

AUDITED FINANCIAL REPORT

OF

OKLAHOMA BROADCASTING COMPANY, INC.

AS OF

DECEMBER 31, 1986

FENTEM, QUINTEN & THOMAS, INC.
CERTIFIED PUBLIC ACCOUNTANTS

OKLAHOMA BROADCASTING COMPANY, INC.
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FENTEM, QUINTEN & THOMAS, INC.

Certified Public Accountants

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L. N. "Jack" FENTEM, C.P.A.
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DUARD B. THOMAS, C.P.A.

Board of Directors
Oklahoma Broadcasting Company, Inc.
P.O. Box 10
Ada, OK 74820

We have examined the balance sheet of Oklahoma Broadcasting Company, Inc. as of December 31, 1986 and the related statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Oklahoma Broadcasting Company, Inc. as of December 31, 1986 and the results of operations and changes in financial position for the year then ended in conformance with generally accepted accounting principles applied on a consistent basis.

May 28, 1987

Fentem, Quinten & Thomas, CPA's

By: 

OKLAHOMA BROADCASTING COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 1986
EXHIBIT "A"

ASSETS

Current Assets

Cash	2,422.55
Accounts Receivable	31,790.36
Prepaid Advertising	<u>1,942.00</u>

TOTAL CURRENT ASSETS 36,154.91

Equipment

Technical Equipment	88,812.79
Automobiles	<u>19,500.00</u>
TOTAL	108,312.79
Less: Accumulated Depr.	<u>78,859.81</u>

TOTAL TANGIBLE ASSETS 29,452.98

Intangible

Organizational Expense	8,118.26
Goodwill & License	<u>1.00</u>

TOTAL INTANGIBLE ASSETS 8,119.26

TOTAL ASSETS 73,727.15

See Accompanying Notes

OKLAHOMA BROADCASTING COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 1986
EXHIBIT "A"

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities

Accounts Payable	17,812.49
Prepaid Advertising	13,920.76
Property Tax Payable	120.00
Federal Tax Payable	471.00
Oklahoma Tax Payable	140.00
Note Payable-Citizens Bank	<u>20,000.00</u>

TOTAL CURRENT LIABILITIES 52,464.25

Stockholders Equity

Capital Stock

Common Stock-Class "A"	18,577.70
Common Stock-Class "B"	<u>6,413.30</u>
	24,991.00

Treasury Stock

Class "A"	35.00
Class "B"	<u>51.00</u>
	(86.00)

Retained Earnings (Deficit) (3,642.10)

TOTAL STOCKHOLDERS EQUITY 21,262.90

TOTAL LIABILITY AND STOCKHOLDERS EQUITY 73,727.15

OKLAHOMA BROADCASTING COMPANY, INC.
INCOME STATEMENT
DECEMBER 31, 1986
EXHIBIT "B"

EXPENSES (Continued)

<u>News</u>		
Department Salaries	3,165.92	
News Service	7,508.80	
Sports	<u>4,419.46</u>	
TOTAL NEWS		15,094.18
 <u>General & Administrative</u>		
Salaries	34,015.97	
Accounting	3,000.00	
Building and Land Rental	15,890.64	
Operational	4,306.56	
Building Repairs	930.48	
Freight	68.21	
Office Supplies	12,577.95	
Postage	681.13	
Dues and Subscriptions	3,567.99	
Utilities	6,220.36	
Contributions	180.00	
Professional Services	5,482.02	
Interest	1,066.82	
General Insurance	15,520.07	
Health Insurance	7,420.43	
Property/Franchise Tax	334.04	
Payroll Taxes	12,595.01	
Miscellaneous	281.10	
Depreciaton	14,136.66	
Federal & State Tax Expense	<u>3,361.00</u>	
TOTAL GENERAL & ADMINISTRATIVE		<u>141,636.44</u>
TOTAL EXPENSES		<u>343,249.46</u>
NET INCOME FROM OPERATIONS AND BEFORE TAXES		112,524.23
<u>Income Taxes</u>		<u>-0-</u>
NET INCOME TO RETAINED EARNINGS		<u>112,524.23</u>
NET INCOME PER SHARE		<u>192.35</u>

See Accompanying Notes

OKLAHOMA BROADCASTING COMPANY, INC.
 INCOME STATEMENTS
 DECEMBER 31, 1986
 EXHIBIT "B"

Income

National & Regional Advertising	42,331.86
Local Advertising	233,072.36
Political Income	9,794.47
Miscellaneous Income	<u>170,575.00</u>

TOTAL INCOME

455,773.69

EXPENSES

Technical

Repairs & Supplies	10,617.02
Audio Tape Supplies	451.29
Power	11,181.30
Engineering Services	<u>2,047.50</u>

TOTAL TECHNICAL

24,297.11

Program

Program Salaries	19,558.57
Talent	5,072.00
Royalty/Copyright Fees	10,147.45
Production Salaries	42,044.15
Materials/Supplies	1,148.75
Program Relay Fees	824.97
Network Program Fees	2,880.00
Syndication Fees	2,270.00
Freight	<u>14.33</u>

TOTAL PROGRAM

83,960.22

Sales

Advertising/Promotion	29,644.70
Salaries	28,838.33
Local Commissions	7,975.92
National Commissions	7,462.73
Operational Expense	<u>4,339.83</u>

TOTAL SALES

78,261.51

OKLAHOMA BROADCASTING COMPANY, INC.
CHANGES IN RETAINED EARNINGS
DECEMBER 31, 1986
EXHIBIT "C"

Retained Earnings 12/31/85 (Deficit)	(110,931.14)
Add: Earnings Per Exhibit "B"	112,524.23
Prior Period Adjustment (Note)	<u>(5,235.19)</u>
Retained Earnings 12/31/86 (Deficit)	<u>(3,642.10)</u>

See Accompanying Notes

OKLAHOMA BROADCASTING COMPANY, INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION
DECEMBER 31, 1986
EXHIBIT "D"

WORKING CAPITAL PROVIDED

Operations

Net Income	112,524.23
Add: Depreciation	<u>14,136.66</u>

TOTAL WORKING CAPITAL PROVIDED	126,660.89
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WORKING CAPITAL APPLIED	<u>-0-</u>
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CHANGE IN WORKING CAPITAL	<u><u>126,660.89</u></u>
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SCHEDULE OF CHANGES IN WORKING CAPITAL

<u>Current Assets</u>	<u>1986</u>	<u>1985</u>	<u>Change</u>
Cash	2,422.55	(419.82)	<u>2,842.37</u>
Accounts Receivable	31,790.36	20,787.71	11,002.65
Prepaid Advertising	1,942.00	9,660.00	(7,718.00)
<u>Current Liabilities</u>			
Accounts Payable	17,812.49	9,666.32	(8,146.17)
Taxes Payable	731.00	30.00	(701.00)
Intercompany Account		150,000.00	150,000.00
Prepaid Advertising	13,920.76	13,301.80	(618.96)
Note Pay./Citizens	20,000.00		<u>(20,000.00)</u>
 CHANGE IN WORKING CAPITAL			 <u><u>126,660.89</u></u>

See Accompanying Notes

OKLAHOMA BROADCASTING COMPANY, INC.
 COMPARATIVE INCOME STATEMENT
 DECEMBER 31, 1986
 EXHIBIT "E"

<u>Income</u>	1983	1984	1985	1986
Nat'l/Regional Adver.	26,639.69	15,458.99	31,972.93	42,331.86
Local Advertising	138,097.46	177,829.29	251,182.46	233,072.36
Political Income	300.00	4,124.30	296.25	9,794.47
Miscellaneous	-0-	8,867.01	29,306.00	17,575.00
Interest	964.92	-0-	-0-	-0-
Sale of Capital Item	19,658.27	(2,292.39)	4,000.00	-0-
TOTAL INCOME	185,660.34	203,987.20	316,757.64	455,773.69
<u>Expenses</u>				
Technical	30,076.85	22,797.75	21,569.49	24,297.11
Program	63,980.27	91,685.11	88,913.02	83,960.22
News			25,386.21	15,094.18
Sales	19,794.06	37,507.35	81,189.59	78,261.51
Gen. Administrative	78,882.97	85,345.23	106,313.52	141,636.44
TOTAL EXPENSES	192,734.15	237,335.44	323,371.83	343,249.46
<u>Other Income & Expenses</u>				
Obsolescence Expense	(395.11)	-0-	(1,264.80)	-0-
NET INCOME BEFORE TAXES	7,468.92	(33,348.24)	(7,878.99)	112,524.23
<u>Taxes</u>	-0-	-0-	-0-	-0-
NET INC. TO RET. EARNINGS	7,468.92	(33,348.24)	(7,878.99)	112,524.23
NET INCOME (LOSS) PER SHARE	(11.46)	(56.91)	(13.92)	192.35

OKLAHOMA BROADCASTING COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Accounting

All books, records, and statements are on the accrual basis and is consistant with all years presented in this report.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets: except for equipment purchased after 1980 which reflects the accelerated cost recovery system of write off. Maintenance and repairs are charged to expense when incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Investment Tax Credits

Investment tax credits are taken into income as reductions of current income tax provisions.

Intangible Assets

The excess cost over carrying value of net assets acquired should be amortized over the life of the asset not to exceed 40 years. As of December 31, 1983 no excess cost existed on the intangible assets of Oklahoma Broadcasting Company, Inc.

NOTE #2 - PROPERTY AND EQUIPMENT

Major classifications of property and equipment and their respective depreciable lives are summarized below:

<u>Description</u>	<u>Depreciable Lives</u>
Technical Equipment	5-15 years
Automobile	3 years

NOTE # 3 - ORGANIZATIONAL EXPENSE

Organizational Expense of \$8,118.26 represents legal, administrative and other costs incurred in organization of the corporation. No provision for amortization was made for APB opinion #17 of the American Institute of Certified Public Accountants, incurred prior to November 1, 1970.

OKLAHOMA BROADCASTING COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1985

Note #4 - GOODWILL AND LICENSES

During the reorganization on April 1, 1979 goodwill of one dollar was set up for promotion and organization by stockholders.

NOTE #5 - CAPITAL STOCK

Capital stocks consists of two classes of common stock. The two types of stock are class "A" which has the right to vote and class "B" stock which has no voting rights.

As of December 31, 1986 there were 504 shares of class "A" stock that had been issued and 168 shares of class "B" stock that had been issued.

Book value per share based on the number of shares issued is \$31.64 as of December 31, 1986.

NOTE #6 - TREASURY STOCK

Beginning in 1981 Oklahoma Broadcasting Company, Inc. began repurchasing outstanding shares of their class "A" and class "B" common stocks. As of December 31, 1986 there have been 29 shares of class "A" and 58 shares of class "B" common stock repurchased.

Book value per share based on the number of shares outstanding is \$36.35 as of December 31, 1986.

NOTE #7 - INTERCOMPANY ACCOUNT

Trans Am Communications

At the annual shareholders meeting on February 26, 1986 the shareholders of Trans Am Communications Co., Inc. voted to declare the note worthless and write it off. This meant an additional \$165,000 of income in 1986 for Oklahoma Broadcasting Company.

NOTE #8- TAXES PAYABLE

The following is the computation of federal income tax for the year ended December 31, 1986:

Federal Taxable Income	57,806.00
Federal Income Tax	<u>10,592.00</u>
Less: Investment Tax Credit	10,121.00
Federal Tax Payable	<u><u>471.00</u></u>

NOTE #8 - TAXES PAYABLE

The following is the computation of Oklahoma Income for the year end December 31, 1987:

Oklahoma Taxable Income	57,806.00
Oklahoma Income Tax	<u>2,890.00</u>
Less: Estimates Pre-Paid	<u>2,750.00</u>
Oklahoma Tax Payable	<u><u>140.00</u></u>

NOTE #9 - NOTE PAYABLE

Citizens Bank & Trust Co. Ada, Oklahoma	20,000.00
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This note is a single pay note due June 27, 1987 with interest accruing at 9% per annum. The loan is collateralized by the financial statements.

NOTE #10 - RELATED PARTY TRANSACTIONS

The company does business with two companies that are controlled by the same stockholders and family. The following is a breakdown of the transactions between these companies:

PAYMENTS MADE FROM OKLAHOMA BROADCASTING CO.

TO: TRANS AM COMMUNICATIONS

North of City Power	11,436.87
Gasoline	1,422.44
Health Insurance	7,996.00
Interest	1,066.82
Repairs and Supplies	38.21
TOTALS	<u>21,960.34</u>

PAYMENTS TO OKLAHOMA BROADCASTING COMPANY

FROM: TRANS AM COMMUNICATIONS

Inter-Co. Loans	18,550.00
Background Music	1,500.00
Advertising	4,850.00
Trade Deals	833.65
TOTALS	<u>25,733.65</u>

PAYMENTS MADE FROM OKLAHOMA BROADCASTING CO.

TO: HOOVER DEVELOPMENT CORP.

Rent	15,022.42
Accounting	3,000.00
Office Supplies	464.28
TOTALS	<u>18,486.70</u>

NOTE #10 - RELATED PARTY TRANSACTIONS (CONTINUED)

PAYMENTS MADE TO OKLAHOMA BROADCASTING CO.

FROM: HOOVER DEVELOPMENT CORP.

Trade for Sweeper	250.00
Trade for Calculator	129.00
TOTALS	<u>379.00</u>

The company also paid for some travel and outside services of the president of the company, Dan Hoover. The following is a breakdown of expenses paid to Dan Hoover and amounts he reimbursed for personal use:

PAYMENTS FROM OKLAHOMA BROADCASTING CO.

TO: DAN HOOVER

Sports Talent	450.00
Sports Expense Reimbursement	115.82
Sports Bag/Equipment	31.77
Party Expense Reimbursement	50.00
Convention Expenses	200.00
Payroll Expense	16,251.25
TOTALS	<u>17,098.84</u>

PAYMENTS TO OKLAHOMA BROADCASTING CO.

FROM: DAN HOOVER

American Express Reimbursement	173.96
American Express Reimbursement	67.91
TOTALS	<u>241.87</u>

NOTE #11 - PENDING LAWSUITS

As of December 31, 1986, Deaton & Davison, Inc., the company's corporate attorneys were aware of only one lawsuit pending against the company, Jack Eldridge, Paul Eldridge and Gladys Eldridge, Plaintiffs, vs. Oklahoma Broadcasting Company, Inc., et al., No. C-86-498, in the District Court of Pontotoc County, Oklahoma. This action is pending as of this date.

In the above mentioned lawsuit, the Plaintiffs, who are minority shareholders of the corporation, seek to dissolve the corporation, alleging that the objects of the corporation have wholly failed, are entirely abandoned and their accomplishment is impractical. No money judgement is sought against Oklahoma Broadcasting Company.

Since the cause of action has little chance of success it is abundantly clear that the Corporation is a functioning business entity, engaged in a profitable business of considerable size and is clearly accomplishing the purposes and objects for which it was incorporated.