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FINANCIAL REPORT
JUNE 30, 2011



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oklahoma Educational Television Authority
Oklahoma City, Oklahoma

We have audited the accompanying statements of net assets of Oklahoma Educational Television Authority (the "Authority"), a component unit of the State of Oklahoma, as of June 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have also audited the financial statements of the separately presented component unit, Oklahoma Educational Television Authority Foundation, Inc., (the "Foundation") as of and for the years ended June 30, 2011 and 2010, which, along with the Authority's financial statements, collectively comprise the basic financial statements of the Oklahoma Educational Television Authority. The financial statements of the Authority referred to above do not include the financial information of its component unit, the Foundation. Rather, a complete set of financial statements of the Foundation are presented separately.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oklahoma Educational Television Authority and its separately presented component unit, Oklahoma Educational Television Authority Foundation, Inc., as of June 30, 2011 and 2010, and the respective changes in net assets and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Oklahoma City, Oklahoma
October 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Oklahoma Educational Television Authority's (The Oklahoma Network) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2011.

The Oklahoma Educational Television Authority was created to "make educational television services available to all Oklahoma citizens on a coordinated statewide basis". (O.S. Title 74, section 23-101)

The operating costs of the Authority are primarily funded through legislative appropriation and a small amount of self-generated funds, while 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 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.

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 FY11 and FY10 include the following:

	FY11	FY10
Current assets	\$ 1,079,401	\$ 770,767
Noncurrent assets	<u>17,239,479</u>	<u>18,588,018</u>
Total Assets	\$18,318,880	\$ 19,358,785
Current liabilities	\$ 406,273	\$ 335,336
Noncurrent liabilities	<u>151,513</u>	<u>134,634</u>
Total Liabilities	\$ 557,786	\$ 469,970
Invested in Capital assets	\$17,239,479	\$ 17,459,749
Other restricted assets	-	1,128,269
Unrestricted	<u>521,615</u>	<u>300,797</u>
Total Net Assets	\$17,761,094	\$ 18,888,815
Total Operating Revenues	\$ 9,038,411	\$ 8,805,476
Expenses:		
Programming/Production	\$ 2,413,408	\$ 2,663,399
Broadcasting/Technical	4,150,672	4,407,632
Solicitation & Membership	112,688	154,500
Administration	665,775	877,162
Depreciation	<u>2,823,589</u>	<u>2,746,337</u>
Total Expenses	\$10,166,332	\$10,849,030
Income	\$ (1,127,721)	\$ (2,043,554)
Change in Net Assets	\$ (1,127,721)	\$ (2,043,554)
Ending Net Assets	\$ 17,761,094	\$18,888,815

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.

Operations are almost entirely dependent upon State General Revenue appropriations, while program acquisition relies solely on OETA Foundation funding. FY10 generated an operating income of \$(2,043,554) which is largely the result of the state removing appropriations of \$3,200,000 for capital improvements. The Foundation also provided a subsidy of \$2,601,645. FY11 OETA had an operating income of \$(1,127,721). The OETA Foundation also provided a subsidy of \$2,618,275.

During FY11 OETA received an additional appropriation reduction of \$268,108 or 6%. In FY10 and FY11 OETA had total budget reductions of \$994,023 (19.1%). The reductions were absorbed by savings in electrical cost, tower rental fees associated with digital conversion, not filling vacated positions during the year and also cutting back on productions.

In the case of OETA, operating revenues are comprised of studio and tower rentals, tape dubbing charges and royalties and production reimbursements. This list also includes state appropriations and OETA Foundation programming and capital equipment acquisitions support. State appropriations, Federal grants, In-kind and Foundation support account for approximately 99.3% of total revenues received.

Two important sources of financial support, not directly attributable to state appropriations and OETA Foundation programming expenditures are the other In-kind Contributions and any Foundation Subsidy. Both of these revenue sources are vital to the on-going operations of the network.

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

SIGNIFICANT CHANGES IN CAPITAL ASSETS

Each year as sections of the digital conversion were completed OETA's capital assets expanded. Funding for portions of this project was made available through the successful application and receipt of National Telecommunications and Information Administration/Public Telecommunications Facilities and the United States Department of Agriculture Program grant awards along with matching funds from the OETA Foundation and State of Oklahoma Appropriations. With the completion of all digital conversion projects OETA added in excess of \$29,000,000 in capital assets. More information on total capital assets can be found in the audit notes.

A vigorous effort is made annually to reconcile the asset management system within the statewide network. A physical inventory is done annually and outdated or unusable assets are transferred to the Department of Central Services during the year for proper disposal. Unfortunately, due to limited operating funds available during each year, assets are only maintained and/or replaced on an emergency basis.

SIGNIFICANT MATTERS AFFECTING FUTURE FINANCIAL OPERATIONS

Digital Television

The first section of the digital conversion was substantially accomplished with the construction of four new digital television broadcast facilities at a cost of over \$9,200,000.

OETA has completed the fiber optic interconnection of all four transmission facilities. This first section of the conversion also includes a portion of the "master control" equipment necessary to control the four sites remotely from the Oklahoma City headquarters of OETA. OETA spent \$3,582,303 on the "master control" conversion. OETA completed the digital conversion by the end of FY11 at a total cost in excess of \$29,032,772.

In FY08 the Oklahoma Legislature appropriated an additional \$3,200,000 in operating funds to OETA. This appropriation will be matched by non-state funds to continue with the conversion to digital. The funds for FY08 were used for ENG High Definition cameras, editing equipment and the Studio Control Room conversion along with Oklahoma City and Tulsa transmitter and portions of the translator replacements around the state. OETA also received a grant for \$1,000,000 from the USDA to assist in the cost of replacing translators at Idabel, Frederick and Guymon. The cost of these replacements was \$655,640. OETA also received a grant from NTIA for the Studio Control Room conversion in the amount of \$665,812. The total projects for FY08 costs \$4,145,776. In FY09 OETA applied for and was awarded an additional grant from the USDA in the amount of \$645,425 to help with the cost of replacing translators at Hugo, Durant and Alva. The cost of replacing these three transmitter sites cost \$785,060. The USDA allowed OETA to use the additional cost of these three sites against the savings in the FY08 grant.

Since the original FY08 additional appropriation of \$3,200,000 was also added to OETA's base appropriation in FY09 these funds were used to continue the full conversion to digital transmission. OETA used these funds for items such as completion of the translator replacement, network monitoring, and test equipment, satellite send/receive system, State Capitol control room upgrade. During FY10 OETA completed the remaining work on the translator sites and the satellite uplink/downlink for a total fiscal year expenditure of \$1,903,115.

In FY11 OETA received an NTIA grant for Tulsa studio equipment in the amount of \$604,187 which was matched by the Foundation. During FY11 OETA spent a total of \$3,550,686 on the completion of all projects.

OETA made the switch to total digital broadcasting on its four main transmitters on February 17, 2009.

In FY10 and FY11 State Appropriations were reduced by \$994,023 (19.1%). FY12 began with an additional \$378,032 (9%) appropriation reduction bringing the total reductions for FY10 through FY12 to \$1,372,055 (26.4%).

TULSA RELOCATION

Following a four-year effort, OETA's Tulsa studio and offices have now been relocated to the OSU-Tulsa campus. The facility at 811 North Sheridan was shut down and the new studio and offices were operational by May 1, 2011. The new facility and the Oklahoma City headquarters are linked via for voice, video and data communication.

Funding for the new 10,000 square-foot studio and offices was provided by the OETA Foundation as a match to state appropriations for OETA's system-wide digital conversion.

Total cost for the construction was \$2,236,627. An additional \$1,314,059 has been invested in new television production equipment, studio lighting and furniture. Part of the production equipment was purchased through a 50-50 grant from the National Telecommunications and Information Administration of the U.S. Department of Commerce. The new facility is located at 535 North Greenwood Avenue on a 99-year lease from OSU-Tulsa.

With the completion of the translator replacements and studio in Tulsa, the long-awaited "digital conversion" was ultimately achieved in the spring of 2011.

FREDERICK TOWER RELOCATION

OETA had a unique opportunity to substitute an additional low-power transmitter site. In effect, the new site in Grandfield, Oklahoma, will cover the same area as the existing Frederick, Oklahoma, site much more efficiently and also several hundred square miles of coverage in the southern part of Oklahoma and northern Texas. An existing tower, transmission line and antenna allow OETA to gain several hundred feet in altitude and also increase the power and the reach of the OETA signal.

Negotiations are underway to transfer the existing tower in Frederick to the Oklahoma Highway Department for use in their two-way communications network. The transfer would include reimbursement to OETA for the Frederick building and tower. This reimbursement will help defray the moving cost of the transmission site from Frederick to Grandfield.

OPERATING EXPENSES EXPANDING

During the last three fiscal years (FY10-FY12) OETA received budget reductions totaling \$1,372,055 (26%) below the FY09 appropriations. As stated in the financial statements and notes, there is much dependency by OETA on the OETA Foundation and other private donors. OETA depends on these sources to fund purchasing of programs and continuing capital endeavors, and now that OETA received operations reductions over the last few years totaling more than \$1,300,000 this need will even become more apparent year to year relying on these sources of funds for maintenance, replacement of digital equipment and even personnel cost if the state funds are not restored.

The OETA Foundation has continued to receive generous donations from individual viewers, foundations and corporations on behalf of OETA. These supporters are especially pleased to contribute because of the partnership between the public and private sectors. Obviously, changes in the local economy, investment returns and/or state funding can disrupt the current balance of income.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2011 and 2010

Assets	2011	2010
Current Assets:		
Cash	\$ 355,933	\$ 575,786
Accounts Receivable	723,468	194,981
Total Current Assets	1,079,401	770,767
Noncurrent Assets:		
Capital Assets		
Construction in progress	147,990	1,128,269
Land	26,272	26,272
Buildings and Improvements	5,421,311	5,437,600
Broadcast Equipment	34,411,870	32,528,102
Transportation Equipment	108,853	108,853
Office Furniture and Equipment	762,887	723,973
	40,879,183	39,953,069
Less Accumulated Depreciation	(23,639,704)	(21,365,051)
Total Capital Assets	17,239,479	18,588,018
Total Noncurrent Assets	17,239,479	18,588,018
Total Assets	18,318,880	19,358,785
Liabilities		
Current Liabilities:		
Accounts Payable	231,288	162,012
Accrued Payroll	8,492	5,186
Compensated Absences, current portion	166,493	168,138
Total Current Liabilities	406,273	335,336
Noncurrent Liabilities:		
Compensated Absences	151,513	134,634
Total Liabilities	557,786	469,970
Net Assets		
Invested in Capital Assets	17,239,479	18,588,018
Restricted for DTV Conversion	-	-
Unrestricted	521,615	300,797
Total Net Assets	\$ 17,761,094	\$ 18,888,815

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Revenues:		
State Appropriations	\$ 4,200,360	\$ 4,468,476
Subsidy from OETA Foundation	2,618,275	2,606,644
In-Kind Contributions	1,305,589	1,311,207
Federal Grants	675,753	-
Telecasting, Production and Other Income	238,434	419,149
Total Operating Revenues	9,038,411	8,805,476
Operating Expenses:		
Programming and Production	2,413,408	2,663,399
Broadcasting and Technical	4,150,672	4,407,632
Viewer Support	112,688	154,500
Depreciation	2,823,589	2,746,337
Administration	665,775	877,162
Total Operating Expenses	10,166,132	10,849,030
Operating Income (Loss)	(1,127,721)	(2,043,554)
Changes in Net Assets	(1,127,721)	(2,043,554)
Net Assets, Beginning of Year	18,888,815	20,932,369
Net Assets, End of Year	\$ 17,761,094	\$ 18,888,815

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
State Appropriations	\$ 4,200,360	\$ 4,468,476
Subsidy from OETAF	981,625	1,372,076
Federal Grants	770,442	953,495
Receipts from Users and Donors	238,434	575,333
Payments to Vendors	(1,178,097)	(1,366,172)
Payments to Employees	(3,902,907)	(4,332,387)
Net Cash Flows from Operating Activities	1,109,857	1,670,821
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of Capital Assets	(1,329,709)	(2,509,080)
Net Cash Flows from Capital Financing Activities	(1,329,709)	(2,509,080)
Net Increase (Decrease) in Cash	(219,852)	(838,259)
Cash, Beginning of Year	575,785	1,414,044
Cash, End of Year	\$ 355,933	\$ 575,785
RECONCILIATION OF OPERATING INCOME TO NET		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (1,127,721)	\$ (2,043,554)
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities		
Non-cash transactions		
Depreciation	2,823,589	2,746,337
Cost Basis of Asset Disposal	-	220,721
In-kind contributions	1,305,589	1,311,207
Subsidy	868,133	1,161,343
Operating expenses accrued with noncash revenue	(2,239,555)	-
Changes in Operating Assets and Liabilities		
Accounts Receivable	94,689	953,495
Accounts Receivable from OETA Foundation	(623,176)	(69,536)
Accounts Payable	(10,232)	(2,604,280)
Accrued Payroll	3,306	(4,965)
Compensated Absences	15,235	53
Total Adjustments	2,237,578	3,714,375
Net Cash Flows from Operating Activities	\$ 1,109,857	\$ 1,670,821

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011

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, 2011 and 2010, the carrying amount of OETA's deposit with the State Treasurer was \$355,933 and \$575,786, respectively. By State Statute, the State Treasurer is required to ensure that all State funds are either insured by the Federal Deposit Insurance Corporation, collateralized by securities held by the Federal Reserve Bank, or invested in U.S. government obligations.

OETA's deposits with the State Treasurer are pooled with the funds of other State agencies, and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine in the State's name.

Receivables and Payables

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

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Prepaid Expenses

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

Capital Assets

Capital assets include land, buildings, broadcast equipment, vehicles, and office furniture and equipment. Capital assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life of at least three years. Such assets are recorded at historical cost if purchases or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Depreciation of capital assets is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are as follows:

Buildings and Improvements	5-40 years
Broadcast Equipment	5-15 years
Transportation Equipment	3-5 years
Office Furniture and Equipment	3-10 years

Compensated Absences

It is OETA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The maximum vacation that can be accumulated is 480 hours. There is no liability for unpaid accumulated sick leave since OETA does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred.

In-Kind Contributions

In-Kind contributions are recorded as revenue and expenses. The contributions consist primarily of the use of land and facilities of commercial televisions and professional services. These donations are recorded at estimated fair value. The donation is considered operating revenue while the expense is operational.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenues, expenses, and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Net assets

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

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – are all other net assets that do not meet the above definitions.

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

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 2. Capital Assets

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

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

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 2. Capital Assets (continued)

OETA's capital assets activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Deletions	Transfers/ Adjustments	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 26,272	\$ -	\$ -	\$ -	\$ 26,272
Construction in progress	2,839,772	-	-	(1,711,503)	1,128,269
Total Capital Assets Not Being Depreciated	2,866,044	-	-	(1,711,503)	1,154,541
Capital Assets, Being Depreciated:					
Building and Improvements	5,441,120	-	(260,088)	256,568	5,437,600
Broadcast Equipment	32,124,613	27,098	(1,078,543)	1,454,935	32,528,103
Transportation Equipment	108,985	-	(133)	-	108,852
Office Furniture and Equip.	909,298	9,432	(194,759)	-	723,971
Total Capital Assets, Being Depreciated	38,584,016	36,530	(1,533,523)	1,711,503	38,798,526
Less Accumulated Depreciation for:					
Building and Improvements	(1,654,785)	(231,932)	46,850	-	(1,839,867)
Broadcast Equipment	(17,497,276)	(2,409,604)	1,074,937	-	(18,831,943)
Transportation Equipment	(33,315)	(19,981)	133	-	(53,163)
Office Furniture and Equip.	(746,139)	(84,820)	190,883	-	(640,076)
Total Accumulated Depreciation	(19,931,515)	(2,746,337)	1,312,803	-	(21,365,049)
Total Capital Assets, Being Depreciated, Net	18,652,501	(2,709,807)	(220,720)	1,711,503	17,433,477
Total Capital Assets	\$ 21,518,545	\$ (2,709,807)	\$ (220,720)	\$ -	\$ 18,588,018

Included in the above totals is approximately \$26,778,000 and \$25,482,000 for June 30, 2011 and 2010, respectively, 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, 2011

Note 3. Rental Expense

Rental expense is as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 89,736	\$ 89,736
Buildings & Equipment	<u>1,618,803</u>	<u>1,722,434</u>
	\$ 1,708,539	\$ 1,812,170

The above rental expense was funded primarily by in-kind contributions of \$1,277,765. Rental expense also includes \$0 and \$150,850 for 2011 and 2010, respectively, related to a lease agreement with Oklahoma State University for digital satellite transponder services. The lease provides for monthly payments of \$27,170 through April 30, 2009. In May 2009, it was agreed that OETA could go on a month to month rental at a cost of \$30,170 per month. November 2009 is expected to be the final payment on this agreement with FY10 payments totaling \$150,850.

OETA had entered into a lease agreement for tower space for Channel 32 with American Tower Corporation. This tower space is needed for OETA's digital television ("DTV") transmission facility in Oklahoma City. The initial agreement began September 1, 2001 and expired June 30, 2002. There are nineteen one-year renewal periods beginning July 1, 2002. Beginning July 1, 2006, monthly payments increased based on the Consumer Price Index, with a minimum increase of 5% annually. The current monthly payment, which began July 1, 2008, is \$10,413. This contract was terminated August 1, 2009 when all equipment was removed from the facility. Rent expense was \$0 and \$31,759 for year ended June 30, 2011 and 2010, respectively.

OETA has entered into a lease agreement for satellite transponder services with the Public Broadcasting System (PBS) beginning April 1, 2009. This lease agreement replaces the one with Oklahoma State University but until the new satellite uplink/downlink system is completed in November 2009 both systems are required. The current monthly payment which began April 1, 2009 is \$34,925. Rent expense was \$419,100 and \$419,100 for year ended June 30, 2011 and 2010, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2012	\$ 419,100
2013	419,100
2014	419,100
2015	<u>314,325</u>
	<u>\$ 1,571,625</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 3. Rental Expense, (Continued):

Commencing July 1, 2002 OETA has entered into a lease agreement for five translator sites. The lease is for ten-year periods. Monthly payments increased during the fiscal year 2009 to \$3,031. The payment is scheduled to increase 5% annually for the remainder of the lease term. OETA Foundation made all payments due under the lease, a total of \$40,103 and \$38,193 for June 30, 2011 and 2010, respectively. These amounts are reflected in the subsidy paid from OETA Foundation. Future minimum lease payments due under this lease are as follows:

2012	\$	<u>21,053</u>
	\$	<u>21,053</u>

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. The lessor has not elected to charge this increase thus far, but the increase is included in the schedule of future minimum payments. Rent expense totaled \$50,400 and \$48,000 for fiscal year 2011 and 2010, respectively. Future minimum lease payments, assuming renewal for the duration of the agreement are as follows:

2012	\$	52,920
2013		55,566
2014		58,344
2015		61,262
2016		64,325
Thereafter		<u>504,662</u>
	\$	<u>797,079</u>

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

2012	\$	12,000
2013		12,000
2014		12,000
2015		12,000
2016		12,000
Thereafter		<u>1,115,000</u>
	\$	<u>1,175,000</u>

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 4. Noncurrent Liabilities

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

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

Noncurrent liabilities at June 30, 2010 and changes for the fiscal year then ended are as follows:

	Beginning			Ending	Amounts
	Balance	Additions	Reductions	Balance	Due Within
	<hr/>				One Year
Compensated Absences	\$ 302,718	\$ 198,125	\$ (198,072)	\$ 302,771	\$ 168,138

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, 2011 and 2010 was 15.5% and 15.5%, respectively, 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, 2011 and 2010, were approximately \$402,487 and \$451,642, respectively.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 6. Risk Management

OETA, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the state insurance fund, public risk pools. OETA pays an annual premium to the pools for its torts, property and workers compensation insurance coverage. The Oklahoma Risk Management Pool's governing agreements specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carrier for claims in excess of specified stop-loss amounts.

Note 7. Digital Television Conversion

In the early 1990s, the Federal Communications Commission (FCC) set in motion a mandate for all U.S. television broadcasters to convert from analog to digital transmission technology. OETA completed conversion for its full power transmitters ahead of the federal deadline of June 12, 2009. Also, the 14 translators across the state were converted to digital broadcasting by December 2009, which is also ahead of the deadline set for low-power television transmitters. All production capability at the Oklahoma City operation was converted to digital during 2009 and the conversion of the Tulsa studio was completed subsequent to June 30, 2011. The total cost of the digital conversion through June 30, 2011, was \$26,778,759. By June 30, 2010, the conversion had cost \$25,482,086. All of these funds have been supplied through grants, state appropriations and support from the OETA Foundation.

Note 8. Grants from Corporation for Public Broadcasting

OETA receives several grants from the Corporation for Public Broadcasting. These grants, including the Community Service Grant ("CSG"), are received by the OETA Foundation that has been designated as the alternate payee by OETA. As the alternate payee, the Foundation receives the funds and disburses them at the discretion of OETA. The amount that OETA has authorized for disbursements on this grant is included in as revenue labeled "Subsidy from OETA Foundation" and in the appropriate expense classification on the Statements of Revenues, Expenses and Changes in Net Assets. The cash from the grant that has been received, but not yet disbursed, is recognized on the Foundation's Balance Sheets as restricted cash held on-behalf of OETA. This cash has not been recognized on OETA's Statements of Net Assets. The amount of revenue and expenses recognized related to the CSG for June 30, 2011 and 2010 were \$1,090,108 and \$1,229,569, respectively. The restricted cash reported on the Foundation's Balance Sheets held on-behalf of OETA for June 30, 2011 and 2010 were \$2,226,739 and \$1,767,241, respectively.



Alan Behrens, CPA
Lonnie Heim, CPA
Marty Chisum, CPA, CFE

Natalie Heim Barnes, CPA

**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**

Board of Directors
Oklahoma Educational Television Authority
Oklahoma City, Oklahoma

We have audited the financial statements of Oklahoma Educational Television Authority (the "Authority"), component unit of the State of Oklahoma, as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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

HBC CPAs & Advisors

Oklahoma City, Oklahoma
October 26, 2011



Alan Behrens, CPA
Lonnie Heim, CPA
Marty Chisum, CPA, CFE

Natalie Heim Barnes, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Oklahoma Educational Television Authority
Oklahoma City, Oklahoma

Compliance

We have audited the Oklahoma Educational Television Authority's (the "Authority"), component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, Oklahoma Educational Television Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Oklahoma Educational Television Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal

program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

HBC CPAs & Advisors

Oklahoma City, Oklahoma
October 26, 2011

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2011

No matters were reportable.

Exhibit I

Oklahoma Educational Television Authority Foundation, Inc.

June 30, 2011 Financial Statements



FINANCIAL STATEMENTS

JUNE 30, 2011



Alan Behrens, CPA
Lonnie Heim, CPA
Marty Chisum, CPA, CFE

Natalie Heim Barnes, CPA

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

We have audited the accompanying statement of financial position of Oklahoma Educational Television Authority Foundation, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from Oklahoma Educational Television Authority Foundation, Inc.'s 2010 financial statements and in our report, dated October 25, 2010; we expressed our opinion that these financial statements were fairly presented in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

HBC CPAs & Advisors

Oklahoma City, Oklahoma
October 25, 2011

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011 (WITH COMPARATIVE TOTALS FOR 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 5,684,800	\$ 6,430,876
Restricted cash	2,226,739	1,767,241
Pledges receivable	93,792	95,855
Other receivables	65,792	115,677
Accrued investment income	59,445	66,821
Prepaid expenses	46,446	45,076
Prepaid program costs	70,166	27,895
Investments	24,890,865	22,782,647
Fixed assets (net)	<u>3,572,628</u>	<u>2,807,449</u>
Total Assets	<u>\$ 36,710,673</u>	<u>\$ 34,139,537</u>
LIABILITIES		
Accounts payable	\$ 32,758	\$ 279,762
Accrued salaries and vacation	37,182	21,272
Accounts payable - affiliate	722,655	267,713
Total Liabilities	<u>792,595</u>	<u>568,747</u>
NET ASSETS		
Unrestricted:		
Programming services and operations	981,721	1,163,955
Net investment in fixed assets	3,572,628	2,807,449
Board designated endowments	<u>29,136,990</u>	<u>27,832,145</u>
	33,691,339	31,803,549
Temporarily restricted	<u>2,226,739</u>	<u>1,767,241</u>
Total Net Assets	<u>35,918,078</u>	<u>33,570,790</u>
Total Liabilities and Net Assets	<u>\$ 36,710,673</u>	<u>\$ 34,139,537</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2011
 (WITH COMPARATIVE TOTALS FOR 2010)

	Unrestricted	Temporarily Restricted	Total 2011	2010
Support and revenues:				
Contributions	\$ 2,233,472	\$ -	\$ 2,233,472	\$ 2,089,856
Grants	-	1,708,198	1,708,198	1,555,102
Special projects	53,281	-	53,281	105,813
Interest and dividends	481,687	-	481,687	549,804
Realized and unrealized gain (loss) on investments	3,359,982	-	3,359,982	1,376,494
Underwriting revenues	240,032	-	240,032	267,632
Other	88,166	-	88,166	105,702
Net assets released from restrictions and transfers	1,248,700	(1,248,700)	-	-
Total revenues, gains (losses) and other support	7,705,320	459,498	8,164,818	6,050,403
Program expense:				
Subsidy to OETA	2,618,275	-	2,618,275	2,606,644
Programming and production	1,788,794	-	1,788,794	1,934,938
Engineering	874	-	874	29,400
Program information	117,216	-	117,216	122,726
Special projects	28,444	-	28,444	109,848
Total program expense	4,553,603	-	4,553,603	4,803,556
Supporting services:				
Management and general	681,019	-	681,019	635,898
Fundraising:				-
Solicitation	483,322	-	483,322	494,365
Membership services	99,586	-	99,586	101,155
Total fundraising expense	582,908	-	582,908	595,520
Total supporting services	1,263,927	-	1,263,927	1,231,418
Total expenses	5,817,530	-	5,817,530	6,034,974
Net change in net assets	1,887,790	459,498	2,347,288	15,429
Net Assets at Beginning of Year	31,803,549	1,767,241	33,570,790	33,555,361
Net Assets at End of Year	\$ 33,691,339	\$ 2,226,739	\$ 35,918,078	\$ 33,570,790

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011 (WITH COMPARATIVE TOTALS FOR 2010)

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,347,288	\$ 15,429
Adjustments to reconcile change in net assets to net cash used in operations		
Depreciation	110,914	126,075
Net realized and unrealized (gain) loss on investments and fixed assets	(3,359,982)	(1,376,494)
(Increase) decrease in pledges receivable	2,065	66,817
(Increase) decrease in other receivables	49,885	(41,095)
(Increase) decrease in accrued investment income	7,376	(7,546)
(Increase) decrease in prepaid expenses	(1,370)	(321)
(Increase) decrease in prepaid program costs	(42,271)	182,062
Increase (decrease) in accounts payable	(239,510)	181,519
Increase (decrease) in accounts payable affiliate	18,901	175,851
Increase (decrease) in accrued salaries and vacation	444,941	(7,149)
Net cash provided by (used in operating activities)	<u>(661,763)</u>	<u>(684,852)</u>
INVESTING ACTIVITIES:		
Proceeds from disposal of securities	34,674,474	36,274,310
Purchase of fixed assets	(889,184)	(1,377,746)
Proceeds from sale of fixed assets	-	5,244
Purchase of investments	<u>(33,410,105)</u>	<u>(39,408,399)</u>
Net cash provided by (used in) investing activities	<u>375,185</u>	<u>(4,506,591)</u>
Increase (decrease) in cash and cash equivalents	<u>(286,578)</u>	<u>(5,191,443)</u>
Cash and cash equivalents at beginning of year	<u>8,198,117</u>	<u>13,389,560</u>
Cash and cash equivalents at end of year	<u>\$ 7,911,539</u>	<u>\$ 8,198,117</u>
Reconciliation to Statement of Financial Position:		
Cash and cash equivalents	\$ 5,684,800	\$ 6,430,876
Restricted cash	2,226,739	1,767,241
	<u>\$ 7,911,539</u>	<u>\$ 8,198,117</u>

See accompanying notes.

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2011 (WITH COMPARATIVE TOTALS FOR 2010)

	Program Services					Supporting Services					
	Subsidy to OETA	Programming and Production	Engineering	Program Information	Special Projects	Total	Administration and General	Fundraising: Solicitation	Fundraising: Member Services	Total	2010
Compensation and Related Expenses:											
Salaries	\$ -	\$ -	\$ -	\$ 29,000	\$ -	\$ 29,000	\$ 381,153	\$ 50,972	\$ 53,791	\$ 465,916	\$ 494,916
Contract Labor	-	-	-	9,192	-	9,192	-	11,820	1,420	11,820	5,214
Talent	-	-	-	-	15,741	43,241	108,973	35,973	-	144,946	11,820
Employee Benefits:											
Professional Services	-	-	-	10,401	-	10,401	95,647	59,645	16,674	171,966	165,594
Group Insurance	-	-	-	2,750	-	2,750	31,156	4,237	2,001	37,394	41,827
Employee Deferred Compensation	-	-	-	-	-	-	1,066	339	-	1,405	1,170
Management Assistance Program	-	-	-	2,286	-	2,286	27,686	3,887	4,311	35,884	36,808
Payroll Taxes	-	-	-	-	-	-	2,051	-	15,143	17,194	13,934
Bank Service Charges	-	-	-	-	-	-	1,724	-	-	1,724	404
Dues and Fees	-	-	-	-	-	-	512	-	-	512	238
Travel, Lodging, Public Relations	-	-	-	-	-	-	(8)	-	-	(8)	(63)
Freight	-	-	-	-	-	-	-	-	-	-	8,988
Telephone	-	-	-	-	-	-	8,272	-	-	8,272	6,973
Vending	-	-	-	-	-	-	440	33,797	3,240	37,477	60,435
Postage	-	-	-	29,880	7,256	37,136	-	-	-	-	74,613
Equipment Repairs & Maintenance	-	-	-	-	-	-	-	-	-	-	-
Auto Expense & Maintenance	-	-	-	-	109	109	3,290	-	-	3,290	3,389
Insurance	-	-	-	-	-	-	636	-	-	636	1,438
Printing	-	-	-	29,995	1,811	31,806	-	672	-	636	9,105
Promotional	-	-	-	66	1,985	2,051	523	222,228	-	224,802	32,478
Advertising	-	49,639	-	49,639	1,110	49,639	-	-	-	49,639	36,734
Office Supplies	-	57	-	-	-	57	336	-	-	336	237,904
Set Construction	-	-	-	-	-	-	-	-	-	-	75,489
Facility Usage Fees	-	-	-	-	-	-	-	45,060	-	45,060	1,503
Utilities	-	-	-	-	-	-	6,810	-	-	6,810	151
Unallocated payment to affiliate	2,618,275	-	-	-	-	-	-	-	-	-	52,477
Program Fees	-	1,654,097	-	3,647	-	1,654,097	-	-	-	1,654,097	4,773
Depreciation	-	57,501	874	874	432	1,654,097	-	-	-	1,654,097	2,606,644
Total:	\$ 2,618,275	\$ 1,788,794	\$ 874	\$ 117,216	\$ 28,444	\$ 4,553,603	\$ 681,019	\$ 483,322	\$ 99,586	\$ 1,263,927	\$ 5,817,530
											\$ 6,034,974

OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

Certificates of deposit totaling \$100,000 and \$915,000 are included in the Statement of Financial Position as cash and cash equivalents as June 30, 2011 and 2010, respectively. The certificates bear interest ranging from 1.1% to 5.0% and have maturities ranging from one to eighteen months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Contributions and promises to give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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

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

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, 2010, from which the summarized information was derived. Certain reclassifications of prior year comparative totals have been made in order to conform to the current year presentation.

Date of management's review

Subsequent events were evaluated through October 25, 2011, 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 \$39,474. Unconditional promises to give are primarily from individuals located throughout the state of Oklahoma. Due to the short term nature of these pledges, carrying value approximates fair value.

Note 5 - Fixed Assets

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

	2011	2010
Construction in progress	\$ -	\$ 1,362,782
Transportation equipment	100,016	100,016
Furniture, computers and equipment	373,419	377,736
Buildings and improvements	<u>4,566,385</u>	<u>2,329,526</u>
	5,039,820	4,170,060
Less accumulated depreciation	<u>(1,467,192)</u>	<u>(1,362,611)</u>
	<u>\$ 3,572,628</u>	<u>\$ 2,807,449</u>

The new Tulsa facility construction has been completed the building, land and related assets in the approximate amount of \$2,235,000 may be transferred to the Oklahoma Educational Television Authority in the near term. The transfer is pending the approval of the board of trustees for each entity.

Note 6 -Related Party Transactions

The Foundation donated \$2,618,275 and \$2,606,644 to OETA in fiscal year 2011 and 2010, respectively, to subsidize various OETA projects and programs which has been reflected as expense in the accompanying financial statements.

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

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

Commencing July 1, 2002 OETA has entered into a lease agreement for five translator sites. The lease is for a ten-year period. Monthly payments increased to \$3,013 during fiscal year 2009. The payment is scheduled to increase 5% annually for the remainder of the lease term. The Foundation made all payments due under the lease, totaling \$40,103 and \$38,193 for 2011 and 2010, respectively. These amounts are reflected in the subsidy paid to OETA.

Note 6 -Related Party Transactions (Continued)

Future minimum lease payments due under this lease are as follows:

Year ending June 30,	
2012	21,053
	<u>\$ 21,053</u>

Note 7 - Retirement Plan

The Foundation maintained a nonqualified deferred compensation plan. The plan covered full-time employees of the Foundation. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. The maximum deferral includes the Foundation contribution, which ranged from 5% to 10% of compensation, depending upon the employee's years of service. The Foundation's contribution is structured as a year-end payroll bonus. This plan was frozen effective 12/31/2010, and no new contributions were made after that date. The Foundation's contribution under this plan for the year was \$19,909.

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 \$20,242 for the year.

Note 8 – Accounts Payable-Affiliate

The Foundation has entered into various agreements for the purchase of program rights which aggregate approximately \$24,973 at June 30, 2011. At year-end the Foundation has committed \$633,176 in matching funds to assist OETA with the Tulsa Studio and related projects. The Foundation has a remaining balance of \$64,506 as of June 30, 2011 on its other commitments to OETA. These commitments are reflected in the statement of financial position as accounts payable-affiliate.

Note 9 - Income Taxes

Uncertain Tax Positions

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

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

Note 10 - Board Designated Endowment Funds

As of June 30, 2011 and 2010, the Board of Trustees had designated \$29,136,990 and \$27,832,145 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.

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 its 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.

Note 10 - Board Designated Endowment Funds (Continued)

Composition of and changes in endowment net assets for the year ended June 30, 2011:

	Programming	Facilities	Facilities Endowment Grant	Legacy for Excellence	Total
Beginning of the year	\$ 13,398,724	\$ 10,148,077	\$ 3,093,400	\$ 1,191,944	\$ 27,832,145
Investment income	320,156	241,029	1,959	23,121	586,265
Investment fees	(49,413)	(40,209)	(9,869)	(5,720)	(105,211)
Other income	-	-	528,991	-	528,991
Contributions	-	-	-	60,788	60,788
Realized and unrealized gains (losses) on investments	1,648,393	1,483,758		228,002	3,360,153
Amounts appropriated for expenditure	(693,695)	(558,667)	(1,812,721)	(61,058)	(3,126,141)
	<u>\$ 14,624,165</u>	<u>\$ 11,273,988</u>	<u>\$ 1,801,760</u>	<u>\$ 1,437,077</u>	<u>\$ 29,136,990</u>

Note 11 – Temporarily Restricted Net Assets

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

	2011	2010
OETA subsidy-Community Services Grant	<u>\$ 2,226,739</u>	<u>\$ 1,767,241</u>
	<u>\$ 2,226,739</u>	<u>\$ 1,767,241</u>

Note 12 – Grant Revenues Corporation of Public Broadcasting

OETA has receives several grants from the Corporation for Public Broadcasting. These grants, including the Community Service Grant (“CSG”), are received by the Foundation that has been designated as the alternate payee by OETA. As the alternate payee, the Foundation receives the funds and disburses them at the discretion of OETA. The amount that OETA has authorized for disbursements on this grant is included as in expense “Subsidy to OETA” in the Statement of Activities. These disbursements totaled \$1,090,108 and \$1,229,569 for June 30, 2011 and 2010, respectively. Grant revenues reported in the Statement of Activities for June 30, 2011 and 2010 were \$1,549,606 and \$1,467,426. This grant accounted for 90% and 94% of total grant revenues for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 was \$2,226,739 and \$1,767,241, respectively.