

Financial statements and report of independent  
certified public accountants

**KOSU-FM Radio Station**

June 30, 2013 and 2012

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**OSU-FM Radio Station  
Owned and Operated by Oklahoma State University  
Management’s Discussion and Analysis**

*Overview of Financial Statements and Financial Analysis*

KOSU-FM Radio Station (“KOSU”) is a public telecommunications entity owned and operated by Oklahoma State University (the “University”). Management made a decision to change the fiscal period for KOSU to be the same as the University with a fiscal year end of June 30 instead of September 30. As a result, KOSU is reporting on a short fiscal year from October 1, 2011 through June 30, 2012 for fiscal period 2012. The financial statement information presented for fiscal year 2013 is on a full twelve month fiscal year from July 1, 2012 through June 30, 2013. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. This discussion and analysis of KOSU’s financial statements provides an overview of its financial activities for the year.

*Statement of Net Position*

The Statement of Net Position presents the assets, liabilities, and deferred inflows of resources and deferred outflows of resources as of the end of the fiscal year. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of KOSU.

From the data presented, readers of the Statement of Net Position are able to determine the resources available to continue the operations of KOSU. They are also able to determine how much KOSU owes vendors, and the amount owed to Public Radio Capital (“PRC”) under the restated and amended management agreement discussed in the footnotes to the financial statements. Finally, the Statement of Net Position provides the amount invested in capital assets and the status of resources at the end of the fiscal year.

Net position is divided into three categories. The first category, net investment in capital assets, provides KOSU’s equity in property, plant and equipment owned by the University. The next category, restricted, lists resources received that must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted. Unrestricted resources are available to KOSU for any lawful purpose of the station. The following chart is a summary of the Statements of Net Position over the last three fiscal periods.

## *Statement of Net Position ( Continued)*

### **Statements of Net Position**

	<u>September 30</u> <u>2011</u>	<u>June 30</u> <u>2012</u>	<u>June 30</u> <u>2013</u>
Assets			
Current assets	\$ 1,157,808	\$ 918,985	\$ 1,140,458
Capital assets, net of accumulated depreciation	1,226,417	1,142,438	1,263,623
Total assets	2,384,225	2,061,423	2,404,081
Total liabilities	613,788	286,023	553,672
Net Position			
Net investment in capital assets	1,226,417	1,142,438	1,263,623
Restricted	-	168,023	386,923
Unrestricted	544,020	464,939	199,863
Total net position	<u>\$ 1,770,437</u>	<u>\$ 1,775,400</u>	<u>\$ 1,850,409</u>

In fiscal year 2013, total assets increased by \$342,658 or 16.62% over the fiscal period ended June 30, 2012. The increase is due to an increase in cash and cash equivalents of \$426,740, an increase in prepaid expenses of \$20,437, a decrease in beneficial interest in assets held by the OSU Foundation of (\$225,704) and an increase in capital assets net of accumulated depreciation of \$121,185.

During the nine-month fiscal period ended June 30, 2012, total assets decreased by (\$322,802) or 13.54% less than the fiscal year ended September 30, 2011. The decrease was due to a decrease in cash and cash equivalents of (\$749,939), a decrease in accounts receivable of (\$964), an increase in prepaid expenses of \$25,740, an increase in beneficial interest in assets held by the OSU Foundation of \$486,340 and a decrease in capital assets net of accumulated depreciation of (\$83,979).

In fiscal year 2013, total liabilities increased by \$267,649 or 93.58% over the fiscal period ended June 30, 2012. The increase is primarily due to an increase in accounts payable of \$53,442 and an increase in unearned revenue of \$210,983. Total net position increased by \$75,009 from the fiscal period ended June 30, 2012 to the fiscal year ended June 30, 2013.

In fiscal period ended June 30, 2012, total liabilities decreased by (\$327,765) or 53.4% mainly due to a reduction in accounts payable of (\$11,924) and a reduction in unearned revenue of (\$335,348) offset by an increase in the payable to PRC of \$19,623. Total net position increased by \$4,963 from the fiscal year ended September 30, 2011 to the fiscal period ended June 30, 2012.

### ***Statement of Revenues, Expenses, and Changes in Net Position***

While the 2012–2013 comparisons are important indicators of activity during the year under audit, it is important to look at some of the operating and non-operating categories over time. One of the important measures of an institution’s fiscal stability is how operating revenues compare to operating expenses.

The following table summarizes the revenues, expenses, and changes in net position for KOSU over the last three years:

#### **Statements of Revenues, Expenses, and Changes in Net Position**

	<b>Year Ended September 30, 2011</b>	<b>Period from October 1, 2011 to June 30, 2012</b>	<b>Year Ended June 30, 2013</b>
Operating revenues	\$ 746,589	\$ 746,943	\$ 1,226,533
Operating expenses	1,537,248	1,207,154	1,813,027
Operating loss	(790,659)	(460,211)	(586,494)
Nonoperating revenues	3,219,295	465,174	661,503
Capital allocations from OSU	1,000,000	-	-
<b>Net increase in net position</b>	<b>\$ 3,428,636</b>	<b>\$ 4,963</b>	<b>\$ 75,009</b>

Operating revenues of \$1,226,533 in fiscal year 2013 increased \$479,590 or 64.21% when compared to the nine-month fiscal period ended June 30, 2012. The increase is mainly due from an increase of \$111,258 in the community and rural service grants, the receipt of journalism grants for facilities and equipment in the amount of \$225,000, and an increase of \$89,030 in underwriting revenue.

The operating revenues of \$746,943 for fiscal period ended June 30, 2012 compared to the operating revenues of \$746,589 for fiscal year 2011 ended September 30, 2011 show a \$354 increase for the nine-month period. The increase was due to new agreements for use of tower space that offset the shorter period to receive contributions and underwriting.

**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

**Operating revenues**

	<b>Year Ended September 30, 2011</b>	<b>Period from October 1, 2011 to June 30, 2012</b>	<b>Year Ended June 30, 2013</b>
Contributions	\$ 390,253	\$ 371,860	\$ 438,272
In-Kind contributions	37,961	46,598	30,259
Miscellaneous income	5,199	11,639	15,868
Community and rural service grants	130,687	129,837	241,095
Journalism foundation grants for facilities and equipment	-	-	225,000
Underwriting revenue	182,489	187,009	276,039
<b>Total Operating Revenues</b>	<b>\$ 746,589</b>	<b>\$ 746,943</b>	<b>\$ 1,226,533</b>

Operating expenses for fiscal year 2013 were \$1,813,027 as compared to \$1,207,154 for the nine-month fiscal period ended June 30, 2012. Compensation and employee benefits expense for the nine-month period in 2012 was \$556,750. If this amount is annualized it equals \$742,333. The amount for compensation and employee benefits in 2013 is \$755,451 which is \$13,118 above the annualized 2012 amount. Programming services in 2013 are \$405,011 as compared to \$198,434 for the nine-month period in 2012. Supplies and materials expense also increased in 2013 from \$34,722 for fiscal period 2012 to \$112,019 for fiscal year 2013. Annualized utilities expense for 2012 would be \$39,280 which is just slightly above the 2013 utilities expense of \$38,653. Payments to Public Radio Capital for 2013 are \$103,806 as compared to payments made during the nine-month period in 2012 of \$92,244.

Compensation and employee benefits expense for the nine-month period of 2012 was \$556,750. The annualized amount would equal \$742,333, representing an increase of \$59,161 or 9% above the 2011 amount of \$683,172. In 2011 Professional and Consulting Services expense was \$126,735 compared to \$68,106 for the nine-month period in 2012. Programming Services expense increased by \$22,401 during the nine-month period from 2011 to 2012. Supplies and materials expense decreased by (\$64,953).

**Operating expenses**

	<b>Year Ended September 30, 2011</b>	<b>Period from October 1, 2011 to June 30, 2012</b>	<b>Year Ended June 30, 2013</b>
Compensation and employee benefits	\$ 683,172	\$ 556,750	\$ 755,451
Professional and consulting services	126,735	68,106	83,705
Programming Services	176,033	198,434	405,011
Supplies and materials	99,675	34,722	112,019
Travel	22,079	13,424	10,957
Communications	27,613	20,398	29,652
Utilities	38,971	29,460	38,653
University facilities and administrative support	59,653	50,476	68,642
Depreciation	86,956	83,979	105,090
Payments to Public Radio Capital	152,376	92,244	103,806
Other operating expense	63,985	59,161	100,041
<b>Total operating expenses</b>	<b>\$ 1,537,248</b>	<b>\$ 1,207,154</b>	<b>\$ 1,813,027</b>

***Statement of Revenues, Expenses, and Changes in Net Position (Continued)***

Non-operating revenues in fiscal year 2013 were \$661,503 as compared to \$465,174 for the nine-month fiscal period ended June 30, 2012. Non-operating revenues consist of allocations from the University, and donated facilities and administrative support. Allocations increased by \$178,163 in 2013 from \$414,698 during the nine-month period in 2012 to \$592,861 for fiscal year 2013. Donated facilities and administrative support increased by \$18,166 from \$50,476 in 2012 to \$68,642 in 2013.

Non-operating revenues for fiscal period ended June 30, 2012 were \$465,174 as compared to \$3,219,295 for fiscal year ended September 30, 2011. In fiscal year 2011, the University made a one-time allocation to KOSU in the amount of \$2,649,936 in addition to the fiscal year allocation of \$509,706. Donated facilities and administrative support decreased by (\$9,177) from \$59,653 in 2011 to \$50,476 in 2012.

**Nonoperating revenues**

	<b>Year Ended September 30, 2011</b>	<b>Period from October 1, 2011 to June 30, 2012</b>	<b>Year Ended June 30, 2013</b>
Allocations from OSU	\$ 3,159,642	\$ 414,698	\$ 592,861
Donated facilities and administrative support	59,653	50,476	68,642
<b>Total nonoperating revenues</b>	<b>\$ 3,219,295</b>	<b>\$ 465,174</b>	<b>\$ 661,503</b>

There was a one-time capital allocation from the University of \$1,000,000 in fiscal year 2011 to fund the purchase of the tower and related equipment in the Oklahoma City vicinity.

	<b>Year Ended September 30, 2011</b>	<b>Period from October 1, 2011 to June 30, 2012</b>	<b>Year Ended June 30, 2013</b>
Capital allocations from OSU	\$ 1,000,000	-	-

***Statements of Cash Flows***

The final statement presented by KOSU is the Statements of Cash Flows. The Statements of Cash Flows presents detailed information about the cash activity of the station during the year. The statement is divided into four sections.

The first section deals with operating cash flows and shows the net cash provided (used) by the operating activities of KOSU. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating and non-capital financing purposes. The third section reflects cash flows from capital activities. This section deals with the cash used for leasehold improvements and the acquisition of equipment. The fourth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

## *Statements of Cash Flows (Continued)*

### **Statements of Cash Flows**

	<b>Year Ended September 30, 2011</b>	<b>Period from October 1, 2011 to June 30, 2012</b>	<b>Year Ended June 30, 2013</b>
Cash provided (used) by:			
Operating activities	\$ (679,024)	\$ (767,880)	\$ 53,816
Noncapital financing activities	1,441,661	17,941	599,199
Capital and related financing activities	-	-	(226,275)
Net Change in Cash	762,637	(749,939)	426,740
Cash, beginning of year	-	762,637	12,698
Cash, end of year	<u>\$ 762,637</u>	<u>\$ 12,698</u>	<u>\$439,438</u>

In fiscal year 2013 the cash and cash equivalents, end of year, increased by \$426,740. The difference in net (decrease) increase in cash and cash equivalents from 2012 to 2013 was an increase of \$1,176,679. This net increase was generated by an increase in net cash provided by operating activities of \$841,319, an increase in net cash provided by noncapital financing activities of \$561,635 and an increase in net cash used by capital and related financing activities of (\$226,275).

In fiscal year 2012 the cash and cash equivalents, end of year decreased by (\$749,939). The difference in net (decrease) increase in cash and cash equivalents from 2011 to 2012 was a decrease of (\$1,512,576). This net decrease was generated by a decrease in net cash used by operating activities of (\$88,856), and a decrease in net cash provided by noncapital financing activities of (\$1,423,720).

### ***Economic Outlook***

KOSU continues to execute the strategies identified in its five year business plan launched in 2011 to improve the listener experience and raise the station's revenue ceiling. In light of the financial challenges currently facing the public broadcasting industry, the successful execution of this plan will be critical for the long-term sustainability of the station.

Due to anticipated reductions in federal support, KOSU is aggregating more content through partnerships while aggressively pursuing alternative revenue streams. Through KOSU's partnership with The Spy, State Impact Oklahoma, The Public Insight Network, This Land Press and The Journal Record, as well as its own original reporting, the station

***Economic Outlook (Continued)***

is creating community through the content it delivers while delivering content through the communities it serves. The new studios in the Film Row art district in downtown Oklahoma City will provide the platform to create even more program opportunities around community and content in the coming months and years, providing a visible presence for KOSU and OSU in a rapidly growing hub of creative expression in central Oklahoma.

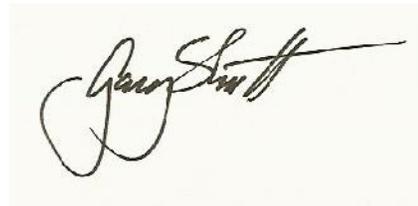
KOSU is growing its secondary revenue streams from tower space rentals, with the addition of Logan County Emergency Management as a tenant on the Guthrie tower, as well as its HD spectrum lease with NAVTEQ. The station continues to aggressively pursue donations through its vehicle donation program, and cultivate perpetual giving through its sustaining membership program. In 2014, KOSU will reconstitute its advisory board to increase major gifts to the station.

These initiatives will become increasingly important as the station prepares for a future that relies less on support from the federal government. Because of an increase in the population density of KOSU's broadcast coverage area, the Corporation for Public Broadcasting is recalculating and reducing the amount of funds the station receives as an eligible recipient of CPB's Community Service Grant. Beginning with CPB's FY 14 grant year, KOSU's base grant will be reduced by nearly \$20,000 and the rural incentive bonus grant the station has historically received is being eliminated.

Because of the uncertainty surrounding future federal support and the economic challenges of the 2008 recession, the public broadcasting industry is facing an uncertain future. Despite that fact, KOSU will continue to pursue its strategic plan to serve as a conduit for community with the belief that the people who rely on us for news, information and music will provide the support to sustain and grow the station's services.



Kelly Burley  
KOSU-FM Radio Station Director



Gary Shutt  
Director of Communication Services

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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**Report on the financial statements**

We have audited the accompanying financial statements of KOSU-FM Radio Station (a public telecommunications entity operated by Oklahoma State University) (“KOSU”), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the year ended June 30, 2013 and period from October 1, 2011 to June 30, 2012, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

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

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KOSU FM-Radio Station (a public telecommunications entity operated by Oklahoma State) as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the year ended June 30, 2013 and period from October 1, 2011 to June 30, 2012 in accordance with accounting principles generally accepted in the United States of America.

#### Other matters

##### *Required supplementary information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i to vii be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 15, 2013, on our consideration of KOSU'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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KOSU's internal control over financial reporting and compliance.

Grant Thornton LLP

Oklahoma City, Oklahoma  
November 15, 2013

# KOSU-FM Radio Station

## STATEMENTS OF NET POSITION

	June 30,	
	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 439,438	\$ 12,698
Prepaid expenses	54,271	33,834
Beneficial interest in assets held by OSU Foundation	<u>646,749</u>	<u>872,453</u>
<b>TOTAL CURRENT ASSETS</b>	<b>1,140,458</b>	<b>918,985</b>
Capital assets, net of accumulated depreciation	<u>1,263,623</u>	<u>1,142,438</u>
<b>TOTAL ASSETS</b>	<b>2,404,081</b>	<b>2,061,423</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	67,827	14,385
Accrued expenses	3,033	688
Accrued compensated absences	50,870	47,060
Unearned revenue	406,432	195,449
Payable to Public Radio Capital	<u>25,510</u>	<u>28,441</u>
<b>TOTAL LIABILITIES</b>	<b>553,672</b>	<b>286,023</b>
<b>NET POSITION</b>		
Invested in capital assets, net	1,263,623	1,142,438
Restricted	386,923	168,023
Unrestricted	<u>199,863</u>	<u>464,939</u>
<b>TOTAL NET POSITION</b>	<b>\$ 1,850,409</b>	<b>\$ 1,775,400</b>

The accompanying notes are an integral part of these financial statements.

# KOSU-FM Radio Station

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<b>Year ended</b>	<b>Period from</b>
	<b>June 30, 2013</b>	<b>October 1, 2011</b>
	<u>                    </u>	<u>to June 30, 2012</u>
<b>OPERATING REVENUES</b>		
Contributions	\$ 438,272	\$ 371,860
In-kind contributions	30,259	46,598
Miscellaneous income	15,868	11,639
Community and rural service and journalism foundation grants	466,095	129,837
Underwriting revenue	<u>276,039</u>	<u>187,009</u>
TOTAL OPERATING REVENUES	<u>1,226,533</u>	<u>746,943</u>
<b>OPERATING EXPENSES</b>		
Compensation and employee benefits	755,451	556,750
Professional and consulting services	83,705	68,106
Programming services	405,011	198,434
Supplies and materials	112,019	34,722
Travel	10,957	13,424
Communications	29,652	20,398
Utilities	38,653	29,460
University facilities and administrative support	68,642	50,476
Depreciation	105,090	83,979
Payments to Public Radio Capital	103,806	92,244
Other operating expenses	<u>100,041</u>	<u>59,161</u>
TOTAL OPERATING EXPENSES	<u>1,813,027</u>	<u>1,207,154</u>
OPERATING LOSS	(586,494)	(460,211)
<b>NONOPERATING REVENUES</b>		
General allocations from OSU	592,861	414,698
Donated facilities and administrative support	<u>68,642</u>	<u>50,476</u>
TOTAL NONOPERATING REVENUES	<u>661,503</u>	<u>465,174</u>
NET INCREASE IN NET POSITION	75,009	4,963
NET POSITION AT BEGINNING OF YEAR	<u>1,775,400</u>	<u>1,770,437</u>
NET POSITION AT END OF YEAR	<u>\$ 1,850,409</u>	<u>\$ 1,775,400</u>

The accompanying statements are an integral part of these financial statements.

# KOSU-FM Radio Station

## STATEMENTS OF CASH FLOWS

	<b>Year ended</b>	<b>Period from</b>
	<b>June 30, 2013</b>	<b>October 1, 2011</b>
	<b>to June 30, 2012</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions, grants, underwriting and miscellaneous receipts	\$ 1,663,220	\$ 325,875
Cash paid to suppliers	(922,412)	(584,466)
Cash paid to employees	(686,992)	(509,289)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<b>53,816</b>	<b>(767,880)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING AND OTHER ACTIVITIES</b>		
General allocations from OSU	530,557	(32,535)
Other	68,642	50,476
NET CASH PROVIDED BY NONCAPITAL FINANCING AND OTHER ACTIVITIES	<b>599,199</b>	<b>17,941</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	(226,275)	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<b>(226,275)</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>426,740</b>	<b>(749,939)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b>12,698</b>	<b>762,637</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>\$ 439,438</b>	<b>\$ 12,698</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET</b>		
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating loss	\$ (586,494)	\$ (460,211)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	105,090	83,979
On-behalf contributions to teachers' retirement system	62,304	47,577
Decrease (increase) in		
Accounts receivable	-	964
Prepaid expenses	(20,437)	(25,740)
Beneficial interest in assets held by OSU Foundation	225,704	(486,340)
(Decrease) increase in		
Accounts payable	53,442	(11,924)
Accrued expenses	2,345	100
Accrued compensated absences	3,810	(216)
Unearned revenue	210,983	64,308
Payable to Public Radio Capital	(2,931)	19,623
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<b>\$ 53,816</b>	<b>\$ (767,880)</b>

The accompanying notes are an integral part of these financial statements.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the KOSU-FM Radio Station (“KOSU”) of Oklahoma State University. KOSU is owned and operated by Oklahoma State University (the “University”) and is not a separate corporation, but a public service entity of the University. The University is governed by the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges (the “Board of Regents”) and is a component unit of the State of Oklahoma (the “State”).

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

Financial Statement Presentation: As a component unit of the State, the University (which includes KOSU) 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 University’s assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

During 2012, KOSU changed its fiscal year-end to June 30 from September 30 to be consistent with OSU’s year-end. As such, the statements of revenues, expenses and changes in net position for 2012 includes nine months of activity.

Basis of Accounting: KOSU’s financial statements have been presented 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.

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

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

Pledges: KOSU engages in semiannual 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 KOSU 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 position.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, KOSU's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings and 5 to 7 years for equipment.

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.

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

In-Kind Contributions: Since fiscal year 1995, the Corporation for Public Broadcasting (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, KOSU 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 \$30,259 and \$46,598 for June 30, 2013 and 2012, respectively.

Broadcasting Tower Space: In November 1997, the Board of Regents (the "Grantor") and an outside third party (the "Grantee") entered into an agreement whereby the Grantor sold certain real properties and conveyed a perpetual lease to use described premises and structures to Grantee for the purpose of permitting the Grantee to construct, operate, maintain, repair, alter and replace communications facilities. The Grantor received a perpetual non-exclusive lease, license and right to operate from said premises and tower thereon radio and other broadcasting and broadcasting support equipment. For the years ended June 30, 2013 and 2012, neither KOSU nor the Grantee has assigned any value for the usage of the Tower.

Unearned Revenue: Unearned revenue consists of appropriations from the State received prior to the end of the fiscal year but related to the subsequent accounting period and underwriting and grant revenue that has been collected but not earned.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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

Compensated Absences: The liability and expense incurred for employee vacation pay are recorded as accrued compensated absences in the statement of net position and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

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, KOSU is also exempt from income taxes.

Contributed Facilities and Indirect Administrative Support: KOSU 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 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 \$68,642 and \$50,476 were recorded for the years ended June 30, 2013 and 2012 respectively.

Net Position: KOSU's net position is classified as follows:

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

*Restricted net position - expendable:* Restricted expendable net position includes resources in which KOSU is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, KOSU policy is to use prudent decision processes to determine which resources will be applied based on availability of funding, donor intent, and returns available from idle funds.

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

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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

New Pronouncements: In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement requires defined benefit pension plans to present two financial statements-a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*. This Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged.

Management has not yet determined the effect, if any, of adoption of the new GASB statements for the financial statements.

### NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2013 and 2012, the carrying amount of KOSU's cash and cash equivalents was \$439,438 and \$12,698, respectively. These amounts consisted of deposits with the State Treasurer and U.S. financial institutions.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

The State Treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation ("FDIC"), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. Government obligations. KOSU's deposits with the State Treasurer are pooled with funds of other state agencies, and then in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

KOSU requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in KOSU's name.

### NOTE C - CAPITAL ASSETS

Following are the changes in capital assets for the periods ended:

	June 30, 2013			
	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Cost of capital assets				
Records and tapes	\$ 173,867	\$ -	\$ -	\$ 173,867
Building and leasehold improvements	93,095	100,621	-	193,716
Office machines	1,913	-	-	1,913
Broadcast equipment	228,260	71,108	-	299,368
Fund-raising equipment	18,251	-	-	18,251
Programming and production equipment	9,678	54,546	-	64,224
Automobiles	59,104	-	-	59,104
Tower	1,000,000	-	-	1,000,000
Transmitter facilities (building and transmitter equipment)	272,459	-	-	272,459
Total cost of capital assets	1,856,627	226,275	-	2,082,902
Accumulated depreciation				
Records and tapes	(173,867)	-	-	(173,867)
Building and leasehold improvements	(60,220)	(9,565)	-	(69,785)
Office machines	(1,913)	-	-	(1,913)
Broadcast equipment	(181,770)	(15,684)	-	(197,454)
Fund-raising equipment	(17,883)	(371)	-	(18,254)
Programming and production equipment	(9,679)	(3,896)	-	(13,575)
Automobiles	(54,405)	(2,096)	-	(56,501)
Tower	(83,333)	(66,667)	-	(150,000)
Transmitter facilities (building and transmitter equipment)	(131,119)	(6,811)	-	(137,930)
Total accumulated depreciation	(714,189)	(105,090)	-	(819,279)
Net book value	\$ 1,142,438	\$ 121,185	\$ -	\$ 1,263,623

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE C - CAPITAL ASSETS - CONTINUED

	June 30, 2012			
	Balance September 30, 2011	Additions	Disposals	Balance June 30, 2012
Cost of capital assets				
Records and tapes	\$ 173,867	\$ -	\$ -	\$ 173,867
Building and leasehold improvements	93,095	-	-	93,095
Office machines	1,913	-	-	1,913
Broadcast equipment	228,260	-	-	228,260
Fund-raising equipment	18,251	-	-	18,251
Programming and production equipment	9,678	-	-	9,678
Automobiles	59,104	-	-	59,104
Tower	1,000,000	-	-	1,000,000
Transmitter facilities (building and transmitter equipment)	272,459	-	-	272,459
Total cost of capital assets	1,856,627	-	-	1,856,627
Accumulated depreciation				
Records and tapes	(173,867)	-	-	(173,867)
Building and leasehold improvements	(56,819)	(3,401)	-	(60,220)
Office machines	(1,913)	-	-	(1,913)
Broadcast equipment	(161,327)	(20,443)	-	(181,770)
Fund-raising equipment	(16,220)	(1,663)	-	(17,883)
Programming and production equipment	(9,679)	-	-	(9,679)
Automobiles	(51,042)	(3,363)	-	(54,405)
Tower	(33,333)	(50,000)	-	(83,333)
Transmitter facilities (building and transmitter equipment)	(126,010)	(5,109)	-	(131,119)
Total accumulated depreciation	(630,210)	(83,979)	-	(714,189)
Net book value	\$ 1,226,417	\$ (83,979)	\$ -	\$ 1,142,438

### NOTE D - UNEARNED REVENUE

Unearned revenue consists of the following:

	2013	2012
Underwriting	\$ 19,509	\$ 27,426
Grants and contracts	386,923	168,023
	\$ 406,432	\$ 195,449

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE E - GRANTS

Community Service: The CPB 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.

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.

The CSGs received and expended during the year ended June 30, 2013 were as follows:

<u>Year of Grant</u>	<u>Grants Received</u>	<u>Expended as of June 30, 2013</u>	<u>Uncommitted Balance at June 30, 2013</u>
10/1/12-14	\$ 459,995 *	\$ 73,072	\$ 386,923
10/1/11-13	172,955 **	172,955	-
10/1/10-12	181,411 ***	181,411	-

\* These amounts were received during the year ended June 30, 2013.

\*\* These amounts were received during the nine months ended June 30, 2012.

\*\*\*These amounts were received during the fiscal year ended September 30, 2011.

Kirkpatrick Foundation: The Kirkpatrick Foundation awards grants to organizations with projects and programs that complement the mission of the foundation, within its areas of interest: arts and culture, education, animal welfare, and the environment. On March 27, 2013, Oklahoma State University Foundation was awarded a grant from the Kirkpatrick Foundation on behalf of KOSU in the amount of \$75,000 for the project, “KOSU from the Hart of Film Row.” The funds were to be used solely to support the project of the studio expansion in Oklahoma City in the art district on Historic Film Row. The funds were used to make the necessary leasehold improvements to the Hart building for the new studio and to purchase broadcasting equipment. The funds were fully expended during the fiscal year ended June 30, 2013.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE E – GRANTS - CONTINUED

Ethics and Excellence in Journalism Foundation: The Ethics and Excellence in Journalism Foundation (“EEJF”) has a mission to invest in the future of journalism by building the ethics, skills and opportunities needed to advance principled, probing news and information. The EEJF does this through contributions to media institutions and journalism schools nationwide, primarily in areas of investigative reporting, youth education, professional development, and special opportunities. The EEJF awarded a grant to Oklahoma State University Foundation on behalf of KOSU in the amount of \$150,000 for the purpose of a “New home for KOSU radio on Historic Film Row in downtown Oklahoma City.” The funds were to be used solely to support the project of the studio expansion in Oklahoma City in the art district on Historic Film Row. The funds were used to make the necessary leasehold improvements to the Hart building for the new studio and to purchase broadcasting equipment. The funds were fully expended during the fiscal year ended June 30, 2013.

### NOTE F - FUNCTIONAL EXPENSE CLASSIFICATION

KOSU’s operating expenses by functional classification were as follows for the years ended:

	June 30, 2013	June 30, 2012
Program services		
Programming and production	\$ 713,339	\$ 434,035
Broadcasting	527,003	335,034
Support services		
Fund-raising	397,698	305,809
Management and general	174,987	132,276
	<u>\$ 1,813,027</u>	<u>\$ 1,207,154</u>

### NOTE G - RELATED PARTY TRANSACTIONS

#### *The Oklahoma State University Foundation*

Nature of Relationship: The Foundation was formed to promote and foster the educational and cultural interest of every kind and description of the University, a public institution of higher education and a public educational corporation of the State and to create a fund to be used for any program, project or enterprise undertaken in the interest of the University, and to promote and foster educational and cultural interests in the State and southern and southwestern regions of the United States.

Description of Operations: The Foundation acts largely as a fund-raising organization: soliciting, receiving, managing and disbursing contributions on behalf of the University. Most of the contributions received are designated by the donors to be used for specific purposes or by specific departments. In these instances, the Foundation serves essentially as a conduit, making the funds available as needed.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE G - RELATED PARTY TRANSACTIONS - CONTINUED

*The Oklahoma State University Foundation - Continued*

#### Description of Operations - Continued:

Amounts reflected as beneficial interest in assets held by the Foundation represent contributions held for the sole benefit of KOSU.

Related party transactions, summary financial information and funds held by the Foundation on behalf of KOSU are as follows:

	June 30, 2013	June 30, 2012
Contributions and underwriting revenue received	\$ 708,820	\$ 554,773
Journalism grants for facilities and equipment	225,000	-
Funds expended on behalf of KOSU	(166,884)	(101,464)
	766,936	453,309
Transfers to KOSU University accounts	(1,063,042)	-
	(296,106)	453,309
Net assets held for KOSU, beginning of year	824,707	371,398
Net assets held for KOSU, end of year	<u>\$ 528,601</u>	<u>\$ 824,707</u>

### NOTE H - COMMITMENTS AND CONTINGENT LIABILITIES

KOSU participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes KOSU has complied with grant requirements and that disallowances, if any, will not be material.

In January of 2011, PRC Tulsa-1 LLC assigned to KOSU a 55 year land lease with the Commissioners of the Land Office of the State of Oklahoma as Administrator of the Oklahoma School Lands Trust for the location of a tower.

On October 15, 2012, KOSU entered into a lease agreement with Hart Partners, LLC for the purpose of leasing 4,029 square feet of space at 720 W. Sheridan Avenue, in the Film Row art district in downtown Oklahoma City. As part of the lease agreement, KOSU will be responsible for the prorated triple net lease costs based off their percentage of occupancy space which is 10%. The term of the lease is for five years and began upon completion of construction. KOSU incurred leasehold improvement costs of \$100,621 during fiscal year 2013. As of June 18, 2013 the constructions was substantially complete and KOSU occupied the space. KOSU has options to renew the lease for years six through ten at a 61% increase per square foot above the current rate, and an option to renew for years eleven through fifteen at an 18% additional increase. KOSU officially opened their new offices and studios in the Hart building on September 20, 2013.

Rent expense under operating leases was \$13,266 and \$7,763 for the period ending June 30, 2013 and 2012, respectively.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE H - COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

The future minimum lease payments under non-cancelable operating leases at June 30, 2013 are as follows:

Year ending June 30:

2014	\$ 35,000
2015	35,000
2016	35,000
2017	35,000
2018	<u>32,083</u>
	<u>\$172,083</u>

### NOTE I - RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverages. Oklahoma Statutes require participation of all State agencies in basic general liability, tort claim coverage, directors' and officers' liability and property and casualty programs, and fidelity bonding provided by the State of Oklahoma Department of Central Services Risk Management Division (the "SRMD"). In addition to these basic policies, the University's Department of Risk, Plant and Property Management establish enterprise risk management guidelines for risk assessment, risk avoidance, risk acceptance and risk transfer.

The University and individual employees are provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma Tort State Claims Act. For risks not protected by sovereign immunity, it is the internal policy of the University's Risk and Property Management department to accept initial risk in the form of retention or deductibles only to the extent that funds are available from the University's general operations to maintain this risk.

Beyond acceptable retention levels, complete risk transfer is practiced by purchasing conventional insurance coverage directly or through the SRMD. These coverages are outlined as follows:

- The buildings and contents are insured for replacement value. Each loss incident is subject to a \$500,000 deductible, of which \$50,000 is the obligation of KOSU.
- Out-of-state and out-of-country comprehensive general liability, auto liability, aircraft liability, watercraft liability, leased vehicles, equipment, and fidelity bonds are acquired by the University from the SRMD. To complement coverage provided by State Statute and to meet specific coverage requirements for special grants and/or contracts, additional coverage is purchased based on specific departmental and institutional needs and risks, but the related risks are not considered material to the University as a whole. Claim settlements have not exceeded insurance coverage in each of the past three fiscal years.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE I - RISK MANAGEMENT - CONTINUED

#### *Self-Funded Programs*

The University's life insurance program was self-funded through December 31, 2003. Effective January 1, 2004, life waivers for disabled employees and their dependents were all that remained in the self-funded program. Reserves were established at the onset of disability to pay the claims.

Through June 30, 1999, the University's health care programs were also self-funded. Effective July 1, 1999, the University terminated its self-insurance program, and participated in the State self-insurance program through December 31, 2007. Effective January 1, 2008, the University began participation in an insured program with BlueCross BlueShield of Oklahoma as the provider. The University believes that there is no exposure to pay run-off claims for the previous self-insured program at June 30, 2013.

The University's workers' compensation program is self-funded and is administered by a third party. The University maintains a cash deposit with the administrator and reimburses the administrator for claims paid and administrative expenses on a monthly basis. Benefits provided are prescribed by State law and include lump sum payments for rated disabilities, in addition to medical expenses and a portion of salary loss resulting from a job-related injury or illness. The University records a liability for workers' compensation in its financial statements based on annual actuarial valuations.

The University's unemployment compensation insurance program is also self-funded. Unemployment benefits that separated employees receive are determined by Oklahoma Statutes and are administered by the Oklahoma Employment Security Commission (the "OESC"). As a reimbursing employer, the University is billed quarterly by the OESC for benefits paid to former employees. The Board of Regents requires that the University maintain a minimum of \$700,000 in reserve to cover claims. This minimum cash balance is considered each year during the rate-setting process.

### NOTE J - EXPANSION PROJECT

#### *KOSN*

Public Radio Capital ("PRC"), a nonprofit company, acquired a radio station in northeast Oklahoma (KOSN) and built a new broadcast facility in the Oklahoma City vicinity during 2005. The acquisition of the station by PRC was affected through the assignment of a certain Letter of Intent to PRC by KOSU. PRC financed the project through the issuance of revenue bonds with a face amount of \$7,000,000. On January 12, 2005, KOSU entered into an option agreement with PRC under which KOSU obtained exclusive rights to acquire the station from PRC for a 20 year period at certain terms as defined in the agreement.

Simultaneous with the execution of the option agreement, KOSU entered into a management agreement to operate the station on behalf of PRC. As consideration to keep the option grant in place, KOSU is required to make certain payments, equaling the debt service requirements on the bonds. During the year, ended September 30, 2010, KOSU chose not to exercise the option and terminated the agreement between KOSU and PRC.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE J - EXPANSION PROJECT - CONTINUED

#### *KOSN - Continued*

On January 20, 2011, PRC Tulsa-I L.L.C. ("PRC Tulsa"), The Bank of New York Mellon, and Oklahoma State University entered into a Settlement Agreement. In January 2013, the same parties entered into Amendment No. 1 to the Settlement Agreement making the effective date of the Settlement Agreement January 20, 2013 and extending the termination date for the Management Agreement to January 27, 2015.

OSU agreed to continue to maintain, manage, and operate the KOSN-FM station and the two translator stations in accordance with a Restated and Amended Management Agreement for a period of two years from the effective date of the agreement or the sale of the KOSN station and equipment, whichever is earlier.

Pursuant to the Restated and Amended Management Agreement, OSU agreed to pay or reimburse PRC-Tulsa for all commercially reasonable and necessary operating expenses (but not capital expenses) for the KOSN station. In addition, OSU agreed to pay PRC-Tulsa, or at the direction of PRC-Tulsa to its designee, interest on the Revenue Bonds and related fees not to exceed \$70,000 per annum and to prorate the amount in the event the KOSN station is sold. Payments of interest on the Revenue Bonds and related fees for the year ended June 30, 2013 and nine months ended June 30, 2012 amounted to \$45,850 and \$38,793, respectively.

In the event the KOSN station is sold, PRC-Tulsa agreed to apply the proceeds of the sale toward a partial redemption of the Revenue Bonds. OSU agreed that if after applying the proceeds, any portion of the Bonds remain outstanding, it will pay to PRC-Tulsa an amount equal to 17.5% of the outstanding principal balance of the Bonds. In calculating the amount, the sale price for the KOSN station shall be deemed to be the greater of \$2,000,000 or the actual net proceeds of the sale.

Under the Revised and Amended Management Agreement, contributions received on behalf of PRC for the new radio station are to be maintained in one or more funds for the benefit of the station and shall be transferred quarterly in their entirety to PRC. During the year ended June 30, 2013 and the nine months of 2012, KOSU collected \$86,124 and \$70,603 respectively, in contributions on behalf of PRC. At June 30, 2013 and 2012, KOSU recorded a liability to PRC for approximately \$25,510 and \$28,441, respectively, related to contributions received not yet remitted. In addition, KOSU is required to reimburse PRC for operating expenses in excess of the new station's revenue. The amount paid by KOSU during the year ended June 30, 2013 and nine months of 2012 for operational expenses, was \$57,956 and \$53,451 respectively, which is included in the statements of revenue, expenses and changes in net position.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE J - EXPANSION PROJECT - CONTINUED

#### *Film Row Project*

As a result of the Settlement Agreement signed on January 20, 2011, PRC-Tulsa agreed to sell and OSU agreed to purchase, the tower and related equipment in the Oklahoma City vicinity for the sum of \$1,000,000. PRC agreed to apply the proceeds of the sale toward a partial redemption of the Revenue Bonds

During the fiscal year ended June 30, 2013, a decision was made to have a studio presence in Oklahoma City. Due to a development project by Hart Partners LLC, space became available for lease in the art district on Historic Film Row near downtown Oklahoma City. The Film Row studio in Oklahoma City was a logical next step for KOSU because of its location within the station's primary broadcast coverage area and in the heart of its largest community of listeners, contributors and underwriters. The new space allows the station to double its capacity to create original program content through the station's own efforts and through local content partnerships. The new facility now gives KOSU a physical presence in its three primary service areas: Oklahoma City, Stillwater, and Tulsa.

The Film Row studio and public performance space serves as the platform for a deeper engagement with the KOSU audience, strengthening community connections through content. As a public media organization, the station seeks to give voice to issues and artistry that are often overlooked. From local commentaries and conversations about Oklahoma issues, to series and documentaries that give voice to the voiceless, and airplay for local musicians whose work might otherwise go undiscovered, KOSU from the Hart of Film Row is amplifying the heart and soul of Oklahoma.

Through this facility, KOSU will evolve beyond its traditional role as a radio station. KOSU will also engage the community through public events that inform and entertain. With distinctly global and uniquely local experiences on the air, online and in person, KOSU will serve as a conduit for lifelong learning in the honest and accurate stories told, the diverse yet civil conversations facilitated and the artistic freedom pursued to create powerfully original media experiences.

### NOTE K - 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"). Employees of KOSU, as OTRS members, are required to contribute to the plan at a rate established by the legislature of the State. For the year ended June 30, 2013 and nine months ended June 30, 2012, the contribution rate for the system members of 7.00% is applied to their total compensation. The local employer contribution rate due from the University was 8.55% for the years ended June 30, 2013 and nine months ended June 30, 2012. The University administratively pays these expenses for KOSU. These costs are included with other fringe benefits.

# Oklahoma State University KOSU-FM Radio Station

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

### NOTE K - RETIREMENT PLANS - CONTINUED

The State is also required to contribute to the OTRS on behalf of participating employers. For the year ended June 30, 2013 and nine months ended June 30, 2012, the State contributed 5% of State revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers. KOSU has estimated the amounts contributed to the OTRS by the State on its behalf by multiplying its direct OTRS contributions to the ratio of State contributions to University contributions. For the year ended June 30, 2013 and nine months ended June 30, 2012, the estimated amount contributed to the OTRS by the State on behalf of KOSU was approximately \$62,304 and \$47,500 respectively. These on-behalf payments have been recorded as both revenue and expense in the statement of revenues, expenses and changes in net position.

### NOTE L - SUBSEQUENT EVENTS

The University has evaluated events or transactions that occurred subsequent to June 30, 2013 through November 15, 2013, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT  
AUDITING STANDARDS**

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We have audited, 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, the financial statements of KOSU-FM Radio (a public telecommunications entity operated by Oklahoma State University) (“KOSU”) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise KOSU’s basic financial statements, and have issued our report thereon dated November 15, 2013.

**Internal control over financial reporting**

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

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

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

#### Compliance and other matters

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

#### Intended purpose

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

Grant Thornton LLP

Oklahoma City, Oklahoma  
November 15, 2013