, 2012 are summarized as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Marketable securities:		
U.S. Government obligations	\$ 6,734,605	\$ 6,734,605
Corporate debt obligations	501,816	501,816
Equity securities	7,908,087	7,908,087
Mutual funds	10,268,415	10,268,415
Alternate investments	-	-
Total marketable securities	<u>\$ 25,412,923</u>	<u>\$ 25,412,923</u>

The following schedule summarized net investment income and its classification in the Statement of Activities for the year ended June 30, 2012:

	Unrestricted Net Assets
Interest and dividends	\$ 457,489
Realized and unrealized gains on investments	(391,130)
	<u>\$ 66,359</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees amounted \$105,795 and have been netted against investment revenues in the accompanying Statement of Activities for the year ended June 30, 2012.

#### Note 4 - Fair Value Measurements

##### Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis are as follows:

	Fair Value	Markets for Identical Assets (Level 1)	Significant Other Observable Assets (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2012</b>				
<b>Common and preferred stocks:</b>				
Consumer discretionary	\$ 1,210,198	\$ 1,210,198	\$ -	\$ -
Consumer staples	727,028	727,028	-	-
Energy	117,069	117,069	-	-
Financials	691,206	691,206	-	-
Healthcare	1,494,804	1,494,804	-	-
Industrials	2,008,217	2,008,217	-	-
Information technology	175,986	175,986	-	-
Materials	832,853	832,853	-	-
Telecommunication	650,726	650,726	-	-
<b>Mutual funds</b>				
Taxable	284,948	284,948	-	-
Corporate & Government	307,694	307,694	-	-
Treasury & US Securities	1,016,086	1,016,086	-	-
International	1,660,580	1,660,580	-	-
Small cap	4,397,729	4,397,729	-	-
Mid cap	574,098	574,098	-	-
Limited partnerships	2,027,280	1,787,280	-	240,000
<b>US treasury securities</b>				
Short (a)	50,334	50,334	-	-
Intermediate (a)	1,312,913	1,307,543	5,370	-
Long (a)	5,371,358	4,955,209	416,149	-
<b>Corporate debt securities</b>				
Short (a)	405,848	-	405,848	-
Intermediate (a)	95,968	-	95,968	-
	-	-	-	-
	<u>\$ 25,412,923</u>	<u>\$ 24,249,588</u>	<u>\$ 923,335</u>	<u>\$ 240,000</u>

(a) Based on analysis of the nature and risks of these investments, the entity has determined that presenting them as a single security type is appropriate.

**Note 4 - Fair Value Measurements (Continued)**

Accounting standards establish a hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 consists of unobservable inputs, which are used where observable inputs are unavailable, and have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities.

*Investments: Level 1*, the fair values of mutual funds, equity securities and U.S. Treasury and corporate debt obligations are based on quoted market prices for active markets, where available. *Level 2*, 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, Limited Partnerships*: These holdings in two limited partnerships are valued on an annual basis by the investment managers. They use a combination of two valuation methods, first the partnership 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):

Limited partnership interests:

July 1, 2011	\$ 240,000
Issuances, settlements, (net)	-
June 30, 2012	<u><u>\$ 240,000</u></u>

## Note 5 - Fixed Assets

A summary of fixed assets is as follows as of June 30:

	2012	2011
Transportation equipment	\$ 100,016	\$ 100,016
Furniture, computers and equipment	452,396	373,419
Buildings and improvements	4,567,959	4,566,385
	<u>5,120,371</u>	<u>5,039,820</u>
Less accumulated depreciation	<u>(1,633,215)</u>	<u>(1,467,192)</u>
	<u>\$ 3,487,156</u>	<u>\$ 3,572,628</u>

## Note 6 -Related Party Transactions

The Foundation donated \$1,853,111 and \$2,618,275 to OETA in fiscal year 2012 and 2011, respectively, to subsidize various OETA projects and programs which has been reflected as expense in the accompanying financial statements.

The Foundation completed construction on the Tulsa studio located on the Tulsa campus of Oklahoma State University. The Tulsa studio was constructed with Foundation funds for the use of OETA. It has been determined that the fair value lease rate for this property would be \$210,660. In the Statement of Activities, rental –affiliate has been reported to shown the value of the exchange transaction and in the Statement of Functional Expenses the unallocated payment to affiliate has been increased by a similar amount.

The Foundation is making some or all of the following tower lease payments for OETA.

OETA has entered into a lease agreement for tower space for Channel 32 with American Tower Corporation. This tower space is needed for OETA's digital television ("DTV") transmission facility in Oklahoma City. The initial agreement began September 1, 2001 and expired June 30, 2002. There are nineteen one year renewal periods beginning July 1, 2002. Beginning July 1, 2006, monthly payments increase based on the Consumer Price Index, with a minimum increase of 5% annually. The monthly payment, beginning July 1, 2008, was \$10,413. This contract was terminated August 1, 2009 when all equipment was removed from the facility.

Commencing July 1, 2002 OETA has entered into a lease agreement for five translator sites. The lease is for a ten-year period. Monthly payments increased to \$3,013 during fiscal year 2009. The payment is scheduled to increase 5% annually for the remainder of the lease term. The Foundation made all payments due under the lease, totaling \$21,053 and \$40,103 for 2012 and 2011, respectively. These amounts are reflected in the subsidy paid to OETA.

#### **Note 7 - Retirement Plan**

Effective 1/1/2011 the Foundation adopted a new 401(k) retirement plan. The new 401(k) plan features a safe harbor employer contribution of 3% of the employees' annual salary for all eligible employees, and an additional employer contribution between 2% and 7%, depending on the employee's years of service. Eligible employees are able to contribute to an additional amount up to 5% of their salary. Pension plan expense under this plan was \$41,068 for the year.

#### **Note 8 – Accounts Payable-Affiliate**

The Foundation has entered into various agreements for the purchase of program rights which aggregate approximately \$34,973 at June 30, 2012. The Foundation has a remaining balance of \$172,004 as of June 30, 2012 on its other commitments to OETA. These commitments are reflected in the statement of financial position as accounts payable-affiliate.

#### **Note 9 - Income Taxes**

##### Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's federal Exempt Organization Business Income Tax Returns (Form 990) for 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

#### **Note 10 - Board Designated Endowment Funds**

As of June 30, 2012 and 2011, the Board of Trustees had designated \$27,588,495 and \$29,136,990 of unrestricted net assets into four general endowments to support the mission and programs of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

For the Legacy for Excellence and the Facilities fund, the Organization has spending policies of appropriating for distribution each year 5% of its board-designated endowment funds' average fair value of the prior twelve quarters through the end of the fiscal year preceding the year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected investment return on its endowments. Accordingly, over the long term, the Organization expects the current spending policy to allow the endowments to grow at modest rates. This is consistent with the Organization'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 Organization 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 equity and debt securities, 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 Organization expects its endowment assets, over time to

**Note 10 - Board Designated Endowment Funds (continued)**

produce an average rate of return 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.

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 it distributions into 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.

Composition of and changes in unrestricted endowment net assets for the year ended June 30, 2012:

	Programming	Facilities	Facilities Endowment Grant	Legacy for Excellence	Total
Beginning of the year	\$ 14,624,165	\$ 11,273,988	\$ 1,801,760	\$ 1,437,077	\$ 29,136,990
Investment income	295,921	241,641	513	27,515	565,590
Investment fees	(52,209)	(40,652)	(6,647)	(6,024)	(105,532)
Other income	-	-	-	-	-
Contributions	-	-	463,990	5,000	468,990
Realized and unrealized gains (losses) on investments	(304,730)	(57,642)	-	(29,017)	(391,389)
Amounts appropriated for expenditure	(490,799)	(463,990)	(1,070,558)	(60,807)	(2,086,154)
	<u>\$ 14,072,348</u>	<u>\$ 10,953,345</u>	<u>\$ 1,189,058</u>	<u>\$ 1,373,744</u>	<u>\$ 27,588,495</u>



**Note 11 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of June 30:

	2012	2011
OETA subsidy-Community Services Grant	\$ 2,229,025	\$ 2,226,739
	<u>\$ 2,229,025</u>	<u>\$ 2,226,739</u>

**Note 12 – Grant Revenues Corporation of Public Broadcasting**

OETA has receives several grants from the Corporation for Public Broadcasting. These grants, including the Community Service Grant (“CSG”), are received by the Foundation that has been designated as the alternate payee by OETA. As the alternate payee, the Foundation receives the funds and disburses them at the discretion of OETA. The amount that OETA has authorized for disbursements on this grant is included as in expense “Subsidy to OETA” in the Statement of Activities. These disbursements totaled \$1,504,726 and \$1,090,108 for June 30, 2012 and 2011, respectively. Grant revenues reported in the Statement of Activities for this grant were \$ 1,507,012 and \$1,549,606 for June 30, 2012 and 2011, respectively. The cash that has been received but not yet disbursed is recognized in the Statement of Financial Position as restricted cash. The restricted cash held for the benefit of OETA as of June 30, 2012 and 2011 was \$2,229,025 and \$2,226,739, respectively.