



**FINANCIAL REPORT
JUNE 30, 2014**

Oklahoma Educational Television Authority
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June 30, 2014

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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>	20-21
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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, 2014 and 2013 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, 2014 and 2013 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, with regard to the Oklahoma Educational Television Authority, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Educational Television Authority, as of June 30, 2014 and 2013, and the respective changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014, 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.



Yukon, Oklahoma
October 20, 2014

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, 2014.

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 \$0.96 per citizen in state funding while other state networks receive as much as \$5.57 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 33 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 discretely presented after the Authority’s financial statements. This management discussion and analysis will be restricted to only the Authority’s financial statements. The Authority financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and Statement of Cash Flows.

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

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

Condensed financial information comparison for FY13 and FY14 include the following:

	FY14	FY13
Current assets	\$ 588,472	\$ 725,234
Noncurrent assets	<u>10,097,354</u>	<u>12,105,220</u>
Total Assets	\$10,685,826	\$ 12,830,454
Current liabilities	\$ 222,933	\$ 240,106
Noncurrent liabilities	<u>109,769</u>	<u>120,428</u>
Total Liabilities	\$ 332,702	\$ 360,534
Invested in Capital assets	\$10,097,354	\$ 12,105,220
Other restricted assets	-	-
Unrestricted	<u>255,770</u>	<u>364,700</u>
Total Net Position	\$10,353,124	\$ 12,469,920
Total Operating Revenues	\$ 7,246,593	\$ 7,541,479
Expenses:		
Programming/Production	\$ 2,179,964	\$ 2,433,537
Broadcasting/Technical	3,958,913	4,036,063
Solicitation & Membership	132,870	127,415
Administration	800,015	718,175
Depreciation	<u>2,291,627</u>	<u>2,801,959</u>
Total Expenses	\$ 9,363,389	\$ 10,117,149
Income	\$ (2,116,796)	\$ (2,575,670)
Change in Net Position	\$ (2,116,796)	\$ (2,575,670)
Ending Net Position	\$ 10,353,124	\$12,469,920

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 (\$2,116,796) in FY14 was lower than the loss in FY13 (\$2,575,670). During FY13 the subsidy from the OETA Foundation totaled \$2,159,125 and in FY14 was \$1,942,641. 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 3.5% 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 96.5% 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 from the state of Oklahoma and any OETA Foundation subsidies. Operating activities do not generate sufficient cash to fund expenses without these crucial funding sources.

SIGNIFICANT CHANGES IN CAPITAL ASSETS

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

GRANT FROM THE OKLAHOMA STATE DEPARTMENT OF EDUCATION – OETA received a grant from SDE for FY15 in the amount of \$347,245. This grant will be used by the Educational Outreach Department to grow the Ready to Learn project. This project is a community-based early childhood literacy and math program that focuses efforts on preparing Oklahoma children for future school success.

OKLAHOMA CITY ANTENNA RELOCATION – In the summer of 2014, OETA was required to move our Oklahoma City antenna location from the tower owned by Griffin Communications located on 73rd & North Kelley Avenue to a tower owned and operated by American Tower Company located approximately 4 miles north at 122nd and North Kelley. This move required an investment by the OETA Foundation in excess of \$1,200,000.

The move was required since Griffin Communication was deconstructing their current tower due to age and dangerous ice falling from the tower in the winter and damaging vehicles and buildings.

This move will require OETA to incur approximately \$173,000 in additional operating expenses each year.

This move was completed by OETA during August and September, 2014.

OKLAHOMA LEGISLATURE - OETA was granted authority during the 2014 Legislative session to continue operating as a state agency, with appropriated funding, through June 30, 2015.

During the 2014 Legislative session, beginning February 2014, the Oklahoma State Legislature voted to continue OETA as a state agency until June 30, 2020. The legislature also is requiring OETA to submit no later than January 15, 2015 a plan on how OETA could operate without state appropriations over a three-year, a five-year, or seven-year period.

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 appropriation reductions over the last few years totaling more than \$1,586,000 (30.5%) this need becomes even 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 “Funding the Dream” 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 POSITION
JUNE 30, 2014 and 2013

Assets	2014	2013
Current Assets:		
Cash	\$ 444,093	\$ 627,422
Accounts Receivable	144,379	97,812
Total Current Assets	<u>588,472</u>	<u>725,234</u>
Noncurrent Assets:		
Capital Assets		
Land	26,272	26,272
Buildings and Improvements	5,242,865	5,421,487
Broadcast Equipment	31,914,730	31,761,331
Transportation Equipment	108,853	108,853
Office Furniture and Equipment	789,649	769,397
	<u>38,082,369</u>	<u>38,087,340</u>
Less Accumulated Depreciaton	<u>(27,985,015)</u>	<u>(25,982,120)</u>
Total Capital Assets	<u>10,097,354</u>	<u>12,105,220</u>
Total Noncurrent Assets	<u>10,097,354</u>	<u>12,105,220</u>
Total Assets	<u>10,685,826</u>	<u>12,830,454</u>
Liabilities		
Current Liabilities:		
Accounts Payable	40,825	58,593
Accrued Payroll	12,212	11,626
Compensated Absences, current portion	169,896	169,887
Total Current Liabilities	<u>222,933</u>	<u>240,106</u>
Noncurrent Liabilities:		
Compensated Absences	109,769	120,428
Total Liabilities	<u>332,702</u>	<u>360,534</u>
Net Position		
Invested in Capital Assets	10,097,354	12,105,220
Unrestricted	255,770	364,700
Total Net Position	<u>\$ 10,353,124</u>	<u>\$ 12,469,920</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating Revenues:		
State Appropriations	\$ 3,822,328	\$ 3,822,328
Subsidy from OETA Foundation	1,942,641	2,159,125
In-Kind Contributions	1,227,765	1,227,765
Telecasting, Production and Other Income	253,859	332,261
Total Operating Revenues	<u>7,246,593</u>	<u>7,541,479</u>
Operating Expenses:		
Programming and Production	2,179,964	2,433,537
Broadcasting and Technical	3,958,913	4,036,063
Viewer Support	132,870	127,415
Depreciation	2,291,627	2,801,959
Administration	800,015	718,175
Total Operating Expenses	<u>9,363,389</u>	<u>10,117,149</u>
Operating Income (Loss)	<u>(2,116,796)</u>	<u>(2,575,670)</u>
Changes in Net Position	(2,116,796)	(2,575,670)
Net Position, Beginning of Year	<u>12,469,920</u>	<u>15,045,590</u>
Net Position, End of Year	<u><u>\$ 10,353,124</u></u>	<u><u>\$ 12,469,920</u></u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
State Appropriations	\$ 3,822,328	\$ 3,822,328
Subsidy from OETAF	219,250	435,448
Federal Grants	-	-
Receipts from Users and Donors	316,521	332,261
Payments to Vendors	(1,100,467)	(1,040,156)
Payments to Employees	(3,440,961)	(3,595,864)
Net Cash Flows from Operating Activities	<u>(183,329)</u>	<u>(45,983)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of Capital Assets	-	-
Net Cash Flows from Capital Financing Activities	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash	(183,329)	(45,983)
Cash, Beginning of Year	<u>627,422</u>	<u>673,405</u>
Cash, End of Year	<u><u>\$ 444,093</u></u>	<u><u>\$ 627,422</u></u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (2,116,796)	\$ (2,575,670)
Adjustments to Reconcile Operating Income to Net		
Cash Flows From Operating Activities		
Non-cash transactions		
Depreciation	2,291,627	2,801,959
Cost Basis of Asset Disposal	62,665	8,341
In-kind contributions	1,227,765	1,227,765
Subsidy from OETAF	1,723,391	1,723,677
Operating expenses accrued with noncash revenue	(3,297,582)	(3,319,243)
Changes in Operating Assets and Liabilities		
Accounts Receivable	(46,567)	83,786
Accounts Payable	(17,759)	19,893
Accrued Payroll	586	4,287
Compensated Absences	(10,659)	(20,778)
Total Adjustments	<u>1,933,467</u>	<u>2,529,687</u>
Net Cash Flows from Operating Activities	<u><u>\$ (183,329)</u></u>	<u><u>\$ (45,983)</u></u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

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, 2014 and 2013, the carrying amount of OETA's deposit with the State Treasurer was \$444,093 and \$627,422, 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, 2014

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 position. 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, 2014

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

Net positions

In the financial statements, equity is classified as net position 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 position – consists of net position 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 position – are all other net position 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, 2014 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	-	(214,934)	36,313	5,242,866
Broadcast Equipment	31,761,332	322,253	(132,540)	(36,313)	31,914,732
Transportation Equipment	108,852	-	-	-	108,852
Office Furniture and Equipment	769,397	24,173	(3,922)	-	789,648
Total Capital Assets, Being Depreciated	38,061,068	346,426	(351,396)	-	38,056,098
Less Accumulated Depreciation for:					
Building and Improvements	(2,486,374)	(194,515)	132,540	(36,313)	(2,584,662)
Broadcast Equipment	(22,701,222)	(2,054,851)	152,272	36,313	(24,567,488)
Transportation Equipment	(106,431)	(1,314)	-	-	(107,745)
Office Furniture and Equip.	(688,093)	(40,947)	3,919	-	(725,121)
Total Accumulated Depreciation	(25,982,120)	(2,291,627)	288,731	-	(27,985,016)
Total Capital Assets, Being Depreciated, Net	12,078,948	(1,945,201)	(62,665)	-	10,071,082
Total Capital Assets	<u>\$ 12,105,220</u>	<u>\$ (1,945,201)</u>	<u>\$ (62,665)</u>	<u>\$ -</u>	<u>\$ 10,097,354</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2. Capital Assets (continued)

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	337,023	(1,135,719)	-	31,761,332
Transportation Equipment	108,852	-	-	-	108,852
Office Furniture and Equipment	808,378	30,778	(69,759)	-	769,397
Total Capital Assets, Being Depreciated	38,898,745	367,801	(1,205,478)	-	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	(2,434,158)	(8,341)	-	12,078,948
Total Capital Assets	\$ 14,547,719	\$ (2,434,158)	\$ (8,341)	\$ -	\$ 12,105,220

Included in the above totals is approximately \$3,627,600 for June 30, 2014 and 2013 in related cost from federal grants for the DTV conversion project that holds liens. OETA has granted a priority reversionary interest in this equipment back to the federal government per grant requirements. These grants expire in 6/2016, 4/2017, 3/2019 and 9/2021. The liens are for ten year periods.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 3. Rental Expense

Rental expense is as follows:

	<u>2014</u>	<u>2013</u>
Land	89,736	89,736
Buildings & Equipment	<u>1,906,373</u>	<u>1,927,167</u>
	1,996,109	2,016,903

The above rental expense was funded primarily by in-kind contributions of \$1,277,765 for 2014 and 2013.

Also included above is a subsidy of \$210,660 for 2014 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 lease agreements for five translator sites with various terms expiring through 2022. One of the sites is a month to month lease. The Foundation made all payments due under the leases, totaling \$27,004 and \$21,697 for 2014 and 2013, respectively. These amounts are reflected in the subsidy paid to OETA. 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 \$80,138 and \$76,325 for fiscal year 2014 and 2013, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2015	84,149
2016	88,356
2017	92,774
2018	97,413
2019	102,284
Thereafter	<u>338,572</u>
	<u>\$ 803,548</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 and 2013, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2015	419,100
2016	419,100
2017	104,775
	<u>\$ 942,975</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:

2015	12,000
2016	12,000
2017	12,000
2018	12,000
2019	12,000
Thereafter	1,079,000
	<u>\$ 1,139,000</u>

Note 4. Noncurrent Liabilities

Noncurrent liabilities at June 30, 2014 and changes for the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 290,315	\$ 148,815	\$ (159,465)	\$ 279,665	\$ 169,897

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

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 and 2013, were approximately \$359,437 and \$365,588, 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, 2014

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 Position. 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 Position. The amount of revenue and expenses recognized related to the CSG for June 30, 2014 and 2013 were \$1,627,183 and \$1,705,080, respectively. The restricted cash reported on the Foundation's Balance Sheets held on-behalf of OETA for June 30, 2014 and 2013 were \$2,076,838 and \$1,966,276, respectively.

Note 8. Contingencies

OETA was granted authority during the 2014 Legislative session to continue operating as a state agency, with appropriated funding, through June 30, 2015.

During the 2014 Legislative session, beginning in February 2014, the Oklahoma State Legislature voted to continue OETA as a state agency until June 30, 2020. The legislature is requiring OETA to submit no later than January 15, 2015 a plan demonstrating how OETA could operate without state appropriations over a three-year, a five-year, or seven-year period.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 9. Subsequent Events

OETA has also entered into a lease agreement after the year end with American Tower Corporation for KETA channel 13 transmitter and antenna. The lease begins July 1, 2014 and expires June 30, 2024. Monthly payments of \$90,600 for the rent and \$7,550 for ground maintenance which will both increase 3% each year thereafter. The annual maintenance fees will not exceed one month rental. Future minimum payments are as follows:

2015	98,150
2016	101,095
2017	104,127
2018	107,251
2019	110,469
Thereafter	604,089
	<u>\$ 1,125,181</u>

OETA has also entered into a lease agreement after year end with Indian Nations for fiber connection between OKC station and ATC Tower. The lease begins July 1, 2014 and expires February 2033. Yearly payments of \$3,600 for ground maintenance. Future minimum payments are as follows:

2015	3,600
2016	3,600
2017	3,600
2018	3,600
2019	3,600
Thereafter	49,200
	<u>\$ 67,200</u>

Exhibit I

Oklahoma Educational Television Authority Foundation, Inc.

June 30, 2014 Financial Statements



FINANCIAL STATEMENTS

JUNE 30, 2014



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Oklahoma Educational Television Authority Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities 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 Foundation, Inc. as of June 30, 2014, 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.

Report on Summarized Comparative Information

We have previously audited the Oklahoma Educational Television Authority Foundation, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived with the exception of the prior period adjustment described in Note 14.

HBC CPA & Advisors

Yukon, Oklahoma
October 20, 2014

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 6,376,313	\$ 2,601,295
Restricted cash	2,076,838	1,966,276
Pledges receivable	198,004	102,314
Other receivables	14,183	17,588
Accrued investment income	32,526	51,520
Prepaid expenses	63,682	69,801
Prepaid program costs	92,632	84,263
Investments	27,614,662	27,632,734
Fixed assets (net)	3,867,983	3,315,705
Total Assets	<u>\$ 40,336,823</u>	<u>\$ 35,841,496</u>
LIABILITIES		
Accounts payable	\$ 663,012	\$ 93,688
Accrued salaries and vacation	28,223	26,962
Accounts payable - affiliate	107,881	82,710
Deferred compensation payable	61,701	123,402
Notes Payable	1,106,678	-
Total Liabilities	<u>1,967,495</u>	<u>326,762</u>
NET ASSETS		
Unrestricted:		
Programming services and operations	1,080,946	1,329,247
Net investment in fixed assets	3,867,983	3,315,705
Board designated endowments	31,343,561	28,903,506
	<u>36,292,490</u>	<u>33,548,458</u>
Temporarily restricted	2,076,838	1,966,276
Total Net Assets	<u>38,369,328</u>	<u>35,514,734</u>
Total Liabilities and Net Assets	<u>\$ 40,336,823</u>	<u>\$ 35,841,496</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	Unrestricted	Temporarily Restricted	Total 2014	Total 2013
Support and revenues:				
Contributions	\$ 2,686,649	\$ -	\$ 2,686,649	\$ 2,153,314
Grants	75,849	1,530,979	1,606,828	1,602,837
Special projects	-	-	-	40,792
Interest and dividends	363,304	-	363,304	411,157
Realized and unrealized gain (loss) on investments	3,513,752	-	3,513,752	2,046,416
Underwriting revenues	247,315	-	247,315	194,573
Rental-affiliate	210,660	-	210,660	210,660
Other	180,596	-	180,596	101,345
Net assets released from restrictions and transfers	1,420,417	(1,420,417)	-	-
Total revenues, gains (losses) and other support	8,698,542	110,562	8,809,104	6,761,094
Program expense:				
Subsidy to OETA	1,942,642	-	1,942,642	2,159,125
Programming and production	2,031,592	-	2,031,592	2,272,150
Engineering	5,507	-	5,507	30,235
Program information	48,170	-	48,170	78,895
Special projects	49,075	-	49,075	43,925
Total program expense	4,076,986	-	4,076,986	4,584,330
Supporting services:				
Management and general	1,016,440	-	1,016,440	906,235
Fundraising:				
Solicitation	730,477	-	730,477	591,073
Membership services	130,607	-	130,607	124,307
Total fundraising expense	861,084	-	861,084	715,380
Total supporting services	1,877,524	-	1,877,524	1,621,615
Total expenses	5,954,510	-	5,954,510	6,205,945
Net change in net assets	2,744,032	110,562	2,854,594	555,149
Net Assets at Beginning of Year	33,548,458	1,966,276	35,514,734	34,959,585
Net Assets at End of Year	\$ 36,292,490	\$ 2,076,838	\$ 38,369,328	\$ 35,514,734

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION , INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	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	2013
Compensation and Related Expenses:												
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 439,335	\$ 110,995	\$ 45,537	\$ 595,867	\$ 595,867	\$ 531,263
Contract Labor	-	-	-	7,819	-	7,819	387	75	1,236	1,698	9,517	9,611
Talent	-	1,800	-	-	-	1,800	-	8,805	-	8,805	10,605	11,768
Professional Services	-	2,292	3,000	-	6,536	11,828	237,213	39,808	-	277,021	288,849	379,731
Employee Benefits:												
Group Insurance	-	-	-	-	-	-	100,911	90,615	35,778	227,304	227,304	213,603
Employee Deferred Compensation	-	-	-	-	-	-	41,121	8,643	2,692	52,456	52,456	42,029
Management Assistance Program	-	-	-	-	-	-	272	798	-	1,070	1,070	1,228
Payroll Taxes	-	-	-	-	4,720	4,720	26,752	8,251	3,464	38,467	43,187	40,177
Bank Service Charges	-	-	-	-	-	-	8,740	-	35,325	44,065	44,065	37,794
Interest Expense	-	-	-	-	-	-	14,599	-	-	14,599	14,599	-
Dues and Fees	-	8,675	-	-	-	8,675	6,692	220	225	7,137	15,812	2,493
Travel, Lodging, Public Relations	-	-	1,378	583	-	1,961	18,151	399	-	18,550	20,511	4,328
Freight	-	-	-	-	-	-	-	-	-	-	-	8,089
Telephone	-	-	-	-	-	-	-	134	-	134	134	142
Vending	-	-	-	-	-	-	5,672	-	-	5,672	5,672	5,602
Postage	-	-	-	12,777	-	12,777	-	37,331	1,939	39,270	52,047	56,080
Auto Expense & Maintenance	-	-	-	-	-	-	2,650	-	-	2,650	2,650	1,490
Insurance	-	-	-	-	-	-	12,201	-	-	12,201	12,201	35,640
Printing	-	-	-	25,450	-	25,450	-	810	-	810	26,260	31,044
Promotional	-	9,000	-	170	33,913	43,083	1,368	376,837	765	378,970	422,053	282,981
Advertising	-	77,524	-	-	615	78,139	-	-	-	-	78,139	60,898
Office Supplies	-	-	-	-	139	139	4,275	329	3	4,607	4,746	9,246
Land Rental	-	-	1,000	-	-	1,000	-	-	-	-	1,000	-
Facility Usage Fees	-	-	-	-	-	-	-	26,618	-	26,618	26,618	46,883
Utilities	-	-	-	-	-	-	7,251	-	-	7,251	7,251	7,685
Unallocated payment to affiliate	1,942,642	-	-	-	-	1,942,642	-	-	-	-	1,942,642	2,159,125
Program Fees	-	1,874,979	-	-	-	1,874,979	(8,369)	-	-	(8,369)	1,866,610	2,047,491
Depreciation	-	57,322	129	1,371	3,152	61,974	97,219	19,809	3,643	120,671	182,645	179,524
Total:	\$ 1,942,642	\$ 2,031,592	\$ 5,507	\$ 48,170	\$ 49,075	\$ 4,076,986	\$ 1,016,440	\$ 730,477	\$ 130,607	\$ 1,877,524	\$ 5,954,510	\$ 6,205,945

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

	2014	2013
OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,854,594	\$ 555,149
Adjustments to reconcile change in net assets to net cash used in operations		
Depreciation	182,645	179,524
Net unrealized (gain) loss on investments	2,770,154	38,441
(Increase) decrease in pledges receivable	(95,690)	(3,892)
(Increase) decrease in other receivables	3,405	20,369
(Increase) decrease in accrued investment income	18,994	5,050
(Increase) decrease in prepaid expenses	6,119	(20,915)
(Increase) decrease in prepaid program costs	(8,369)	60,458
Increase (decrease) in accounts payable	692,728	55,408
Increase (decrease) in accounts payable affiliate	25,171	(124,267)
Increase (decrease) in accrued salaries and vacation	1,261	(44,765)
Increase (decrease) in deferred compensation payable	(61,701)	-
Net cash provided by (used in operating activities)	6,389,311	720,560
INVESTING ACTIVITIES:		
Proceeds from sale of securities	11,514,426	40,812,876
Purchase of fixed assets	(734,923)	(8,073)
Purchase of investments	(14,389,912)	(42,947,726)
Net cash provided by (used in) investing activities	(3,610,409)	(2,142,923)
FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,200,000	-
Repayments of long-term debt	(93,322)	-
Net cash provided by (used in) financing activities	1,106,678	-
Increase (decrease) in cash and cash equivalents	3,885,580	(1,422,363)
Cash and cash equivalents at beginning of year	4,567,571	5,989,934
Cash and cash equivalents at end of year	<u>\$ 8,453,151</u>	<u>\$ 4,567,571</u>
Reconciliation to Statement of Financial Position:		
Cash and cash equivalents	\$ 6,376,313	\$ 2,601,295
Restricted cash	2,076,838	1,966,276
	<u>\$ 8,453,151</u>	<u>\$ 4,567,571</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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):

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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, 2013, 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 20, 2014, 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 \$49,500. 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, 2014

Note 3 - Investments

Investments at June 30, 2014 are summarized as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Marketable securities:		
U.S. Government obligations	\$ 3,149,047	\$ 3,149,047
Corporate debt obligations	100,878	100,878
Equity securities	1,841,140	1,841,140
Mutual funds	22,523,597	22,523,597
Alternate investments	-	-
Total marketable securities	<u>\$ 27,614,662</u>	<u>\$ 27,614,662</u>

The following schedule summarized net investment income and its classification in the Statement of Activities for the year ended June 30, 2014:

	Unrestricted Net Assets
Interest and dividends	\$ 363,304
Realized and unrealized gains on investments	3,513,752
	<u>\$ 3,877,056</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees amounted \$111,864 and have been netted against investment revenues in the accompanying Statement of Activities for the year ended June 30, 2014.

Oklahoma Educational Television Authority Foundation, Inc
Notes to Financial Statements
June 30, 2014

Note 4 - Fair Value Measurements

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)
June 30, 2014				
Common and preferred stocks:				
Consumer discretionary	\$ 301,762	\$ 301,762	\$ -	\$ -
Consumer staples	176,444	176,444	-	-
Energy	246,832	246,832	-	-
Financials	221,448	221,448	-	-
Healthcare	189,481	189,481	-	-
Industrials	245,238	245,238	-	-
Information technology	341,912	341,912	-	-
Other Funds	118,023	118,023	-	-
Mutual funds				
International Large Blend	1,264,621	1,264,621	-	-
International Large Growth	745,875	745,875	-	-
International Small/Mid Grwth	823,555	823,555	-	-
Small Cap	1,810,592	1,810,592	-	-
Mid Cap	2,487,038	2,487,038	-	-
Large blend	1,861,388	1,861,388	-	-
Large Cap Value	1,919,961	1,919,961	-	-
Index Fund	543,099	543,099	-	-
Small Growth	297,252	297,252	-	-
Mid Cap Growth	624,311	624,311	-	-
Large Growth	2,195,206	2,195,206	-	-
Fixed income	3,024,196	3,024,196	-	-
Broadly Diversified Funds	3,810,619	3,810,619	-	-
US Preferred Stock	463,355	463,355	-	-
Other Funds	412,529	412,529	-	-
Partnerships	240,000	-	-	240,000
US treasury securities				
Short (a)	499,455	499,455	-	-
Intermediate (a)	5,732	-	5,732	-
Long (a)	2,643,860	2,303,287	340,573	-
Corporate debt securites				
Intermediate (a)	100,878	-	100,878	-
	<u>\$ 27,614,662</u>	<u>\$ 26,927,479</u>	<u>\$ 447,183</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, 2013	\$ 240,000
Issuances, settlements, (net)	-
June 30, 2014	<u>\$ 240,000</u>

Note 5 - Fixed Assets

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

	2014	2013
Transportation equipment	\$ 99,385	\$ 100,016
Furniture, computers and equipment	469,149	455,462
Buildings and improvements	<u>5,240,293</u>	<u>4,567,959</u>
	5,808,827	5,123,437
Less accumulated depreciation	<u>(1,940,844)</u>	<u>(1,807,732)</u>
	<u>\$ 3,867,983</u>	<u>\$ 3,315,705</u>

Note 6 -Related Party Transactions

The Foundation donated \$1,942,642 and \$2,159,125 to OETA in fiscal year 2014 and 2013, 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 lease agreements for five translator sites with various terms expiring through 2022. One of the sites is a month to month lease. The Foundation made all payments due under the leases, totaling \$27,004 and \$21,697 for 2014 and 2013, 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- Notes Payable

The Foundation has a 3% note payable to Bank of Oklahoma with a balance due of \$1,106,678 as of June 30, 2014, payable in monthly installments of \$21,584 through January 2019. The note payable is secured by the investments held in the Facilities Endowment fund maintained at Bank of Oklahoma. The fair market value and carrying amount of these investments as of June 30, 2014 was approximately \$12,380,000.

The scheduled principal maturities for the next five year are as follows:

For years ending June 30:

2015	\$ 228,510
2016	215,625
2017	262,696
2018	250,312
2019	<u>149,535</u>
	<u>\$1,106,678</u>

The proceeds of the note are being used to relocate the OETA Oklahoma City broadcast antenna, due to the dismantling of the tower where the current antenna is located.

Note 9 – Accounts Payable-Affiliate

The Foundation has a remaining balance of \$107,881 as of June 30, 2014 on its other commitments to OETA. These commitments are reflected in the statement of financial position as accounts payable-affiliate.

Note 10 - Income Taxes

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 2011, 2012, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

Note 11 - Board Designated Endowment Funds

As of June 30, 2014 and 2013, the Board of Trustees had designated \$31,343,561 and \$28,903,506 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 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.

Note 11 - Board Designated Endowment Funds (continued)

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, 2014:

	Programming	Facilities	Facilities Endowment Grant	Legacy for Excellence	Total
Beginning of the year	\$ 14,887,841	\$ 11,374,775	\$ 1,183,857	\$ 1,457,033	\$ 28,903,506
Investment income	253,803	206,051	15	22,972	482,841
Investment fees	(56,945)	(43,231)	(5,132)	(6,556)	(111,864)
Other income	-	-	-	-	-
Contributions	-	-	542,657	30,716	573,373
Realized and unrealized gains (losses) on investments	1,922,293	1,386,151	-	205,308	3,513,752
Amounts appropriated for expenditure	(565,587)	(542,657)	(841,398)	(68,405)	(2,018,047)
	<u>\$ 16,441,405</u>	<u>\$ 12,381,089</u>	<u>\$ 879,999</u>	<u>\$ 1,641,068</u>	<u>\$ 31,343,561</u>

Note 12 – Temporarily Restricted Net Assets

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

	2014	2013
OETA subsidy-Community Services Grant	\$ 2,076,838	\$ 1,966,276
	<u>\$ 2,076,838</u>	<u>\$ 1,966,276</u>

Note 13 – 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 \$1,420,417 and \$1,865,586 for June 30, 2014 and 2013, respectively. Grant revenues reported in the Statement of Activities for this grant were \$1,530,979 and \$1,507,612 for June 30, 2014 and 2013, 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, 2014 and 2013 was \$2,076,838 and \$1,966,276, respectively.

Note 14- Prior Period Adjustments

In 1985, the Foundation’s board voted to establish and fund an annuity for the benefit of a Foundation executive. This was accomplished through a single premium annuity payment.

Upon retirement of the beneficiary, it was discovered that the Foundation had previously established a deferred compensation plan. The Foundation was the owner of the annuity policy not the individual employee. These investments should have been carried on the Foundation’s Statement of Financial Position along with a corresponding liability. There is no effect on net assets.

The comparative totals for 2013 have been adjusted to reflect an increase in investments and a deferred compensation payable of \$123,402.

Note 15 – Contingencies

OETA was granted authority during the 2014 Legislative session to continue operating as a state agency, through June 30, 2020. The legislature is requiring OETA to submit no later than January 15, 2015 a plan demonstrating how OETA could operate without state appropriations over a three-year, five-year or seven-year period.



**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"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2014 and 2013 have issued our report thereon dated October 20, 2014.

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 weak, 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 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 20, 2014