

OKLAHOMA EDUCATIONAL TECHNOLOGY
TRUST

FINANCIAL REPORT

DECEMBER 31, 2010 and 2009

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities and changes in net assets	3
Statements of cash flows	4
Notes to financial statements	5 -12

Luton & Co., PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Bruce L. Van Huisen
David R. Brady

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Oklahoma Educational Technology Trust

We have audited the accompanying statements of financial position of Oklahoma Educational Technology Trust (a non-profit organization) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trust'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 America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Oklahoma Educational Technology Trust as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Luton & Co., PLLC

Oklahoma City, Oklahoma
May 18, 2011

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 1,081,678	\$ 851,117
Accrued interest receivable	48,475	47,384
Marketable securities	<u>30,132,042</u>	<u>28,263,123</u>
Total assets	<u>\$ 31,262,195</u>	<u>\$ 29,161,624</u>
Liabilities		
Accounts payable	\$ 6,581	\$ 6,148
Grants payable	<u>2,524,000</u>	<u>3,800,000</u>
Total liabilities	2,530,581	3,806,148
Net Assets		
Unrestricted	<u>28,731,614</u>	<u>25,355,476</u>
Total liabilities and net assets	<u>\$ 31,262,195</u>	<u>\$ 29,161,624</u>

The Notes to Financial Statements are an integral part of these statements.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2010 and 2009

	2010	2009
Revenues		
Contributions	\$ 172,575	\$ -
Interest and dividends	668,756	694,647
Realized gains (losses)	180,448	(1,007,115)
Unrealized gains (losses)	<u>2,355,602</u>	<u>5,255,020</u>
Total revenues	3,377,381	4,942,552
Expenses		
Grants	(316,000)	(470,000)
Management fees	180,677	180,000
Investment fees	129,036	117,349
Insurance	-	4,655
Audit fees	3,900	2,600
Travel and meeting expenses	791	1,135
Other expenses	<u>2,839</u>	<u>360</u>
Total expenses	<u>1,243</u>	<u>(163,901)</u>
Increase (decrease) in net assets	3,376,138	5,106,453
Net assets, beginning	<u>25,355,476</u>	<u>20,249,023</u>
Net assets, ending	<u><u>\$28,731,614</u></u>	<u><u>\$25,355,476</u></u>

The Notes to Financial Statements are an integral part of these statements.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Contributions received	\$ 172,575	\$ -
Interest and dividends received	667,665	714,230
Grants paid	(960,000)	(790,000)
Other expenses paid	(316,810)	(305,229)
	<u>(436,570)</u>	<u>(380,999)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchases of marketable securities	(5,491,230)	(4,556,541)
Proceeds from sales and maturities of marketable securities	6,158,361	4,419,757
	<u>667,131</u>	<u>(136,784)</u>
Net cash provided (used) by investing activities		
Increase (decrease) in cash and cash equivalents	230,561	(517,783)
Cash and cash equivalents, beginning	<u>851,117</u>	<u>1,368,900</u>
Cash and cash equivalents, ending	<u>\$ 1,081,678</u>	<u>\$ 851,117</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 3,376,138	\$ 5,106,453
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized (gains) losses	(180,448)	1,007,115
Unrealized (gains) losses	(2,355,602)	(5,255,020)
(Increase) decrease in assets		
Accrued interest receivable	(1,091)	19,583
Increase (decrease) in liabilities		
Accounts payable	433	870
Grants payable	(1,276,000)	(1,260,000)
	<u>(1,276,000)</u>	<u>(1,260,000)</u>
Net cash provided (used) by operating activities	<u>\$ (436,570)</u>	<u>\$ (380,999)</u>

The Notes to Financial Statements are an integral part of these statements.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The Oklahoma Educational Technology Trust ("the Trust") was created on February 6, 2001. The Trust was initially funded with contributions from Southwestern Bell Telephone Company totaling \$30,725,049. The purpose of the Trust is to provide funding for the purchase, installation, and maintenance of information technology in the common and CareerTech schools of the State of Oklahoma. In fulfilling this purpose, the Trust may assist schools in obtaining, installing, and integrating computer equipment, software, and related telecommunications products and services for the use and benefit of the schools.

Basis of presentation

Financial statement presentation follows generally accepted accounting principles and reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Trust has only unrestricted net assets.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Statement of cash flows

For purposes of the statement of cash flows, the Trust considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Income taxes

The Trust is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. The Trust does not believe it has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. Tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to federal and state examination. Currently, the Trust has no open examination with either the Internal Revenue Service or state taxing authorities.

Marketable securities

Investments are measured at fair value in the statement of financial position. Unrealized gains and losses are reported in the statement of activities and changes in net assets.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 1. Organization and Summary of Significant Accounting Policies, continued

The fair value is the price that would be received to sell an asset or pay or transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Trust utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Trust primarily applies the market and income approaches for recurring fair value measurements and utilizes the best available information. Accordingly, the Trust utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Trust is able to classify fair value balances based on the observability of those inputs. Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities, and U.S. government treasury securities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over-the-counter forwards and options.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At each balance sheet date, the organization performs an analysis of all instruments and includes in Level 3 all of those whose fair value is based on significant unobservable inputs.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 2. Functional Expenses

Generally accepted accounting principles require a presentation of expenses on a functional basis. The costs of providing program services and other activities have been summarized below. Certain costs have been allocated among the program and supporting services benefited.

	2010	2009
Program services	\$(207,096)	\$(361,161)
Support services		
Management and general	208,339	197,260
Fundraising	<u>-</u>	<u>-</u>
	<u>208,339</u>	<u>197,260</u>
	<u>\$ 1,243</u>	<u>\$(163,901)</u>

Note 3. Marketable Securities and Fair Values

The Trust's marketable securities consist primarily of bonds, mutual funds, and equities. A summary of the marketable securities as of December 31, sorted by fair value hierarchy, is as follows:

	Cost	Market Value
2010 -		
Level 1:		
U.S. Government Agency bonds -		
FHLB	1,898,330	2,044,830
FFCB	1,174,291	1,287,669
Corporate bonds -		
Wal-Mart	43,224	45,191
Mutual funds -		
PIMCO Total Return	1,303,000	1,278,604
Bancfirst Strategic Income	125,430	117,966
Allianz NFJ Small Cap Value Institutional Fund	600,000	914,548
Dodge & Cox Income	3,216,340	3,366,132
Federated Total Return Bond	814,739	856,918
MFS Research International	1,835,087	1,490,921
American Beacon L/C Value Fund	379,000	532,180
American Funds Growth Fund of America	365,000	524,975
John Hancock Rainier Growth Equity	365,000	550,730
Vanguard 500 Index Fund Signal Class	1,800,000	2,603,093
Vanguard Growth Index Fund	250,000	298,656
Vanguard Small Cap Value Index Fund	250,000	319,179
First American Real Estate Securities Fund	384,000	516,186
Vanguard Value Index Fund	250,000	281,465
Lazard Emerging Markets	309,000	348,525

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 3. Marketable Securities and Fair Values, continued

	Cost	Market Value
Common stocks -		
Small cap-value	2,044,357	2,702,966
Large cap-value	3,792,146	3,577,649
Large cap-growth	<u>2,639,238</u>	<u>3,422,862</u>
	<u>23,838,182</u>	<u>27,081,245</u>
Level 3:		
Other-The Endowment TEI Fund	1,506,239	1,485,227
Other-JP Morgan Multi-Strategy Fund 11, Ltd.	<u>1,500,000</u>	<u>1,565,570</u>
	<u>3,006,239</u>	<u>3,050,797</u>
	<u>\$26,844,421</u>	<u>\$30,132,042</u>

Unrealized gains arising during the year totaling \$2,355,602 have been included in the accompanying statement of activities. Realized gains of \$180,448 are also included in the statement of activities. Total proceeds of securities sales were \$6,158,361 and the gain or loss was determined using the specific identification method.

In July 2008, the Trust purchased an investment known as The Endowment TEI Fund, L.P. The original cost of this investment was \$1,500,000. The Endowment TEI Fund is a limited partnership organized under the laws of the state of Delaware. The TEI Fund was created to serve as a feeder fund for the Endowment (Offshore TEI) Fund, Ltd, which in turn is a feeder fund for The Endowment Master Fund.

The TEI Fund's investment objective is to preserve capital and to generate consistent long-term appreciation across all market cycles. The TEI Fund pursues its investment objective by investing substantially all of its assets in the Offshore TEI Fund, which in turn invests all of its assets in the Master Fund. Investments in the Master Fund are recorded at estimated fair value.

The valuation of the TEI Fund's investments is calculated by Citi-Fund Services Ohio, Inc., the Fund's independent administrator, in consultation with the advisor. The valuation procedures of the TEI Fund's underlying investments are reviewed by a committee that was established to oversee the valuation of the TEI Fund.

Market value as of December 31, 2009	\$1,394,892
Unrealized gain	93,474
Market value as of December 31, 2010	<u>\$1,488,366</u>

The balance at December 31, 2010 and 2009 includes cash equivalents of \$3,139 and \$3,256, respectively. There were no realized gains or losses, purchases, sales or issuances.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 3. Marketable Securities and Fair Values, continued

In 2008, the Trust also purchased another investment through J.P. Morgan Alternative Assets Management, Inc. called J.P. Morgan Multi-Strategy Fund II, Ltd. This fund is registered as a mutual fund under the mutual funds law of the Cayman Islands for the purpose of investing in investment funds which, in turn, invest in equities, equity-related instruments, fixed income and other debt related instruments.

The Fund's investment objective is to generate capital appreciation over the long term through a portfolio having a diversified risk profile with relatively low volatility and a low correlation with traditional equity and fixed income markets.

The valuation technique used by the Fund to measure fair value was based on the valuation reported by the administrators/investment advisors of the underlying investment funds. The Fund uses the net asset value to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) either have attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. There were no realized gains or losses, purchases, sales or issuances.

Market value as of December 31, 2009	\$1,447,586
Unrealized gain	<u>117,984</u>
Market value as of December 31, 2010	<u>\$1,565,570</u>

	Cost	Market Value
2009 -		
Level 1:		
U.S. Government Agency bonds -		
FHLB	\$2,388,650	\$2,604,264
FNMA	1,174,291	1,292,751
Corporate bonds -		
Morgan Stanley	486,070	506,145
Wal-Mart	43,224	46,613
Mutual funds -		
Bancfirst Strategic Income	123,825	118,120
Alliance NFJ Small Cap Value Institutional Fund	600,000	742,170
Dodge & Cox Income	2,946,340	3,036,301
Federated Total Return Bond	1,928,400	1,973,413
MFS Research International	2,495,000	1,878,828
American Beacon L/C Value Fund	300,000	391,452
American Funds Growth Fund of America	365,000	471,286
John Hancock Rainier Growth Equity	365,000	470,687
Vanguard 500 Index Fund Signal Class	1,700,000	2,205,463
Vanguard Growth Index Fund	250,000	258,321
Vanguard Small Cap Value Index Fund	250,000	260,367
First American Real Estate Securities Fund	325,000	357,941

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 3. Marketable Securities and Fair Values, continued

Common stocks -		
Small cap-value	1,965,050	2,267,408
Large cap-value	3,084,504	3,025,664
Large cap-growth	<u>2,855,991</u>	<u>3,417,707</u>
	<u>23,646,345</u>	<u>25,324,901</u>
Level 2:		
Certificate of deposit	<u>99,000</u>	<u>99,000</u>
Level 3:		
Other - The Endowment TEI Fund	1,503,217	1,391,636
Other - JP Morgan Multi-Strategy Fund 11, Ltd.	<u>1,500,000</u>	<u>1,447,586</u>
	<u>3,003,217</u>	<u>2,839,222</u>
	<u>\$26,748,562</u>	<u>\$28,263,123</u>

Unrealized gains arising during the year totaling \$5,255,020 have been included in the accompanying statement of activities. Realized losses of \$1,007,115 are also included in the statement of activities. Total proceeds from the sale of securities were \$4,419,757 and the gain or loss was determined using the specific identification method.

Note 4. Management Fees

The Trust has entered into an agreement with Communities Foundation of Oklahoma (“the Foundation”), to administer the Trust. The Foundation provides staff, office space and equipment to execute the granting program and all administrative functions. Fees are calculated at an annual rate of 0.6% of the fair market value of Trust assets, payable monthly. The minimum monthly fee is \$15,000. The term of the agreement is three years but it can be terminated by either party with 90 days written notice. The contract was renewed November 18, 2010 extending the agreement through November 17, 2013. Management fees of \$180,677 and \$180,000 were paid to the Foundation for 2010 and 2009, respectively.

Note 5. Investment Advisory Fees

On July 22, 2005, the Trust entered into an investment management agreement with BancFirst. The agreement has no termination date but may be terminated at any time with 90 day written notice. Fees are calculated at 0.25% of the fair market value of assets under management, however if the assets drop below \$15,000,000, the fee is subject to renegotiation. Additional fees related to outside investment advisory services, trading costs for individual securities and unusual or special circumstances are not covered by this agreement.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 6. Grants Payable

The Trust has approved two phases of grants. Phase I provides professional development and laptop computers to head principals and superintendents at Oklahoma public schools through the University of Oklahoma's Oklahoma Achievement through Collaboration and Technology Support (OK-ACTS) program. Upon successful completion of Phase I, these administrators are eligible to apply for a Phase II grant for their school or district. Each Phase II grant award consists of up to \$40,000 for technology equipment including up to \$4,000 for staff release time and professional development through OK-ACTS designed specifically for the grantee school's needs. Grant recipients are required to provide a 10% match of \$4,000 that can be used for technology equipment or substitutes or stipends for staff.

A summary of the grants payable activity is as follows:

	OK-ACTS Phase I	OK-ACTS Phase II	Total
Grants payable, January 1, 2009	\$120,000	\$4,940,000	\$5,060,000
Year ended December 31, 2009-			
Grant award/adjustment	-	(470,000)	(470,000)
Disbursements	<u>(30,000)</u>	<u>(760,000)</u>	<u>(790,000)</u>
Grants payable at year-end	90,000	3,710,000	3,800,000
Year ended December 31, 2010-			
Grant award/adjustment	-	(316,000)	(316,000)
Disbursements	<u>(30,000)</u>	<u>(930,000)</u>	<u>(960,000)</u>
Grants payable at year-end	<u>\$ 60,000</u>	<u>\$2,464,000</u>	<u>\$2,524,000</u>

Subsequent to year end, the Trust reduced its grant program for 2011 by \$197,000.

In 2006, the Trust extended both Phase I and Phase II programs through 2012. The Trust has the option to discontinue the grant prior to August 1 of each year. Projected future cash disbursements based on the most current grant initiatives, are as follows:

Year ending December 31,	
2011	\$1,065,000
2012	<u>1,262,000</u>
	<u>\$2,327,000</u>

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 7. Granting Policy

To ensure perpetuity of the fund, the Trust has adopted a granting policy. The policy sets a distribution rate of 5% of the average fair market value of the trust assets from the previous 36 months. Distributions include grants and all trust expenses. Distributions less than 5% in any year may be carried over to increase subsequent year distributions. Upon approval by 70% of all Trustees, distributions may exceed the 5% ceiling but may never exceed 8% plus unexpended allowable amounts from previous years.

Note 8. Subsequent Events

Management has evaluated subsequent events, if any, through the report date of May 18, 2011, the date the report was available to be issued, and has determined that no additional events occurred which require disclosure in the financial statements.

Luton & Co., PLLC

Certified Public Accountants

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Bruce L. Van Huisen
David R. Brady

May 18, 2011

To the Board of Trustees
Oklahoma Educational Technology Trust

We have audited the financial statements of Oklahoma Educational Technology Trust for the year ended December 31, 2010, and have issued our report thereon dated May 18, 2011. Professional standards require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 28, 2011, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Oklahoma Educational Technology Trust are described in Note 1 to the financial statements.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Trust's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Trust, either individually or in the aggregate, indicate matters that could have a significant effect on the Trust's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Trust's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management performing and completing our audit.

This information is intended solely for the use of the Board of Trustees and management of Oklahoma Educational Technology Trust and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

LUTON & CO., PLLC

By *David R. Bundy*