

**UNIVERSITY OF OKLAHOMA  
KGOU-FM RADIO STATION**

**June 30, 2012**

Audited Financial Statements and Report  
Required by *Governmental Auditing Standards*

UNIVERSITY OF OKLAHOMA  
KGOU-FM RADIO STATION

June 30, 2012

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Independent Auditors' Report

Board of Regents of the University of Oklahoma  
KGOU-FM Radio Station  
Norman, Oklahoma

We have audited the accompanying statement of net assets of KGOU-FM Radio Station (the "Station"), a public telecommunications entity owned and operated by the University of Oklahoma (the "University"), as of June 30, 2012 and 2011, and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of American, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audits provide 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 the Station as of June 30, 2012 and 2011, and the changes in its net assets and cash flows 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 January 30, 2013, on our consideration of the Station's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (schedule of funding progress and notes to required supplementary information) as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

The accompanying financial statements have been prepared from separate records maintained by University management and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Station had been operated as an unaffiliated entity. Portions of certain revenues and expenses represent allocations made from items applicable to the University as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
January 30, 2013

**KGOU-FM Radio Station**  
**A Unit of the University of Oklahoma**  
**Management's Discussion and Analysis**

**Introduction**

KGOU-FM Radio Station (the "Station") is a full service public radio station, licensed to the University of Oklahoma (the "University"), serving the greater Oklahoma City metropolitan area, towns in Pontotoc, Seminole and Grady counties, and northwestern Oklahoma. Its format is primarily news/talk on weekdays, with jazz, blues, and world music programs on weekends, broadcasting programs from National Public Radio ("NPR"), Public Radio International ("PRI") and other public radio networks. Its broadcast schedule includes programming for a Native American audience.

In fiscal year 2012, the staff of the Station includes 9 full-time and 5 part-time employees. The station also houses two reporters employed for State Impact Oklahoma, a collaborative effort of public broadcasters in the state and NPR.

The Station originates from studios located on the campus of the University and is delivered by four transmitters and three translators to more than one million residents of central, southeastern, and northwestern Oklahoma. The Station also streams the broadcast audio over the internet.

The licensee is the Board of Regents of the University of Oklahoma and includes call letters KGOU (Norman, OK), KROU (Spencer, OK), K276ET (Seminole, OK) K250AU (Ada, OK), K295BL (Chickasha, OK), KWOU (Woodward, OK) and KOUA (Ada, OK).

**Overview of the Financial Statements and Financial Analysis**

Within this section of the Station's annual financial report, the Station's management provides a narrative discussion and analysis of the financial activities of the Station for the fiscal year ended June 30, 2012 with comparisons to the years ended June 30, 2011 and 2010. The Station's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

**Financial Highlights**

The Station's total net assets exceeded liabilities by \$873,919 for the June 30, 2012 fiscal year. This compares to fiscal years 2011 and 2010 when assets exceeded liabilities by \$754,368 and \$472,904, respectively.

Capital assets, which have no related debt, including property and equipment, net of accumulated depreciation was \$845,241, an increase of nearly 5.3% in fiscal year 2012 compared to \$802,962 in 2011, and an increase of 40.7% compared to \$570,867 in 2010 from 2011.

The increase in fiscal year 2012 was a result of the replacement of the KROU antenna connected to a move of the transmitter location, less usual depreciation in fiscal year 2011, and in fiscal year 2011 the result of the completion of two new transmission facilities that extended the broadcast coverage area for KGOU: a transmitter in Ada and a transmitter in Woodward.

**KGOU-FM Radio Station**  
**A Unit of the University of Oklahoma**  
**Management's Discussion and Analysis--Continued**

**Financial Highlights--Continued**

Unrestricted net assets of \$360,975 represent the portion available to maintain the Station's continuing obligations to citizens and creditors in fiscal year 2012. This is a decrease of 3.1% from fiscal year 2011. Unrestricted net assets in fiscal year 2011 totaled \$372,577 which is an decrease of 4.5% from 2010.

During fiscal year 2012, total liabilities for the Station increased by 2.9% or \$19,669 to \$706,394, due to an increase in short term liabilities which were offset by a reduction in long term liabilities. The fiscal year 2011 total liabilities decreased 3.6% or \$25,854 from fiscal year 2010.

**Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the Station's net assets and how they have changed. Net assets are the difference between assets and liabilities. This is one way to measure the Station's financial health or position. Over time, the increases or decreases in the Station's net assets are an indicator of whether its financial health is improving.

These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following tables summarize the Station's assets, liabilities and net assets as of June 30, 2012, 2011, and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Net Assets, End of Year</b>			
Assets			
Current assets	\$ 735,072	\$ 638,131	\$ 614,616
Capital assets, net	845,241	802,962	570,867
Total assets	<u>1,580,313</u>	<u>1,441,093</u>	<u>1,185,483</u>
Liabilities			
Current liabilities	423,667	323,998	269,852
Long-term advance from OU, net of current	282,727	362,727	442,727
Total liabilities	<u>706,394</u>	<u>686,725</u>	<u>712,579</u>
Net assets			
Invested in capital assets, net of related debt	482,514	360,235	48,140
Restricted-Expendable	30,430	21,556	34,750
Unrestricted	360,975	372,577	390,014
Total net assets	<u>\$ 873,919</u>	<u>\$ 754,368</u>	<u>\$ 472,904</u>

**KGOU-FM Radio Station**  
**A Unit of the University of Oklahoma**  
**Management's Discussion and Analysis--Continued**

**Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets--Continued**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Revenues, Expenses and Changes in Net Assets</b>			
Operating revenue	\$ 1,307,270	\$ 1,270,041	\$ 948,760
Operating expenses	<u>(1,810,122)</u>	<u>(1,540,589)</u>	<u>(1,475,716)</u>
Operating loss	(502,852)	(270,548)	(526,956)
Nonoperating revenues	<u>622,403</u>	<u>552,012</u>	<u>599,643</u>
Change in net assets	<u>\$ 119,551</u>	<u>\$ 281,464</u>	<u>\$ 72,687</u>

**Operating Revenues**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Corporation for Public Broadcasting Grant	\$ 149,608	\$ 138,425	\$ 145,374
U.S. Dept. of Commerce-PTFP	-	260,580	-
Underwriting	464,565	358,960	271,200
In-kind underwriting	47,590	18,550	15,795
Capital Contributions	13,007	13,846	48,305
Memberships	453,747	450,015	396,367
StateImpact Oklahoma	100,753	-	-
StateImpact Oklahoma Foundation Grants	74,000	-	-
Miscellaneous	<u>4,000</u>	<u>29,665</u>	<u>71,719</u>
Total operating revenues	<u>\$ 1,307,270</u>	<u>\$ 1,270,041</u>	<u>\$ 948,760</u>

The Station relies on three main sources of income: an annual allocation and related in-kind support from The University of Oklahoma (the "University"), which is categorized as non-operating revenue, and operating revenue includes an annual grant from the Corporation for Public Broadcasting, and private donations, both cash and in-kind. Private donations are used for operating, capital expenses and special projects.

The table above summarizes the Station's operating revenues for the years ended June 30, 2012, 2011, and 2010. Total operating revenue of \$1,307,270 in fiscal year 2012 increased \$37,229 or 2.9% when compared to 2011, and fiscal year 2011 operating revenue increased \$321,281 or 33.9% over fiscal year 2010. The major differences from fiscal year 2010 were the capital projects partially funded by the U.S. Department of Commerce-PTFP in fiscal year 2011, and the addition of the StateImpact Oklahoma project in fiscal year 2012.

In particular, fiscal year 2012, operating income increased because of an increase in private donations that includes memberships, cash underwriting, and in-kind underwriting. The grant from the Corporation for Public Broadcasting also increased after a one year decrease in fiscal year 2011. The grant from the Public Telecommunications Facilities Program the Station had in fiscal year 2011 was not repeated in 2012 but the Station began a new project in fiscal year 2012.

**KGOU-FM Radio Station**  
**A Unit of the University of Oklahoma**  
**Management's Discussion and Analysis--Continued**

**Operating Revenues--Continued**

StateImpact Oklahoma is a journalism project lead by KGOU on behalf of the Oklahoma Public Media Exchange, a consortium. This project received about 70% of the funds to cover expenses in fiscal year 2012 from a grant from National Public Radio in the amount of \$100,753, and matched the remaining 30% with a restricted grant from the Ethics and Excellence in Journalism Foundation. The station received a \$74,000 grant from the Ethics Foundation, of which \$43,570 was used in fiscal year 2012, and the remainder reserved for the same use in fiscal year 2013.

The annual grant from the Corporation for Public Broadcasting was \$149,608 in the 2012 fiscal year and represented 7.8% of the Station's operating and non-operating income. This grant increased 8% over the prior year, and decreased 4.8% 2010 to 2011.

For 2012, the private giving total was \$978,909 and represented 50.7% of the station's operating and non-operating income, an increase of \$137,538 or 16.3% over the previous fiscal year, and an increase of \$109,704 or 15% over fiscal year 2010 to 2011. Fiscal year 2012, 2011, and 2010 included operational revenue of \$464,565; \$358,960; and \$271,200 of business cash underwriting, \$47,590; \$18,550; and \$15,795 of in-kind business underwriting, \$453,747; \$450,015; and \$396,367 of individual donations, and \$13,007; \$13,846; and \$48,305 in capital donations.

Private giving towards operating expenses totaled \$965,902 or an increase of \$138,377 or 16.7% over fiscal year 2011, and an increase of \$144,163 or 21.1% from 2010 to 2011. These amounts represented 50%, 45.4%, and 44.1% of the operational and non-operating income for years 2012, 2011, and 2010, respectively. Fiscal year 2012 underwriting increased 35.7% from 2011 and increased 31.5% over 2010. Fiscal year 2012 membership increased .8% over 2011 and increased 13.5% over 2011 from 2010.

Capital donations to the Station were down from fiscal years 2011 and 2010 as the capital campaigns to support the construction of new repeater stations drew to a close, as the few last donations for pledges to the New Studio Campaign were received, and as the project to move the KROU transmitter was completed. In fiscal year 2012, the Station received \$13,007 in capital pledges all of which were for the "Move KROU" campaign.

Miscellaneous income in the past has included interest income from cash in the bank, interest earned on early payments of the programming fees from National Public Radio, fees from usages of the studios, ticket sales to the Station's events, and other unrestricted gifts from the University. The only miscellaneous income in fiscal year 2012 was studio rental income at \$4,000. This category decreased 86.5% in 2012 over 2011 as the Station did not conduct any ticketed events, interest income declined to zero, and the Station did not receive any other unrestricted gifts from the University. Miscellaneous income decreased 58.6% from 2010 to 2011.



**KGOU-FM Radio Station**  
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**Management's Discussion and Analysis--Continued**

**Operating Expenses**

The following table summarizes the station's operating expenses for the years ending June 30, 2012, 2011, and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Programming and Production	\$ 712,448	\$ 641,346	\$ 659,712
Broadcasting	358,116	336,804	274,642
Program information	108,674	98,394	95,967
Management and general	203,416	219,576	227,815
Fundraising and membership	104,476	96,770	98,171
Underwriting	178,742	147,699	119,409
State Impact Oklahoma Project	144,250	-	-
Total operating expenses	<u>\$ 1,810,122</u>	<u>\$ 1,540,589</u>	<u>\$ 1,475,716</u>

Expenses in fiscal year 2012 increased by 17.5%, about \$269,533 over fiscal year 2011, and increased \$64,873 or 4.4% from fiscal year 2010 to 2011. The increase was driven primarily by two operational areas.

All programming, including the categories of Programming and Production and the StateImpact Oklahoma project, increased by \$215,352 or 33.6% over fiscal year 2011, and 2011 decreased by \$18,366 or 2.8% from fiscal year 2010.

The area of Programming and Production increased expenses in fiscal year 2012 since 2010. Fiscal year 2012 regular programming costs increased \$71,102 or 11.1% from 2011, and 2011 decreased \$18,366 or 2.8% from 2010. In fiscal year 2012, the cost of acquiring outside programs increased about 3.7% over 2011. In addition, staff salaries and related fringe benefits for programming increased as a result of the cost for oversight of the StateImpact Oklahoma project, and the amount of in-kind support from the University of Oklahoma increased, impacting this category as well. Conversely, programming and productions costs in fiscal year 2011 fell against fiscal year 2010 as a result of the discontinuation of certain purchased programs.

Separated in the above chart for clarity, the StateImpact Oklahoma project began in fiscal year 2012 with new expenses of \$144,250.

Continued investments to achieve increases in underwriting income resulted in an increase of \$31,043 or 21% in underwriting expenses in fiscal year 2012 over 2011, and an increase of \$28,290 or 23.7% over fiscal year 2011 from 2010. This investment resulted in a \$134,645 increase in underwriting income in fiscal year 2012 over 2011 or about 35.7%, and an increase of \$90,515 or 31.5% in fiscal year 2011 over 2010.

**KGOU-FM Radio Station**  
**A Unit of the University of Oklahoma**  
**Management's Discussion and Analysis--Continued**

**Operating Expenses--Continued**

Program Information expenses in 2012 increased \$10,280 or 10.4% over fiscal year 2011, and increased \$2,427 or 2.5% from 2011 over 2010; Fundraising and Membership expenses increased \$7,706 or 8% from 2011 to 2012 and decreased \$1,401 or 1.4% from 2010 to 2011; Broadcasting increased \$21,312 or 6.3% from 2011 to 2012 and increased \$62,162 or 22.6% from 2010 to 2011; and Management and General decreased \$16,160 or 7.4% from 2011 to 2012 and decreased \$8,239 or 3.6% from 2010 to 2011. The overall increases are a result of increased in-kind support from the University and small salary increases, and a shift of some Management and General expenses to be reclassified.

In fiscal year 2012, salaries, wages and fringe benefits constitute 36.9% of all expenses and increased about 26.4% in 2012 over 2011, and increased 2.1% from 2010 to 2011. Within this category, salaries and wages increased 24.9% and fringe benefits increased 30.7% in fiscal year 2012 over 2011. The fiscal year 2012 increase in total salaries and wages is a result of adding two additional employees for the StateImpact Oklahoma project, and selected salary increases for existing staff for expanded responsibilities because of the StateImpact Oklahoma project. Fringe benefit expenses increased as the fringe benefit rate established by the University increase from 37.5% to 37.6%.

The cost of purchased programming and satellite fees increased about \$11,407 or 3.7% from 2011 to 2012, and decreased 10,232 or 3.2% from 2010 to 2011. In fiscal year 2012, this category of expenses is nearly 17.7% of all expenses. Much of the increase was increased fees charged by program suppliers.

In-kind support from the University of Oklahoma for indirect support was \$229,894 in fiscal year 2012, an increase of \$72,364 or 45.9% over 2011, a result of increased square footage of the University and the resulting Station's share of overall operational costs. In-kind support decreased \$51,194 or 24.5% from 2010 to 2011. At the same time, University donated professional services decreased \$2,032 or 2.4% from 2011 to 2012, and increased \$1,880 or 2.3% from 2010 to 2011. In fiscal year 2012, these two categories represent 17.3% of the Station's expenses.

Outside Services in fiscal year 2012 totaled \$165,428, an increase of \$17,966 or 12.2% over 2011, and increased \$45,502 or 44.6% from 2010 to 2011. Part of this is a result of the move of the KROU facilities, which required additional outside engineering and legal services in fiscal year 2011, and the construction of the two new stations in fiscal year 2010. However, a significant part is due to the increased costs of underwriting services discussed above. In fiscal year 2012, this category represents 9.1% of all expenses.

**KGOU-FM Radio Station**  
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**Management's Discussion and Analysis--Continued**

**Operating Expenses--Continued**

Depreciation in fiscal year 2012 totaled \$144,212, an increase of \$15,911 or 12.4% from 2011 and is a result of the purchase of a new KROU antenna and the move of the KROU transmitter to a new location. Depreciation increased \$ 11,677 or 10% from 2010 to 2011. In fiscal year 2012, this category represents 8% of all expenses.

All other categories of expenses totaled just 11% of the fiscal year 2012 expenses. The station wrote off no bad debt in fiscal year 2012.

**Non-Operating Revenues and Expenses**

In the 2012 fiscal year, the University provided \$224,838 in cash and \$397,652 of in-kind support and the Station incurred an (\$87) loss on the disposal of equipment for a total of \$622,403 in non-operating revenue and expenses. This category increased by \$70,391 or 12.8% from fiscal year 2011, and decreased \$47,631 or 7.9% in 2011 over 2010. Cash support from the University decreased by \$5,110 or 2.2% in 2012 over fiscal year 2011 and decreased \$7,018 or 3% in 2011 over fiscal year 2010. In-kind support for 2012 increased \$75,588 or 23.5% over fiscal year 2011, and decreased \$40,473 or 11.2% in 2011 over fiscal year 2010.

**Statement of Cash Flows**

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations when they come due, and needs for external financing.

The purpose of the cash fund balance reserve is for both capital expenses and a contingency fund for any possible downturn in traditional revenue streams due to economic conditions. The fiscal year 2012 ending cash position of \$407,016 was an increase of \$51,521 or 14.5% more than the \$355,495 at the end of fiscal year 2011. The fiscal year 2011 ending cash position decreased \$33,578 or 8.6% from fiscal year 2010 ending balance of \$389,073.

Of the ending cash balance for fiscal year 2012, \$30,430 is reserved for fiscal year 2013 StateImpact Oklahoma project. The remainder cash balance of \$376,586 is the fund balance reserved for future year payments of the long-term advance from the University of Oklahoma, future capital project and other needs.

**KGOU-FM Radio Station  
A Unit of the University of Oklahoma  
Management's Discussion and Analysis--Continued**

**Capital Assets**

At June 30, 2012, the Station had approximately \$845,241 in capital assets, net of accumulated depreciation, compared to \$802,962 in 2011, and \$570,867 in 2010. Depreciation for 2012, 2011, and 2010 was \$144,212, \$128,301, and \$116,624, respectively. The increase in net capital assets during 2012 is the result of the purchase of a new antenna and related equipment, and the move of the KROU transmitter to a new location.

**OU Long-term Advance and the New Horizons Capital Campaign for New Studios and Offices**

During fiscal year 2006, the University provided an \$800,000 long-term advance for the new studios and offices. In fiscal year 2008, the University provided an additional \$42,727 advance.

The University is requiring the Station to repay the initial advance over 10 years, by June 30, 2016, with the first payment made in fiscal year 2007. The Station made \$80,000 payments in fiscal years 2007 through 2012, reducing the advance to \$362,727 as of June 30, 2012. Of that, \$80,000 is due in fiscal year 2013 through 2016, with the final payment of \$42,727 in fiscal year 2017.

To meet the obligation of repayment of the long-term advance from the University, the Station started a multi-year capital campaign. In fiscal years 2006 through 2010, \$272,361 was pledged from individuals and businesses for this project, with all pledges paid at the close of fiscal year 2010. In that effort, the Station received two challenge grants in fiscal year 2007 totaling \$165,000. To meet those challenges, the Station raised and received \$180,000 in donations (which are included in the total above). These funds were placed in the University of Oklahoma Foundation (the "Foundation") and are used to make the yearly \$80,000 payment to a University account.

The Station used the reserved capital campaign donations for the yearly payment to the University through fiscal year 2011. In fiscal year 2012, the station used the remaining funds, in the amount of \$38,281, and paid the remainder of the payment, \$41,719, from the operating funds. In fiscal year 2013 through 2017, the payment will be fully funded from operating funds. Unless an opportunity arises, this specific capital campaign is concluded.

**New Horizons Signal Expansion Capital Campaign**

In fiscal year 2009 through 2011, the Station undertook a new capital project titled the New Horizons Signal Expansion.

In September of 2008, the Station received a new construction permit from the Federal Communications Commission to construct a new 23,000 watt repeater FM station to serve the community of Woodward and the larger northwest corner of Oklahoma.

**KGOU-FM Radio Station  
A Unit of the University of Oklahoma  
Management's Discussion and Analysis--Continued**

**New Horizons Signal Expansion Capital Campaign--Continued**

Concurrent with this award from the FCC, a fixed reimbursement grant from the National Telecommunications and Information Administration ("NTIA") under the Public Telecommunications Facilities Program ("PTFP") modified a grant first issued in September, 2006, to an award amount of \$182,899 with a required local match of \$60,967 for an estimated budget of \$243,866.

The station, KWOU, was constructed in the fall of 2010 and the license was received in January, 2011. All funds for this project were expended in fiscal year 2011 and the reimbursement from NTIA/PTFP has been received. The actual costs of construction in fiscal year 2011 were \$232,423. The federal grant received for the project was \$174,317 and the local match was \$58,106 which was funded by specific private capital donations received over three fiscal years and the rest from the cash fund balance. The capital campaign for the Woodward station began in 2009 and concluded in 2011.

In March of 2008, the Station received a new construction permit from the FCC to construct a new 2,000 watt repeater FM station to serve the community of Ada. In September of 2008, the station received a fixed reimbursement grant from the NTIA under the PTFP in the amount of \$127,500 with a required local match of \$42,500 for an estimated budget of \$170,000.

The station, KOUA, was constructed in the late fall of 2011 and the license was received in February, 2011. All funds for this project were expended in fiscal year 2011 and the reimbursement from NTIA/PTFP has been received. The actual costs of construction in fiscal year 2011 were \$115,017. The federal grant received for the project was \$86,263 and the local match was \$28,754 which was funded by specific private capital donations received over 3 fiscal years in the amount of and the rest from the cash fund balance. The capital campaign for the Ada station began in 2009 and concluded in 2011.

At the end of fiscal year 2011, the project currently had a short-term \$10,000 liability for the construction costs but also a grant receivable of \$10,000 that was received in fiscal year 2012. The project is now complete.

**KROU Move Capital Campaign**

In fiscal year 2011, the Station also began requesting capital pledges for a project to move the KROU transmitter and purchase a new antenna in early fiscal year 2012. In fiscal year 2011, \$11,556 in capital pledges for this project was received. The project was completed in the fall of 2012, and in fiscal year 2012, additional capital donations in the amount of \$13,007 were made. The project expenses totaled about \$160,000 and the expenses beyond the capital donations were taken from cash reserves. This project is now complete.

**KGOU-FM Radio Station**  
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**Management's Discussion and Analysis--Continued**

**Other Significant Information and Future Activities**

Noting the effects of the recession on public and private sector funding, as well as trends among the philanthropic foundations in supporting journalistic efforts, the public radio and television stations in Oklahoma, in early FY 2012, formed a formal consortium called the Oklahoma Public Media Exchange. The consortium agreed to take on projects that benefited two or more stations when one of the consortium members agreed to take on the financial and administrative obligations for such projects.

One such opportunity presented itself quite early in the discussions - a competitive grant program from NPR to fund a portion of 2 journalistic staff members for 2 years that would serve all members of the applicant group. On behalf of the other public radio and television stations, the Station prepared and submitted a grant application for this project and was awarded the one of the eight grants, beginning in FY 2012.

The contract for the fiscal year 2012 period provided support from NPR at 70% of actual expenses with the Station required to provide the remaining 30% of costs. Support from NPR in fiscal year 2012 totaled \$100,753, of which \$35,882 is a receivable as of June 30, 2012. In the second year of this project, NPR will pay 30% of expenses and the Station will provide the remaining 70%.

For this project, the Station applied for and received a two-year grant from the Ethics and Excellence in Journalism Foundation in the amount of \$74,000. Of that, \$43,570 was used in fiscal year 2012 as the Station's local match, leaving \$30,430 from the Foundation for use in fiscal year 2013 and this is recorded as a restricted asset as of June 30, 2012.

The other participation stations in this project receive the work product of the two journalists, help promote the project, and assist in securing the additional private donations needed for the local match. If sufficient local donations are not secured, the partner stations are each responsible for an equal share of the unfunded local match requirements.

**Economic Outlook**

The economic outlook for the Station is dependent on the various influences of the station's three main sources of funding.

About 7.8% of the Station's total income in fiscal year 2012 was from the Corporation for Public Broadcasting ("CPB"). CPB in turn relies on annual appropriations from the Federal government.

**KGOU-FM Radio Station**  
**A Unit of the University of Oklahoma**  
**Management's Discussion and Analysis--Continued**

**Economic Outlook--Continued**

The Corporation is funded three years in advance by the U.S. Congress. The Station's CPB grant for fiscal year 2012 was \$148,608. The fiscal year 2012 appropriation to the Corporation for Public Broadcasting was \$444.1 million and \$445 million for fiscal years 2013 and 2014, respectively. No rescission has been made of these appropriations to date, however, by agreement with the U.S. Office of Management and Budget, CPB agreed to withhold about 10% of the grant funds available in fiscal year 2013 to await the outcome of budget negotiations in the U.S. Congress regarding the current year's budget. Further, the appropriation for fiscal year 2014 and beyond may be affected. CPB has requested \$445 million for 2015 to be appropriated as part of the federal fiscal year 2013.

Assuming CPB continues to be funded by the Congress at some level, the Station must continue to meet all criteria to be eligible for the grant, and thus should continue to receive some income from this source. Nonetheless, the Station is making contingency plans for the possibility that the grant could be rescinded in future fiscal years.

About 12.4% of the station's total operating budget is through the allocation of education and general funds that are appropriated to the University by the state legislature of Oklahoma. Nearly 22% of the operating budget comes from indirect support, including fringe benefits that match certain salaries contained in the direct cash and indirect support which include physical and general administrative support.

University officials reduced direct cash support for all University units in the amount of 3% for fiscal year 2013. This follows smaller reductions in fiscal years 2009 through 2012. Station management is managing these reductions by closely monitoring expenses and increasing fundraising efforts. Station management believes that the University is sufficiently committed to the purpose of the station and that the support to the Station will be consistent with other units of the University.

The remainder of the Station's operating income comes from private donations from listeners and businesses which are directly related to the listener's perceptions of the quality of the program service.

Audience figures, as measured quarterly by Arbitron, Inc., held steady in fiscal year 2012 over 2011, which maintained an average of about 60,000 different listeners per week. The average time spent listening also held steady over the previous fiscal year. These measurements are often considered a precursor to increased private giving as it measures audience loyalty, and thus the self-interest embodied in making a private financial gift. In parallel, private donations for operational costs increased nearly 17% over the previous fiscal year. Fundraising for operations during fiscal year 2013 seems on pace with last fiscal year and one quarter of audience measurement remains on par with the 2012 averages.

**KGOU-FM Radio Station**  
**A Unit of the University of Oklahoma**  
**Management's Discussion and Analysis--Continued**

**Economic Outlook--Continued**

The capital campaign for the Station's new studios and offices concluded major efforts at the end of fiscal year 2008, and the payment of the line of credit to the University as described in detail above. Changes in the economic outlook for 2012 and beyond will influence the Station's repayment only to the extent of the Station's ability to raise unrestricted donations in 2013 and beyond in order to absorb the annual repayment obligation.

Economic conditions for Oklahoma are forecasted by the OSU College of Business Economic Outlook. The last report, issued in early December 2012 projected the economic health of Oklahoma for 2013 would show increasing recovery from the recession but would be less robust than in 2012. The forecast notes that natural gas prices are still too low, manufacturing growth is easing, expectation for hiring increases are also eased, and the drought is affecting agricultural sectors. Housing activity, however, has grown in the past year. The forecast predicted Oklahoma's economy is expected to somewhat exceed the growth of the national economy over the next year and hiring would continue, particularly in professional and business services and construction. However, the forecast for the United States and Oklahoma was dependent on a satisfactory resolution to the so-called "fiscal cliff" but noted the financial crisis in the European Union would have less of an impact than in past years.

The Station's management has long anticipated the various signal expansion projects, the move of KROU, opposition to the federal funding, and the coming recession that would impact several future fiscal years and worked to increase the Station's fund balance to provide a cushion against the loss of income. Those efforts continued in subsequent fiscal years. Management expects to use some of that fund balance for continued repayment of the outstanding loan from the University in coming years, as well as to continue and cautiously expand operations until such time as economy recovers, both nationally and in the state of Oklahoma.



STATEMENT OF NET ASSETS

KGOU-FM RADIO STATION

June 30, 2012

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 407,016	\$ 355,495
Accounts receivable	323,079	228,632
Prepaid expenses	4,977	54,004
TOTAL CURRENT ASSETS	<u>735,072</u>	<u>638,131</u>
Capital assets, net of accumulated depreciation	845,241	802,962
TOTAL ASSETS	<u>\$ 1,580,313</u>	<u>\$ 1,441,093</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 23,715	\$ 13,180
Accounts payable to OU	35,466	10,000
Accrued salaries	1,751	3,241
Accrued compensated absences	55,121	48,380
Deferred revenue	227,614	169,197
Current portion of long-term advance from OU	80,000	80,000
TOTAL CURRENT LIABILITIES	<u>423,667</u>	<u>323,998</u>
Long-term advance from OU, net of current portion	282,727	362,727
TOTAL LIABILITIES	<u>706,394</u>	<u>686,725</u>
NET ASSETS		
Invested in capital assets, net	482,514	360,235
Restricted for:		
Expendable		
Capital projects	30,430	21,556
Unrestricted net assets	360,975	372,577
TOTAL NET ASSETS	<u>873,919</u>	<u>754,368</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,580,313</u>	<u>\$ 1,441,093</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

KGOU-FM RADIO STATION

For the Year Ended June 30, 2012

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Grants	\$ 223,608	\$ 399,005
Underwriting	464,565	358,960
In-kind donations	47,590	18,550
Capital contributions	13,007	13,846
Memberships	453,747	450,015
Oklahoma State Impact	100,753	-
Miscellaneous income	<u>4,000</u>	<u>29,665</u>
TOTAL OPERATING REVENUES	1,307,270	1,270,041
OPERATING EXPENSES		
Salaries and wages	492,574	394,441
Personnel benefits	175,658	134,415
Supplies	11,051	18,006
Travel	12,794	8,925
Communications	25,183	23,291
Other communications	8,706	18,726
Postage and shipping	8,159	8,716
Printing	5,749	4,964
Memberships and subscriptions	7,944	8,763
Outside services	165,428	147,462
Purchased programming	320,611	309,204
Advertising	25,153	34,551
Donated Rent of Space	26,030	-
Other Operating Expense	7,200	-
Computer expense	10,796	8,680
Equipment rental	44,173	40,789
Repairs and maintenance	6,022	3,487
Depreciation	144,212	128,301
Professional services	82,785	84,817
Indirect support	229,894	157,530
Bad debt expense	-	5,521
TOTAL OPERATING EXPENSES	<u>1,810,122</u>	<u>1,540,589</u>
OPERATING LOSS	(502,852)	(270,548)
NONOPERATING REVENUES (EXPENSES)		
General allocations from OU	224,838	229,948
Donated facilities and administrative support	397,652	322,064
Equipment Gain (Loss) on sale	(87)	-
TOTAL NONOPERATING REVENUES	<u>622,403</u>	<u>552,012</u>
NET INCREASE IN NET ASSETS	119,551	281,464
NET ASSETS AT BEGINNING OF YEAR	<u>754,368</u>	<u>472,904</u>
NET ASSETS AT END OF YEAR	<u>\$ 873,919</u>	<u>\$ 754,368</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

KGOU-FM RADIO STATION

For the Year Ended June 30, 2012

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions, grants, underwriting and miscellaneous receipts	\$ 1,212,823	\$ 1,220,187
Cash paid to suppliers	(854,233)	(837,021)
Cash paid to employees	(662,981)	(528,360)
NET CASH USED IN OPERATING ACTIVITIES	<u>(304,391)</u>	<u>(145,194)</u>
CASH FLOWS FROM NONCAPITAL FINANCING AND OTHER ACTIVITIES		
Allocations from OU	622,490	552,012
Loss from retirement of asset	(87)	-
NET CASH PROVIDED BY NONCAPITAL FINANCING AND OTHER ACTIVITIES	<u>622,403</u>	<u>552,012</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(186,491)	(360,396)
Repayment of long-term advance	(80,000)	(80,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(266,491)</u>	<u>(440,396)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	51,521	(33,578)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>355,495</u>	<u>389,073</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>\$ 407,016</u>	<u>\$ 355,495</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (502,852)	\$ (270,548)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	144,212	128,301
Changes in assets and liabilities:		
Accounts receivable	(94,447)	(49,854)
Prepaid expenses	49,027	(7,239)
Accounts payable	10,535	(9,027)
Accounts payable to OU	25,466	10,000
Accrued expenses	5,251	496
Deferred revenue	58,417	52,677
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (304,391)</u>	<u>\$ (145,194)</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### KGOU-FM RADIO STATION

June 30, 2012

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the KGOU-FM Radio Station (the "Station") of the University of Oklahoma (the "University"). The Station is licensed by the Federal Communications Commission (the "FCC") to the Board of Regents of the University of Oklahoma to serve the community as a public radio station. It is a unit of the College of Continuing Education and fulfills a public service mission of the University. The Station broadcasts 365 days per year, 24 hours per day with high-quality, non-commercial, public radio news, information, and entertainment. The Station and its related transmitters form a network to serve the greater Oklahoma City market, central Oklahoma and northwest Oklahoma under the call letters KGOU (Norman, OK), KROU (Spencer, OK), K276ET (Seminole, OK) K250AU (Ada, OK), K295BL (Chickasha, OK), KWOU (Woodward, OK) and KOUA (Ada, OK).

The FCC grants the Station the exclusive right to frequencies in the central Oklahoma Area for a period of eight years and the licenses to KGOU and KROU were renewed in May 2006 for an additional eight years, until June 1, 2013. All other licenses obtained for other translators, transmitters and related licensed installations will also expire on the same date.

Financial Statement Presentation: As a component unit of the State, the University presents its financial statements in accordance with the requirements of the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the Station's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Basis of Accounting: The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The Station has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Station has elected to not apply FASB pronouncements issued after the applicable date.

Cash: The Station considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Pledges: The Station engages in fund-raising campaigns manifested by on-air and mail fund-raising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Station for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. Uncollected pledges that are not enforceable against contributors are not shown as assets on the statement of net assets.

Capital Assets: The Station follows the practice of capitalizing all major expenditures for land, buildings, equipment, and leasehold improvements. Such assets are recorded at cost, or if acquired by gift, at fair value at date of receipt. Depreciation is provided over the estimated useful lives of the assets on a combination of accelerated and straight-line methods. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

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

Accounts Payable to OU: Accounts payable to OU represents a deficit cash balance to the Station, but has been funded by the University.

Compensated Absences: Employees can accrue up to a maximum of 96 to 336 hours of vacation time, based upon their classification and years of service. Employees are paid for any vacation time earned upon termination. The liability and expense incurred for employee vacation pay are recorded as accrued compensated absences in the statement of net assets and as a component of personnel benefits expense in the statement of revenues, expenses and changes in net assets.

Deferred Revenue: Deferred revenue at June 30, 2012 and 2011 consists of \$227,614 and \$169,197 in underwriting revenues related to the subsequent accounting period.

Income Taxes: The University is exempt from income taxes under section 115(1) of the Internal Revenue Code, as amended. As a department of the University, the Station is also exempt from income taxes.

NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Contributed Facilities and Indirect Administrative Support: The Station occupies without charge certain premises located in and owned by the University. The estimated fair value of the premises is reported as revenue and expenditure in the period when the premises are used. Indirect administrative support was provided by various offices and services of the University. This calculation included institutional support from various administrative offices of the University, physical plant operations and occupancy rental value. The amount of this support is calculated by a formula designed by the Corporation for Public Broadcasting (the "CPB"). The base financial data used in the calculation is taken directly from the University's annual financial statements.

Donated facilities and indirect administrative support of \$229,894 and \$157,530 was recorded for the year ended June 30, 2012 and 2011, respectively.

Programming: Licensed program materials from National Public Radio ("NPR") are expensed when purchased.

In-Kind Contributions: Since fiscal year 1995, the CPB determined that it would not allow in-kind contributions for programs, compact discs and volunteer services to be included for grant calculation purposes. Therefore, the CPB and the NPR have not furnished values for these in-kind contributions. These amounts have not been included in the accompanying financial statements; however, the Station considers these in-kind contributions to be an integral part of the operations. The estimated fair value of in-kind contributions, primarily advertising, is recorded as revenue and expensed in the period received and was \$47,590 and \$18,550 for the year ended June 30, 2012 and 2011, respectively.

Classification of Revenues: The Station has classified its revenues as either operating or nonoperating revenues in accordance with the guidelines established by GASB No. 34.

Net Assets: The Station's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the Station's total investment in capital assets, net of any outstanding debt obligations related to those capital assets.

*Restricted net assets - expendable:* Restricted expendable net assets include resources in which the Station is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from the ongoing operations of the Station. These resources may be used at the discretion of the governing board to meet current expenses for any purpose.

NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

New Accounting Pronouncements: The GASB has issued several new accounting pronouncements which will be effective to the University in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the University's consideration of the impact of these pronouncements are described below:

*Fiscal Year Ended June 30, 2013*

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.*

GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The University will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.

- *Statement No. 61, The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34.*

GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The University does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.

- *Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The University does not believe that the adoption of GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.

- *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement will require the University to make changes in its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

New Accounting Pronouncements--Continued:

*Fiscal Year Ended June 30, 2014*

- *Statement No. 65, Items Previously Reported as Assets and Liabilities*

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The University has not quantified the effects of adoption of GASB No. 65 on its net position.

*Fiscal Year Ended June 30, 2015*

- *Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the University has not yet determined the impact that implementation will have on its net position.

NOTE B--FUNDS HELD IN TRUST BY OTHERS

The cash balances include funds held in trust by the University of Oklahoma Foundation, Inc. (the "Foundation"). The Foundation is a private Foundation organized for the purpose of receiving and administering gifts intended for the benefit of the University. At June 30, 2012 and 2011, the Foundation maintained cash balances on behalf of the Station totaling \$367,638 and \$333,747, respectively.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consists of underwriting receivables of \$287,197 and \$218,632 and a grant receivable of \$35,882 and \$10,000 at June 30, 2012 and 2011, respectively. All underwriting accounts receivable and grants receivable are due in one year or less.



NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE C--ACCOUNTS RECEIVABLE--Continued

During the years ended June 30, 2012 and 2011, management wrote off \$0 of underwriting receivables as uncollectable. An allowance for accounts receivable is not recorded since management believes all accounts are fully collectible. If amounts are subsequently determined to be uncollectible, they will be charged to expense when that determination is made.

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30:

	2012				
	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Cost of capital assets					
Broadcasting equipment	\$ 1,621,826	\$ 187,051	\$ (6,392)	\$ (59,280)	\$ 1,743,205
Office equipment	<u>156,743</u>	<u>13,684</u>	<u>6,392</u>	<u>(18,267)</u>	<u>158,552</u>
Total cost of capital assets	1,778,569	200,735	-	(77,547)	1,901,757
Accumulated depreciation					
Broadcasting equipment	(832,656)	(141,794)	6,392	59,280	(908,778)
Office equipment	<u>(142,951)</u>	<u>(16,662)</u>	<u>(6,392)</u>	<u>18,267</u>	<u>(147,738)</u>
Total accumulated depreciation	<u>(975,607)</u>	<u>(158,456)</u>	<u>-</u>	<u>77,547</u>	<u>(1,056,516)</u>
Net book value	<u>\$ 802,962</u>	<u>\$ 42,279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 845,241</u>
	2011				
	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Cost of capital assets					
Broadcasting equipment	\$ 1,265,973	\$ 355,853	\$ -	\$ -	\$ 1,621,826
Office equipment	<u>152,200</u>	<u>4,543</u>	<u>-</u>	<u>-</u>	<u>156,743</u>
Total cost of capital assets	1,418,173	360,396	-	-	1,778,569
Accumulated depreciation					
Broadcasting equipment	(719,718)	(112,938)	-	-	(832,656)
Office equipment	<u>(127,588)</u>	<u>(15,363)</u>	<u>-</u>	<u>-</u>	<u>(142,951)</u>
Total accumulated depreciation	<u>(847,306)</u>	<u>(128,301)</u>	<u>-</u>	<u>-</u>	<u>(975,607)</u>
Net book value	<u>\$ 570,867</u>	<u>\$ 232,095</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 802,962</u>

NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE E--FUNCTIONAL EXPENSE CLASSIFICATION

The Station's operating expenses by functional classification were as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Program services		
Program information	\$ 108,674	\$ 98,394
Broadcasting	358,116	336,804
Programming and production	712,448	641,346
StateImpact Oklahoma	144,250	-
Support services		
Fund-raising	104,476	96,770
Underwriting	178,742	147,699
Management and general	203,416	219,576
	<u>\$ 1,810,122</u>	<u>\$ 1,540,589</u>

NOTE F--RETIREMENT PLANS

The University's full-time academic and nonacademic personnel are covered by various retirement plans depending on their job classification and the employee's choices. The plans available to University personnel include a defined benefit plan, the Oklahoma Teachers Retirement System ("OTRS"), to which employees contribute 7% of total compensation and the University contributes 8.55% of total compensation on behalf of the employee for the years ended June 30, 2012 and 2011. In addition, employees can participate in the Teachers Insurance Annuity Association-College Retirement Equities Fund ("TIAA-CREF") or other defined contribution plans, to which the University contributes 8% of base pay over \$9,000, as well as a wide selection of other investment opportunities to which the employees can contribute. The University administratively pays these expenses on-behalf of the Station. These costs are included with other fringe benefits. Personnel benefits expense includes contributions to the Station by the University and other amounts paid directly by the Station. For the years ended June 30, 2012 and 2011, total contributions paid by the Station were \$83,096 and \$37,750, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE G--RELATED PARTIES

The Station is operated by and on behalf of the University. The University provided the following support to the Station for the years ended June 30:

	<u>2012</u>	<u>2011</u>
In-kind support		
Benefits	\$ 84,973	\$ 79,719
Budget support from other University units	82,785	84,815
Facility and administrative support	<u>229,894</u>	<u>157,530</u>
	397,652	322,064
Cash support		
Direct allocation	<u>224,838</u>	<u>229,948</u>
	<u>\$ 622,490</u>	<u>\$ 552,012</u>

In May 2006, the University authorized an equivalent of a loan - a "deficit authorization" of \$800,000 to be used for expenses to renovate and construct new offices and studios for the Station. In May 2007 an additional \$42,727 was authorized. The costs are to be repaid over ten years at \$80,000 per year with the balance due on June 30, 2017. At June 30, 2012, the amount outstanding on this deficit authorization is \$362,727.

NOTE H--LEASES

The Station leases five spaces for broadcasting towers. Most of the leases have options to renew, with rentals to be negotiated. Rent expense was approximately \$39,000 and \$36,000 for the years ended June 30, 2012 and 2011, respectively. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2012:

2013	\$ 39,960
2014	39,960
2015	39,960
2016	39,960
2017	36,305
2018 - 2022	121,200
Thereafter	<u>24,000</u>
	<u>\$ 341,345</u>

In addition to the broadcasting towers listed above, the Station leases two locations without cost. The Ada translator is housed rent-free on the East Central University campus and the Chickasha translator is housed rent-free on the University of Science and Arts of Oklahoma campus.

## NOTES TO FINANCIAL STATEMENTS--Continued

### KGOU-FM RADIO STATION

June 30, 2012

#### NOTE I--CONTINGENT LIABILITY

Prior to 1985, the Station accumulated a cash deficit of \$263,757. The University agreed to assume this deficit and contributed this amount to the Station. In the event that future revenues of the Station exceed related expenditures after Station facilities and personnel needs are met, the excess cash may be requested by the University to the extent of the deficit assumed.

#### NOTE J--GRANTS

##### Ethics & Excellence in Journalism Foundation

In November 2011, the Station was awarded a grant from the Ethics and Excellence in Journalism Foundation in the amount of \$74,000, restricted for use for the StateImpact Oklahoma project.

##### Corporation for Public Broadcasting

The Corporation for Public Broadcasting is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. The CPB distributes annual Community Service Grants ("CSGs") to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two Federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients. The fiscal year 2012 grant guidelines classify the 2012 grant as 74% unrestricted and 26% restricted; there are no restricted funds remaining at June 30, 2012. The Station uses these funds for the acquisition of programming which complies with the grant restrictions. In addition, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain guidelines must be satisfied in connection with application for and use of the CSGs to maintain eligibility and compliance requirements. These guidelines pertain to the use of CSG funds, record keeping, audits, financial reporting and licensee status with the Federal Communications Commission. Management believes these are routine requirements, and do not provide any restrictions on the grants.

For the year ended June 30, 2012, the Station received and expended \$149,608 in grant revenue in relation to CSGs.

NOTES TO FINANCIAL STATEMENTS--Continued

KGOU-FM RADIO STATION

June 30, 2012

NOTE K--SUBSEQUENT EVENTS

The StateImpact Oklahoma project described above continues through the end of fiscal year 2013. The Station and its partners are required to raise about \$81,500 in addition to the \$30,430 in funds from the Ethics and Excellence in Journalism Foundation for use in Year 2 of the project or share equally in the costs. At this time, maximum exposure for each of the five partners is approximately \$16,300.

Independent Auditors' 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 Regents of the University of Oklahoma  
KGOU-FM Radio Station  
Norman, Oklahoma

We have audited the financial statements of KGOU-FM Radio Station (the "Station") as of and for the year ended June 30, 2012, and have issued our report thereon dated January 30, 2013. 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 Station'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 Station's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Station'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 Station's financial statements will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management, board of directors and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
January 30, 2013