



**FINANCIAL REPORT
JUNE 30, 2013**

Oklahoma Educational Television Authority
Table of Contents
June 30, 2013

Audited Financial Statements

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)	3-6
FINANCIAL STATEMENTS	
Oklahoma Educational Television Authority	
Statements of Net Assets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10
Discretely Presented Component Unit	
Oklahoma Education Television Foundation, Inc.	Exhibit I

Report Required by *Government Auditing Standards*

INDEPENDENT AUDITOR'S REPORT OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19-20
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Oklahoma Educational Television Authority

Report on the Financial Statements

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, 2013 and 2012 and the related notes to the financial statements. 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, 2013 and 2012 and the related notes to the financial statements, which, along with the Authority's financial statements and related notes, collectively comprise the basic financial statements of the Oklahoma Educational Television Authority. The financial statements and related notes 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement. The financial statements of the Oklahoma Educational Television Authority Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oklahoma Educational Television Authority, as of June 30, 2013 and 2012, and the respective changes in net assets, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–6 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 4, 2013

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, 2013.

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 FY13 and FY12 include the following:

	FY13	FY12
Current assets	\$ 725,234	\$ 885,003
Noncurrent assets	<u>12,105,220</u>	<u>14,547,719</u>
Total Assets	\$12,830,454	\$ 15,402,722
Current liabilities	\$ 240,106	\$ 213,506
Noncurrent liabilities	<u>120,428</u>	<u>143,626</u>
Total Liabilities	\$ 360,534	\$ 357,132
Invested in Capital assets	\$12,105,220	\$ 14,547,719
Other restricted assets	-	-
Unrestricted	<u>364,700</u>	<u>497,871</u>
Total Net Assets	\$12,469,920	\$ 15,045,590
Total Operating Revenues	\$ 7,541,479	\$ 7,273,822
Expenses:		
Programming/Production	\$ 2,433,537	\$ 2,020,202
Broadcasting/Technical	4,036,063	4,318,457
Solicitation & Membership	127,415	106,119
Administration	718,175	666,575
Depreciation	<u>2,801,959</u>	<u>2,877,973</u>
Total Expenses	\$ 10,117,149	\$ 9,989,326
Income	\$ (2,575,670)	\$ (2,715,504)
Change in Net Assets	\$ (2,575,670)	\$ (2,715,504)
Ending Net Assets	\$ 12,469,920	\$15,045,590

OVERALL FINANCIAL POSITION

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

As noted above, **operating functions are almost entirely dependent upon State General Revenue appropriations**, while program acquisition relies solely on OETA Foundation funding. The net operating loss of (\$2,575,670) in FY13 was lower than the loss in FY12 (\$2,715,504) and is due to many of the obsolete assets that OETA was carrying on the books being removed in FY13. Also in FY12 the

completion of costly upgrades such as the encoding system, Avid upgrade and the moving to the new Grandfield tower were completed. OETA had no major asset projects to complete in FY13. During FY12 the subsidy from the OETA Foundation totaled \$1,853,111 and in FY13 was \$2,159,125. The additional subsidy was required for continuing operating expenses mostly related to maintenance repairs. As operating costs increase and if no additional state funding is received this subsidy will need to increase each year.

In the case of OETA, operating revenues of approximately 4.4% 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 95.6% 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 (Channel 9 land & tower rentals) and any Foundation Subsidy. Both of these revenue sources are vital to the on-going operations of the network.

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

SIGNIFICANT CHANGES IN CAPITAL ASSETS

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

ARDMORE TOWER RELOCATION – In the summer of 2013, Cable One in Ardmore, OK physically moved their receiving/transmitting head-end requiring OETA to move its Channel 28 antenna to another tower or convert to Channel 36 which would allow OETA to establish a much higher power output and better signal in the Ardmore area.

OETA made the decision to convert its translator from digital Channel 28 to digital Channel 36 and move to another site nearby. OETA's only known option for building Channel 36 at that time was on a tower in Ardmore owned by the Oklahoma Regents of Higher Education located in North Ardmore. We completed construction of the new Channel 36 before June 2nd when our federally approved Construction Permit (CP) expired. OETA does not have to pay rent on the Regents tower so this will limit our ongoing expenses for this site.

OKLAHOMA LEGISLATURE - OETA was granted authority during the 2013 Legislative session to continue operating as a state agency, with appropriated funding, through June 30, 2014.

During the 2014 Legislative session, beginning February 2014, the Oklahoma State Legislature will determine by vote whether or not to continue OETA as a state agency and if it will continue to receive state funding through June 30, 2015.

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.

Therefore, current administration, working closely with the OETA Foundation, is in the early stages of a “Fulfilling the Dream” major gift campaign to seek private funding that will help fund the type of creative, informative, and inspiring programming and outreach necessary to connect Oklahomans to a lifetime of learning and discovery. OETA is committed to creating more knowledgeable, civically engaged and productive citizens of all ages.

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, 2013 and 2012

Assets	2013	2012
Current Assets:		
Cash	\$ 627,422	\$ 673,405
Accounts Receivable	97,812	181,598
Total Current Assets	<u>725,234</u>	<u>855,003</u>
Noncurrent Assets:		
Capital Assets		
Land	26,272	26,272
Buildings and Improvements	5,421,487	5,421,486
Broadcast Equipment	31,761,331	32,560,027
Transportation Equipment	108,853	108,853
Office Furniture and Equipment	769,397	808,381
	<u>38,087,340</u>	<u>38,925,019</u>
Less Accumulated Depreciaton	<u>(25,982,120)</u>	<u>(24,377,300)</u>
Total Capital Assets	12,105,220	14,547,719
Total Noncurrent Assets	<u>12,105,220</u>	<u>14,547,719</u>
Total Assets	<u>12,830,454</u>	<u>15,402,722</u>
Liabilities		
Current Liabilities:		
Accounts Payable	58,593	38,691
Accrued Payroll	11,626	7,348
Compensated Absences, current portion	169,887	167,467
Total Current Liabilities	<u>240,106</u>	<u>213,506</u>
Noncurrent Liabilities:		
Compensated Absences	<u>120,428</u>	<u>143,626</u>
Total Liabilities	<u>360,534</u>	<u>357,132</u>
Net Assets		
Invested in Capital Assets	12,105,220	14,547,719
Unrestricted	364,700	497,871
Total Net Assets	<u>\$ 12,469,920</u>	<u>\$ 15,045,590</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenues:		
State Appropriations	\$ 3,822,328	\$ 3,822,328
Subsidy from OETA Foundation	2,159,125	1,853,111
In-Kind Contributions	1,227,765	1,227,765
Telecasting, Production and Other Income	332,261	370,618
Total Operating Revenues	<u>7,541,479</u>	<u>7,273,822</u>
Operating Expenses:		
Programming and Production	2,433,537	2,020,202
Broadcasting and Technical	4,036,063	4,318,457
Viewer Support	127,415	106,119
Depreciation	2,801,959	2,877,973
Administration	718,175	666,575
Total Operating Expenses	<u>10,117,149</u>	<u>9,989,326</u>
Operating Income (Loss)	<u>(2,575,670)</u>	<u>(2,715,504)</u>
Changes in Net Assets	(2,575,670)	(2,715,504)
Net Assets, Beginning of Year	<u>15,045,590</u>	<u>17,761,094</u>
Net Assets, End of Year	<u><u>\$ 12,469,920</u></u>	<u><u>\$ 15,045,590</u></u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
State Appropriations	\$ 3,822,328	\$ 3,822,328
Subsidy from OETAF	435,448	1,080,278
Federal Grants	-	649,705
Receipts from Users and Donors	332,261	370,618
Payments to Vendors	(1,040,156)	(1,527,527)
Payments to Employees	(3,595,864)	(3,606,098)
Net Cash Flows from Operating Activities	(45,983)	789,304
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of Capital Assets	-	(471,833)
Net Cash Flows from Capital Financing Activities	-	(471,833)
Net Increase (Decrease) in Cash	(45,983)	317,471
Cash, Beginning of Year	673,405	355,934
Cash, End of Year	\$ 627,422	\$ 673,405
RECONCILIATION OF OPERATING INCOME TO NET		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (2,575,670)	\$ (2,715,504)
Adjustments to Reconcile Operating Income to Net		
Cash Flows From Operating Activities		
Non-cash transactions		
Depreciation	2,801,959	2,877,973
Cost Basis of Asset Disposal	8,341	-
In-kind contributions	1,227,765	1,227,765
Subsidy from OETAF	1,723,677	772,833
Operating expenses accrued with noncash revenue	(3,319,243)	(1,714,979)
Changes in Operating Assets and Liabilities		
Accounts Receivable	83,786	541,870
Accounts Payable	19,893	(192,597)
Accrued Payroll	4,287	(1,153)
Compensated Absences	(20,778)	(6,904)
Total Adjustments	2,529,687	3,504,808
Net Cash Flows from Operating Activities	\$ (45,983)	\$ 789,304

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013

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, 2013 and 2012, the carrying amount of OETA's deposit with the State Treasurer was \$627,422 and \$673,405, 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.

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.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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.

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.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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.

Note 2. Capital Assets

OETA's capital assets activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Deletions	Transfers/ Adjustments	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 26,272	\$ -	\$ -	\$ -	\$ 26,272
Construction in progress	-	-	-	-	-
Total Capital Assets Not Being Depreciated	26,272	-	-	-	26,272
Capital Assets, Being Depreciated:					
Building and Improvements	5,421,487	-	-	-	5,421,487
Broadcast Equipment	32,560,028	26,745	(1,135,719)	310,278	31,761,332
Transportation Equipment	108,852	-	-	-	108,852
Office Furniture and Equipment	808,378	-	(69,759)	30,778	769,397
Total Capital Assets, Being Depreciated	38,898,745	26,745	(1,205,478)	341,056	38,061,068
Less Accumulated Depreciation for:					
Building and Improvements	(2,278,754)	(207,620)	-	-	(2,486,374)
Broadcast Equipment	(21,295,080)	(2,533,960)	1,127,818	-	(22,701,222)
Transportation Equipment	(92,250)	(14,181)	-	-	(106,431)
Office Furniture and Equip.	(711,214)	(46,198)	69,319	-	(688,093)
Total Accumulated Depreciation	(24,377,298)	(2,801,959)	1,197,137	-	(25,982,120)
Total Capital Assets, Being Depreciated, Net	14,521,447	(2,775,214)	(8,341)	341,056	12,078,948
Total Capital Assets	<u>\$ 14,547,719</u>	<u>\$ (2,775,214)</u>	<u>\$ (8,341)</u>	<u>\$ 341,056</u>	<u>\$ 12,105,220</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 2. Capital Assets (continued)

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	\$ 17,239,479	\$ (2,554,131)	\$ (1,828)	\$ (135,801)	\$ 14,547,719

Included in the above totals is approximately \$26,778,000 for June 30, 2013 and 2012 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, 2013

Note 3. Rental Expense

Rental expense is as follows:

	<u>2013</u>	<u>2012</u>
Land	89,736	89,736
Buildings & Equipment	<u>1,927,167</u>	<u>1,864,384</u>
	2,016,903	1,954,120

The above rental expense was funded primarily by in-kind contributions of \$1,277,765 for 2013 and 2012.

Also included above is a subsidy of \$210,660 for 2013 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.

Commencing July 1, 2002 OETA entered into a lease agreement for five translator sites. The lease was for ten-year periods. OETA Foundation made all payments due under the lease, a total of \$21,697 and \$21,053 for June 30, 2013 and 2012, respectively. These amounts are reflected in the subsidy paid from OETA Foundation. The lease agreement expired June 30, 2013 with OETA in negotiations to renew an agreement.

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 \$76,325 and \$72,691 for fiscal year 2013 and 2012, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2014	80,138
2015	84,149
2016	88,356
2017	92,774
2018	97,413
Thereafter	<u>425,798</u>
	<u>\$ 868,628</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 3. Rental Expense, (Continued):

OETA has entered into a lease agreement for satellite transponder services with the Public Broadcasting System (PBS) beginning April 1, 2009. 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, 2013 and 2012, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2014	\$	419,100
2015		314,325
	\$	<u>733,425</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 for ground maintenance provided by OSU for the Tulsa Facility began May 2010. Future minimum payments are as follows:

2014	\$	12,000
2015		12,000
2016		12,000
2017		12,000
2018		12,000
Thereafter		<u>1,091,000</u>
	\$	<u>1,151,000</u>

Note 4. Noncurrent Liabilities

Noncurrent liabilities at June 30, 2013 and changes for the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 311,093	\$ 143,628	\$ (164,406)	\$ 290,315	\$ 169,887

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

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013 and 2012 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, 2013 and 2012, were approximately \$365,588 and \$371,047, respectively.

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.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 7. 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, 2013 and 2012 were \$1,595,160 and \$1,390,246, respectively. The restricted cash reported on the Foundation's Balance Sheets held on-behalf of OETA for June 30, 2013 and 2012 were \$1,966,276 and \$2,229,025, respectively.

Note 8. Contingencies

OETA was granted authority during the 2013 Legislative session to continue operating as a state agency, with appropriated funding, through June 30, 2014. During the 2014 Legislative session, beginning in February 2014, the Oklahoma State Legislature will determine by vote on continuing OETA as a state agency and if OETA will receive state funding through June 30, 2015.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Oklahoma Educational Television Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Educational Television Authority (the "Authority"), as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBC CPAs & Advisors

Yukon, Oklahoma
October 4, 2013

Exhibit I

Oklahoma Educational Television Authority Foundation, Inc.

June 30, 2013 Financial Statements



FINANCIAL STATEMENTS

JUNE 30, 2013



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Oklahoma Educational Television Authority, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Educational Television Authority, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

HBC CPAs & Advisors

Yukon, Oklahoma
October 4, 2013

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 2,601,295	\$ 3,760,909
Restricted cash	1,966,276	2,229,025
Pledges receivable	102,314	98,422
Other receivables	17,588	37,957
Accrued investment income	51,520	56,570
Prepaid expenses	69,801	48,886
Prepaid program costs	84,263	144,721
Investments	27,509,332	25,412,923
Fixed assets (net)	3,315,705	3,487,156
Total Assets	<u>\$ 35,718,094</u>	<u>\$ 35,276,569</u>
LIABILITIES		
Accounts payable	\$ 93,688	\$ 38,280
Accrued salaries and vacation	26,962	71,727
Accounts payable - affiliate	82,710	206,977
Total Liabilities	<u>203,360</u>	<u>316,984</u>
NET ASSETS		
Unrestricted:		
Programming services and operations	1,329,247	1,654,909
Net investment in fixed assets	3,315,705	3,487,156
Board designated endowments	28,903,506	27,588,495
	<u>33,548,458</u>	<u>32,730,560</u>
Temporarily restricted	<u>1,966,276</u>	<u>2,229,025</u>
Total Net Assets	<u>35,514,734</u>	<u>34,959,585</u>
Total Liabilities and Net Assets	<u>\$ 35,718,094</u>	<u>\$ 35,276,569</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	Unrestricted	Temporarily Restricted	Total 2013	Total 2012
Support and revenues:				
Contributions	\$ 2,153,314	\$ -	\$ 2,153,314	\$ 2,196,093
Grants	95,225	1,507,612	1,602,837	1,632,140
Special projects	40,792	-	40,792	9,662
Interest and dividends	411,157	-	411,157	457,489
Realized and unrealized gain (loss) on investments	2,046,416	-	2,046,416	(391,230)
Underwriting revenues	194,573	-	194,573	271,354
Rental-affiliate	210,660	-	210,660	210,666
Other	101,345	-	101,345	112,294
Net assets released from restrictions and transfers	1,770,361	(1,770,361)	-	-
Total revenues, gains (losses) and other support	7,023,843	(262,749)	6,761,094	4,498,468
Program expense:				
Subsidy to OETA	2,159,125	-	2,159,125	1,853,117
Programming and production	2,272,150	-	2,272,150	1,958,789
Engineering	30,235	-	30,235	31,486
Program information	78,895	-	78,895	105,002
Special projects	43,925	-	43,925	44,145
Total program expense	4,584,330	-	4,584,330	3,992,539
Supporting services:				
Management and general	906,235	-	906,235	805,043
Fundraising:				
Solicitation	591,073	-	591,073	520,193
Membership services	124,307	-	124,307	139,186
Total fundraising expense	715,380	-	715,380	659,379
Total supporting services	1,621,615	-	1,621,615	1,464,422
Total expenses	6,205,945	-	6,205,945	5,456,961
Net change in net assets	817,898	(262,749)	555,149	(958,493)
Net Assets at Beginning of Year	32,730,560	2,229,025	34,959,585	35,918,078
Net Assets at End of Year	\$ 33,548,458	\$ 1,966,276	\$ 35,514,734	\$ 34,959,585

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION , INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	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	2012
Compensation and Related Expenses:												
Salaries	\$ -	\$ -	\$ -	\$ 11,130	\$ -	\$ 11,130	\$ 370,207	\$ 102,091	\$ 47,835	\$ 520,133	\$ 531,263	\$ 494,037
Contract Labor	-	-	-	7,725	-	7,725	180	-	1,706	1,886	9,611	11,338
Talent	-	-	-	-	-	-	-	11,768	-	11,768	11,768	6,848
Professional Services	-	93,792	28,798	4,604	5,558	132,752	202,518	42,560	1,901	246,979	379,731	337,356
Employee Benefits:												
Group Insurance	-	-	-	5,289	-	5,289	97,573	80,166	30,575	208,314	213,603	197,986
Employee Deferred Compensation	-	-	-	-	-	-	32,300	7,448	2,281	42,029	42,029	41,068
Management Assistance Program	-	-	-	-	-	-	543	685	-	1,228	1,228	1,346
Payroll Taxes	-	-	-	1,020	-	1,020	27,904	7,605	3,648	39,157	40,177	37,645
Bank Service Charges	-	-	-	-	-	-	7,016	-	30,778	37,794	37,794	38,147
Dues and Fees	-	-	-	-	-	-	2,493	-	-	2,493	2,493	1,893
Travel, Lodging, Public Relations	-	-	602	-	-	602	3,111	615	-	3,726	4,328	499
Freight	-	-	-	-	-	-	8,089	-	-	8,089	8,089	12
Telephone	-	-	-	-	-	-	-	142	-	142	142	91
Vending	-	-	-	-	-	-	5,602	-	-	5,602	5,602	6,543
Postage	-	-	-	20,130	-	20,130	-	33,800	2,150	35,950	56,080	51,336
Equipment Repairs & Maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Auto Expense & Maintenance	-	-	-	-	-	-	1,490	-	-	1,490	1,490	1,426
Insurance	-	-	-	-	-	-	35,640	-	-	35,640	35,640	-
Printing	-	-	-	26,818	3,832	30,650	-	394	-	394	31,044	39,186
Promotional	-	9,000	-	-	31,526	40,526	559	241,896	-	242,455	282,981	297,086
Advertising	-	59,119	-	-	1,779	60,898	-	-	-	-	60,898	66,862
Office Supplies	-	-	-	-	-	-	9,246	-	-	9,246	9,246	320
Set Construction	-	-	-	-	-	-	-	-	-	-	-	65
Facility Usage Fees	-	-	-	-	-	-	-	46,883	-	46,883	46,883	46,710
Utilities	-	-	-	-	-	-	7,685	-	-	7,685	7,685	9,401
Unallocated payment to affiliate	2,159,125	-	-	-	-	2,159,125	-	-	-	-	2,159,125	1,853,117
Program Fees	-	2,047,491	-	-	-	2,047,491	-	-	-	-	2,047,491	1,737,905
Depreciation	-	62,748	835	2,179	1,230	66,992	94,079	15,020	3,433	112,532	179,524	178,738
Total:	\$ 2,159,125	\$ 2,272,150	\$ 30,235	\$ 78,895	\$ 43,925	\$ 4,584,330	\$ 906,235	\$ 591,073	\$ 124,307	\$ 1,621,615	\$ 6,205,945	\$ 5,456,961

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
OPERATING ACTIVITIES:		
Changes in net assets	\$ 555,149	\$ (958,493)
Adjustments to reconcile change in net assets to net cash used in operations		
Depreciation	179,524	178,738
Net unrealized (gain) loss on investments	38,441	621,397
(Increase) decrease in pledges receivable	(3,892)	(4,630)
(Increase) decrease in other receivables	20,369	27,835
(Increase) decrease in accrued investment income	5,050	2,875
(Increase) decrease in prepaid expenses	(20,915)	(2,440)
(Increase) decrease in prepaid program costs	60,458	(74,555)
Increase (decrease) in accounts payable	55,408	5,522
Increase (decrease) in accounts payable affiliate	(124,267)	(515,678)
Increase (decrease) in accrued salaries and vacation	(44,765)	34,545
Net cash provided by (used in operating activities)	720,560	(684,884)
INVESTING ACTIVITIES:		
Proceeds from disposal of securities	40,812,876	25,945,519
Purchase of fixed assets	(8,073)	(93,266)
Purchase of investments	(42,947,726)	(27,088,974)
Net cash provided by (used in) investing activities	(2,142,923)	(1,236,721)
Increase (decrease) in cash and cash equivalents	(1,422,363)	(1,921,605)
Cash and cash equivalents at beginning of year	5,989,934	7,911,539
Cash and cash equivalents at end of year	\$ 4,567,571	\$ 5,989,934
Reconciliation to Statement of Financial Position:		
Cash and cash equivalents	\$ 2,601,295	\$ 3,760,909
Restricted cash	1,966,276	2,229,025
	\$ 4,567,571	\$ 5,989,934

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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. 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, 2012, 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 4, 2013, 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 \$46,200. 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.

Oklahoma Educational Television Authority Foundation, Inc
Notes to Financial Statements
June 30, 2013

Note 3 - Investments

Investments at June 30, 2013 are summarized as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Marketable securities:		
U.S. Government obligations	\$ 6,020,648	\$ 6,020,648
Corporate debt obligations	291,163	291,163
Equity securities	6,198,458	6,198,458
Mutual funds	14,999,063	14,999,063
Alternate investments	-	-
Total marketable securities	<u>\$ 27,509,332</u>	<u>\$ 27,509,332</u>

The following schedule summarized net investment income and its classification in the Statement of Activities for the year ended June 30, 2013:

	Unrestricted Net Assets
Interest and dividends	\$ 411,157
Realized and unrealized gains on investments	2,046,416
	<u>\$ 2,457,573</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees amounted \$105,981 and have been netted against investment revenues in the accompanying Statement of Activities for the year ended June 30, 2013.

Oklahoma Educational Television Authority Foundation, Inc
Notes to Financial Statements
June 30, 2013

Note 4 - Fair Value Measurements

Fair Values Measured on Recurring Basis

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

<u>June 30, 2013</u>				
Common and preferred stocks:				
Consumer discretionary	\$ 556,404	\$ 556,404	\$ -	\$ -
Consumer staples	282,212	282,212	-	-
Energy	40,506	40,506	-	-
Financials	210,443	210,443	-	-
Healthcare	3,882,510	3,882,510	-	-
Industrials	653,621	653,621	-	-
Information technology	43,833	43,833	-	-
Materials	254,422	254,422	-	-
Telecommunication	257,252	257,252	-	-
Utilities	17,255	17,255	-	-
Mutual funds				
International Large Blend	1,214,224	1,214,224	-	-
International Large Growth	154,012	154,012	-	-
International Small/Mid Grwth	243,160	243,160	-	-
Small Cap	7,043,412	7,043,412	-	-
Mid cap	637,048	637,048	-	-
Large blend	2,649,684	2,649,684	-	-
Large value	201,340	201,340	-	-
Commodities	149,129	149,129	-	-
Midvalue	501,001	501,001	-	-
Fixed income	853,452	853,452	-	-
US treasury securities	1,112,601	1,112,601	-	-
Partnerships	240,000			240,000
US treasury securities				
Short (a)	97,849	50,334	-	-
Intermediate (a)	508,100	500,615	7,485	-
Long (a)	5,414,699	5,020,576	394,123	-
Corporate debt securites				
Short (a)	202,553	-	202,553	-
Intermediate (a)	88,610	-	88,610	-
	-	-	-	-
	\$ 27,509,332	\$ 26,529,046	\$ 692,771	\$ 240,000

(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, 2012	\$ 240,000
Issuances, settlements, (net)	-
June 30, 2013	<u>\$ 240,000</u>

Note 5 - Fixed Assets

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

	2013	2012
Transportation equipment	\$ 100,016	\$ 100,016
Furniture, computers and equipment	455,462	452,396
Buildings and improvements	4,567,959	4,567,959
	5,123,437	5,120,371
Less accumulated depreciation	(1,807,732)	(1,633,215)
	<u>\$ 3,315,705</u>	<u>\$ 3,487,156</u>

Note 6 -Related Party Transactions

The Foundation donated \$2,159,125 and \$1,853,111 to OETA in fiscal year 2013 and 2012, 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.

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 \$21,697 and \$21,053 for 2013 and 2012, 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 a remaining balance of \$82,303 as of June 30, 2013 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 2010, 2011, and 2012 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, 2013 and 2012, the Board of Trustees had designated \$28,903,506 and \$27,588,495 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, 2013:

	Programming	Facilities	Facilities Endowment Grant	Legacy for Excellence	Total
Beginning of the year	\$ 14,072,353	\$ 10,953,344	\$ 1,189,054	\$ 1,373,744	\$ 27,588,495
Investment income	269,184	223,913	837	26,719	520,653
Investment fees	(53,289)	(41,191)	(5,354)	(6,147)	(105,981)
Other income	-	-	-	-	-
Contributions	667	537	530,441	6,000	537,645
Realized and unrealized gains (losses) on investments	1,156,136	768,613	1	121,666	2,046,416
Amounts appropriated for expenditure	(557,210)	(530,441)	(531,122)	(64,949)	(1,683,722)
	<u>\$ 14,887,841</u>	<u>\$ 11,374,775</u>	<u>\$ 1,183,857</u>	<u>\$ 1,457,033</u>	<u>\$ 28,903,506</u>

Note 11 – Temporarily Restricted Net Assets

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

	2013	2012
OETA subsidy-Community Services Grant	\$ 1,966,276	\$ 2,229,025
	<u>\$ 1,966,276</u>	<u>\$ 2,229,025</u>

Note 12 – Grant Revenues Corporation of Public Broadcasting

OETA has receives several grants from the Corporation for Public Broadcasting. These grants 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 \$1,865,586 and \$1,504,726 for June 30, 2013 and 2012, respectively. Grant revenues reported in the Statement of Activities for this grant were \$1,507,012 and \$1,507,012 for June 30, 2013 and 2012, 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, 2013 and 2012 was \$1,966,276 and \$2,229,025, respectively.

Note 13 – Contingencies

OETA was granted authority during the 2013 Legislative session to continue operating as a state agency, with appropriated funding, through June 30, 2014. During the 2014 Legislative session, beginning in February 2014, the Oklahoma State Legislature will determine by vote on continuing OETA as a state agency and if OETA will receive state funding through June 30, 2015. Although Foundation management fully expects the legislature to continue to fund OETA through 2015 and beyond, if funding is not appropriated, the Foundation would use the ensuing one year “wind down” period to investigate other funding sources.