



STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

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**OKLAHOMA CENTER FOR THE ADVANCEMENT
OF SCIENCE AND TECHNOLOGY**

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004



JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

August 19, 2005

**TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith are our audit reports on the financial statements of the Oklahoma Center for the Advancement of Science and Technology for the fiscal years ended June 30, 2003 and 2004. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our engagement.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in blue ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

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STATE OF OKLAHOMA
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JEFF A. McMAHAN
State Auditor and Inspector

INDEPENDENT AUDITOR'S REPORT

**TO THE BOARD OF THE OKLAHOMA CENTER FOR THE
ADVANCEMENT OF SCIENCE AND TECHNOLOGY**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oklahoma Center for the Advancement of Science and Technology (OCAST), as of and for the years ended June 30, 2003 and 2004, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The financial statements of the OCAST are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the OCAST. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2003 and 2004, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the OCAST as of June 30, 2003 and 2004, and the respective changes in financial position thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, of the OCAST, as of June 30, 2003 and 2004, and the respective changes in financial position thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 29, 2005, on our consideration of the OCAST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information presented within the sections of the accompanying financial report, labeled Management's Discussion and Analysis and the Budgetary Comparison Schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit this information and express no opinion on it. However, the information provided in Management's Discussion and Analysis differs from the required content and placement of the information as required by accounting principles generally accepted in the United States of America.


JEFF A. McMAHAN
State Auditor and Inspector

July 29, 2005

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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MANAGEMENT'S DISCUSSION AND ANALYSIS – EXECUTIVE SUMMARY

Management's Discussion and Analysis – Executive Summary (Unaudited)

The management of the Oklahoma Center for the Advancement of Science and Technology (OCAST) is pleased to provide this annual financial report to the citizens of the State of Oklahoma and other report users to demonstrate its accountability and communicate the OCAST financial condition and activities as of and for the fiscal years ended June 30, 2003 and 2004. Management of the OCAST is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts.

Past Years

For the years ended June 30, 2003 and 2004, the following financial results are considered noteworthy by management:

FY 2003

- OCAST's overall financial condition declined - total net assets decreased 7.3% from the prior year but unrestricted net assets were at 90% of annual revenues.
- State appropriated funding, which provided 94% of total revenues, decreased \$2.1M or 15.5% from the prior year's appropriation as the state wrestled with a funding shortfall.
- OCAST's General Fund budgetary fund balance decreased \$1,348,470 or 16.4%.

FY 2004

- As a result of an additional 5% decrease in total annual revenues, OCAST's program expenditures slowed further; unrestricted net assets ended the year with a 9.6% decrease to 85% of annual revenues.
- State appropriated funding, which provided 94% of total revenues, was down another 4% or nearly half a million dollars.
- OCAST's General Fund budgetary fund balance decreased by \$577,000 or 8.4%.

Upcoming Year

- The FY2005 state appropriation increased \$654,767. Of the increase \$250,000 is new funding for research and development project awards, \$250,000 is first-year funding of a new multi-year functional Magnetic Resonance Imaging (fMRI) project, \$125,000 is first-year funding to establish a nanotechnology program and the balance is for a mandated pay increase plan that is effective January 1, 2005.

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Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. It represents a presentation that communicates the OCAST financial condition and changes therein at two distinct levels:

- **Economic Basis** - a presentation of balances and activities on an accrual basis of accounting and on an economic resources measurement focus (a more business-type approach)
- **General Fund** - a presentation of balances and activities on a modified accrual basis of accounting and on a current financial resources measurement focus (a more budgetary approach)

The OCAST financial statements are presented throughout this report and are accompanied by:

- **Management's Discussion and Analysis** – provides useful analysis that facilitates a better understanding of OCAST's financial condition and changes therein, including charts that present a historical financial condition and performance analysis including various financial ratios (note that this information is unaudited)
- **Footnotes** - elaborate on OCAST's accounting principles used in the preparation of the financial statements and further explain financial statement elements

About OCAST

The Oklahoma Center for the Advancement of Science and Technology is an agency of the State of Oklahoma established in 1987 with the goal to expand and diversify Oklahoma's economy and provide new and higher quality jobs for Oklahomans by encouraging the development of new products, new processes, and new industries in Oklahoma. To achieve this goal, OCAST's mission is to foster innovation in existing and developing businesses by:

- Supporting basic and applied research
- Facilitating technology transfer between research laboratories and firms and farms
- Stimulating seed-capital for new innovative firms and their products
- Fostering enhanced competitiveness in the national and international markets by small and medium-sized Oklahoma manufacturing firms.

OCAST currently operates the following programs:

- Oklahoma Health Research Program
- Oklahoma Applied Research Support Program
- Oklahoma Applied Research Faculty and Student Intern Partnerships
- Small Business Research Assistance
- Oklahoma Alliance for Manufacturing Excellence (The Alliance)
- Oklahoma Technology Commercialization Center
& Technology Business Finance Program
- Inventor's Assistance Service

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Contacting OCAST

This report is designed to provide the citizens of the State of Oklahoma and other report users an understanding of OCAST's finances and to demonstrate OCAST's accountability for the resources it receives. If you have questions about this report or need additional financial information, you may contact the OCAST offices at 755 Research Parkway, Suite 110, Oklahoma City, OK 73104. You may also contact us by email at www.info@ocast.state.ok.us.

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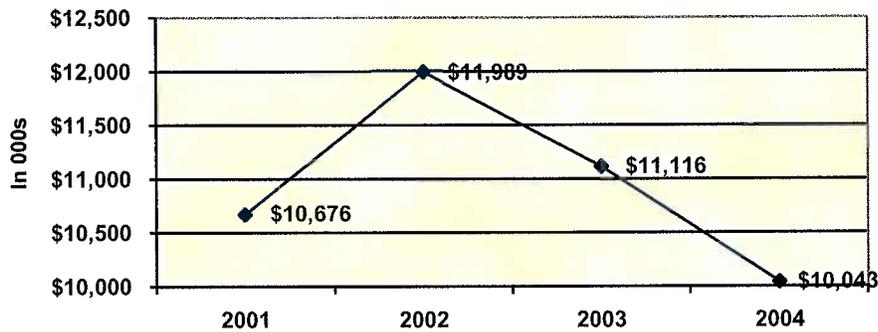
AN ECONOMIC BASED FINANCIAL ANALYSIS OF OCAST

Management’s Discussion and Analysis on Economic Basis Financial Condition (Unaudited)

For the years ended June 30, 2003 and June 30, 2004, OCAST’s overall financial condition declined as noted below.

**Chart 1
Percentage Change in Total Economic Net Assets
(Did our financial condition improve, decline or remain steady over the past year?)**

Management Benchmarks	
Desired	Minimum
+10%	0%



Percentage	2001	2002	2003	2004
Change in Net Assets	-2.0%	+12.3%	-7.3%	-9.7%

For the year ended June 30, 2003, OCAST experienced an \$873,781 or 7.3% decline in net assets, resulting primarily from a \$2.1M or 15.5% reduction in state appropriated funding without a fully corresponding decrease in expenses. For the fiscal year ended June 30, 2004, OCAST’s net assets declined \$1,072,157 or 9.7%. The FY2004 state appropriation declined \$467,221 or 4%, grants and reimbursements declined \$146,444 while expense decreased only \$415,289. Because both the Health Research and Applied Research program project awards have out-year commitments, expenses do not always slow at the same rate as funding reductions.

One of the most important questions asked about a government entity’s finances is:

“Has the entity’s overall economic financial condition improved, declined or remained steady as a result of the year’s activities?”

The “Statement of Net Assets” and the “Statement of Activities” report information about OCAST as an economic entity that helps answer this question. Other non-financial factors for consideration are changes in the OCAST resource base and the likelihood for continued funding. These economic basis statements include all OCAST assets and liabilities, including capital assets and long-term debt.

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STATEMENTS OF NET ASSETS

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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Statement of Net Assets – June 30, 2003 and 2004

	June 30,	
	2003	2004
ASSETS:		
Cash and cash equivalents	\$13,621,522	\$12,404,233
Prepaid items	9,694	5,134
Capital assets, net of depreciation	5,000	1,000
 Total assets	 13,636,216	 12,410,367
 LIABILITIES:		
Accounts payable	1,425,534	1,077,643
Due to other state agencies	967,999	1,177,566
Compensated absences:		
Due within one year	38,942	35,193
Due in more than one year	88,151	76,532
 Total liabilities	 2,520,626	 2,366,934
 NET ASSETS:		
Invested in capital assets, net of related debt	5,000	1,000
Unrestricted	11,110,590	10,042,433
 Total net assets	 \$11,115,590	 \$10,043,433

The accompanying footnotes are an integral part of this statement.

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STATEMENTS OF ACTIVITIES

OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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Statement of Activities - For the Fiscal Year Ended June 30, 2003

Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
					Governmental Activity
Governmental Activity:					
Administration/Data Processing	\$ 524,275	\$ -	\$ -	\$ -	\$ (524,275)
Research & Development Programs					
Health Research	3,261,182		48,586		(3,212,596)
Applied Research	3,638,974				(3,638,974)
R&D Program Support	46,373				(46,373)
Technology Development Programs					
Technology Transfer Services	45,923				(45,923)
Industrial Extension System	1,127,312		158,673		(968,639)
Small Business Research	393,849		207,730		(186,119)
Tech Access/Commercialization	2,514,077				(2,514,077)
Inventors Assistance	153,931				(153,931)
Technology Information Services	265,011				(265,011)
Oklahoma Institute of Technology	939,894				(939,894)
Depreciation Expenses	4,000				(4,000)
Total Governmental Activity	\$ 12,914,801	\$ -	\$ 414,989	\$ -	\$ (12,499,812)
General Revenues:					
State Appropriations					11,626,031
Total General Revenues					11,626,031
Change in Net Assets					
Net Assets - Beginning					(873,781)
Net Assets - Ending					\$ 11,115,590

The accompanying footnotes are an integral part of this statement

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Statement of Activities - For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
					Governmental Activity
Governmental Activity:					
Administration/Data Processing	\$ 287,374	\$ -	\$ -	\$ -	\$ (287,374)
Research & Development Programs					
Health Research	3,572,441		30,000		(3,542,441)
Applied Research	4,349,469				(4,349,469)
R&D Program Support	48,398				(48,398)
Technology Development Programs					
Industrial Extension System	1,091,291		136,254		(955,037)
Small Business Research	308,434		57,173		(251,261)
Tech Access/Commercialization	2,029,887				(2,029,887)
Inventors Assistance	147,698				(147,698)
Technology Transfer Services	49,916				(49,916)
Technology Info Services	543,239				(543,239)
Oklahoma Institute of Technology	22,247				(22,247)
Depreciation Expenses	4,000				(4,000)
Total Governmental Activity	\$ 12,454,394	\$ -	\$ 223,427	\$ -	\$ (12,230,967)
General Revenues:					
State Appropriations					11,158,810
Total General Revenues					11,158,810
Change in Net Assets					(1,072,157)
Net Assets - Beginning					11,115,590
Net Assets - Ending					\$ 10,043,433

The accompanying footnotes are an integral part of this statement

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Footnotes to the Statement of Net Assets:

A1. This financial report has been prepared in an innovative format that differs from the traditional format of state and local government reports. However, the presentation does meet, in substance, the financial presentation requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

The financial statements, including the statement of net assets are reported on the accrual basis of accounting and on an economic resources measurement focus. The accrual basis of accounting recognizes revenues when earned and expenses when the liability is incurred or economic asset used. The economic resources measurement focus reports all assets and liabilities of the entity, including financial and non-financial, and current and non-current.

A2. Cash and cash equivalents includes amounts on deposit with and under the control of the State Treasurer. These amounts are collateralized in accordance with 62 O.S. 2001, § 72.1, the Security for Public Deposits Act. The bank balances as of June 30, 2003 and 2004 were fully insured or collateralized with securities held by the State’s agent in the State’s name.

A3. Capital assets are defined as assets that have a cost in excess of \$25,000 at the date of acquisition and have an expected useful life of five or more years. Capital assets are reported at historical cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life.

For the years ended June 30, 2003 and 2004, capital asset balances changed as follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Computer equipment	\$ 29,000	-	-	\$ 29,000
Accumulated depreciation	\$ 20,000	4,000	-	\$ 24,000
	<u>\$ 9,000</u>	<u>\$ (4,000)</u>	<u>\$ -</u>	<u>\$ 5,000</u>
	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Computer equipment	\$ 29,000	-	-	\$ 29,000
Accumulated depreciation	\$ 24,000	4,000	-	\$ 28,000
	<u>\$ 5,000</u>	<u>\$ (4,000)</u>	<u>\$ -</u>	<u>\$ 1,000</u>

A4. Long-term debt is comprised of accrued compensated absences. Vested accrued leave, up to a total of 480 hours, is payable upon termination, resignation, retirement, or death. In the Statement of Net Assets, this accrued leave is reported as a liability. The amount shown as Amounts Due Within One Year is an estimate based on historical experience. For the years ended June 30, 2003 and 2004, accrued compensated absences liabilities changed as follows:

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<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>	<u>Amounts Due Within One Year</u>
\$ 118,151	8,942	-	\$ 127,093	\$ 38,942

<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>	<u>Amounts Due Within One Year</u>
\$ 127,093	-	(15,368)	\$ 111,725	\$ 35,193

A5. Net assets are normally displayed in three components (two of which are applicable to OCAST):

- a. *Invested in capital assets, net of related debt* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation. *At June 30, 2003 and 2004, none of the OCAST net assets met these restricted net asset definitions.*
- c. *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” OCAST has encumbered contracts that are not classified as Accounts Payable in the amounts of \$4,352,256 for FY2003 and \$3,846,155 for FY2004 that should be considered when evaluating the Unrestricted Net Assets and the Total Net Asset amounts.

Footnotes to Statement of Activities:

- B1. The statement of activities is reported on the accrual basis of accounting and on an economic resources measurement focus as defined in Note A1.
- B2. Program Refunds/Reimbursements consist primarily of Technology Business Finance Program repayments and reimbursement to the agency revolving fund of several federal grant program costs. Expenses are shown net of program repayments and refunds.

In 1999, OCAST established the Technology Business Finance Program to provide contract awards to technology companies whose entrepreneurial business ventures appear to have the capability of both advancing technology in Oklahoma and earning a profit. OCAST contracts with the Oklahoma Technology Development Corporation, an Oklahoma non-profit corporation, to administer the program through the Oklahoma Technology Commercialization Center (OTCC). The OTCC contract with the various technology companies requires a repayment of the award amount, plus interest, if agreed-upon milestones relating to profit are met; if the profit

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milestones are not met, no repayment is required. Due to the uncertainty of repayment, OCAST does not record a receivable related to these awards.

Since the inception of the program, multiple contracts have been awarded totaling \$5,650,000. Cumulative repayment of these contracts through the year ended June 30, 2004 is \$1,462,460.

Other Government-Wide Footnotes:

Risk Management

As part of the State of Oklahoma primary government, OCAST's risk of losses to which they are exposed is managed through the State's risk management activities. OCAST is subject to risks of loss from tort claims, property loss, health claims, and workers compensation claims. In general, the State is self-insured for health care claims, workers compensation claims, tort claims, and property losses. These services are provided by the certain departments of the State's General Fund and two state component units. OCAST is at no financial risk of loss from these types of risks.

Pension Plan Participation

OCAST contributes to the Oklahoma Public Employees Retirement Plan (OPERS). The OPERS is a state-wide cost-sharing multi-employer defined benefit retirement plan. A separately issued annual report for OPERS may be obtained from the Public Employees Retirement System, 6601 N. Broadway Extension, Suite 129, Oklahoma City, 73152-3307. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension benefit provisions are established and amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

Plan members and the agencies are required to contribute at a rate established by State law. The contribution rates for FY 2003 and FY 2004 were 10% for state agencies computed based on all salaries and for state employee contributions, 3% of the first \$25,000 of salaries and then 3.5% for amounts above \$25,000. OCAST's contributions to the Plan for the fiscal years ending June 30, 2001, 2002, 2003 and 2004 were \$89,856, \$97,518, \$99,537 and \$89,689 respectively, equal to the required contribution for each year.

Other Post-Employment Benefits

In addition to the pension benefits described above, the State provides post-retirement health care benefits to employees. OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, for all retirees who elect coverage at the time of retirement. There is no OPEB obligation information available specific to OCAST.

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A FUND BASED FINANCIAL ANALYSIS OF OCAST

Management’s Discussion and Analysis on the General Fund (Unaudited)

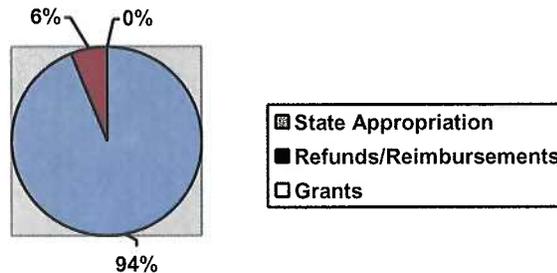
OCAST accounts for all its activities in a single fund – the General Fund. This statement focuses on how money flows into and out of the General Fund and the balances left at year-end that are available for spending (fund balance).

The General Fund reports activities on a modified accrual basis of accounting and on a current financial resources measurement focus that is different from the economic basis of presentation. For example, the General Fund reports the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. This General Fund information identifies (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the OCAST programs.

For FY2003, the General Fund experienced a decline in fund balance of \$860,839, primarily as a result of the reduction in state appropriated funding as previously discussed. Even with a decrease in expenditures in FY2004 there was a decrease in the General Fund of \$1,083,525 due to a decrease in both state appropriated funds and program refund/reimbursement receipts.

**Chart 2
Percentage of Direct Control Annual Revenue as Compared to Total Revenue
(How dependent are we on revenue sources we cannot directly control?)**

Management Benchmarks	
Desired	Minimum
90%	10%



Revenue Source	2001	2002	2003	2004
State Appropriation	96%	94%	94%	95%
Refunds and Reimbursements	3%	6%	6%	5%
Grants	1%	0%	0%	0%
Total	100%	100%	100%	100%

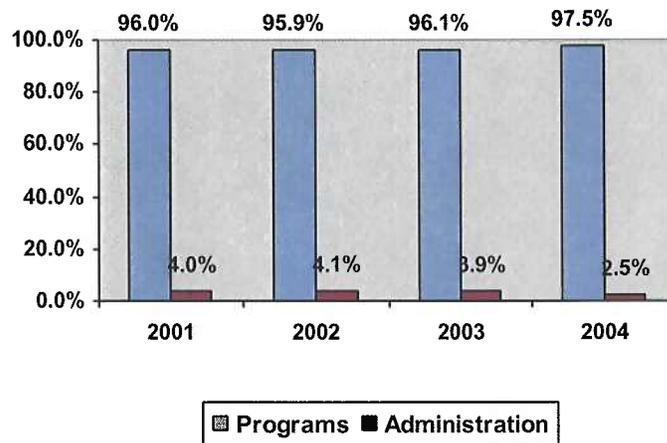
As is the case with most state agencies, OCAST is significantly dependent on state legislative appropriations to finance its operations (94% in FY 2003 and 95% in FY 2004). As such there is a

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potential future uncertainty due to the significant reliance on state appropriations. However, with the current political emphasis on economic development and OCAST's outstanding record of leverage ratios, attracting additional federal and private capital investments, OCAST is in a position for at least level if not increasing annual appropriations.

**Chart 3
Percentage of Administrative and Program Expenditures as Compared to Total Expenditures
(How well are we managing administrative costs in relation to program costs?)**

Management Benchmarks	Desired	Minimum
Programs	96%	90%
Administration	4%	10%



Category of Expenditure	2001	2002	2003	2004
Program Expenditures	96.0%	95.9%	96.1%	97.5%
Administrative Expenditures	4.0%	4.1%	3.9%	2.5%
Total	100%	100%	100%	100%

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BALANCE SHEETS – GENERAL FUND

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Balance Sheets - General Fund

	June 30,	
	2003	2004
ASSETS:		
Cash and cash equivalents	\$13,621,522	\$12,404,233
Prepaid items	9,694	5,134
Total assets	13,631,216	12,409,367
 LIABILITIES:		
Accounts payable	1,425,534	1,077,643
Due to other state agencies	967,999	1,177,566
Total liabilities	2,393,533	2,255,209
 FUND BALANCE:		
Reserved for encumbrances	64,805	77,309
Reserved for program commitments	4,287,451	3,768,846
Reserved for prepaid items	9,694	5,134
Unreserved:		
Designated for R&D out-year anticipated commitments	6,289,535	5,358,852
Designated for Tech out-year anticipated commitments	586,198	944,017
Total fund balance	11,237,683	10,154,158
Total liabilities and fund balance	\$ 13,631,216	\$ 12,409,367

The accompanying footnotes are an integral part of this statement.

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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STATEMENTS OF CHANGES IN FUND BALANCE – GENERAL FUND

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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Statements of Changes in Fund Balance - General Fund

	<u>For the fiscal year ended June 30,</u>	
	<u>2003</u>	<u>2004</u>
Revenues:		
State appropriations	\$ 11,626,031	\$ 11,158,810
Operating grants	-	-
Program refunds/ reimbursements	742,769	596,325
Other	-	-
Total revenues	<u>12,368,800</u>	<u>11,755,135</u>
Current Operating Expenditures:		
Administration	510,802	315,509
Research and development	45,922	49,297
Health research	3,262,386	3,572,101
Applied research	3,647,033	4,353,874
Tech trans services	45,472	50,815
Industrial extension system	1,127,402	1,161,788
Small business research	393,918	307,282
Tech information service	266,512	540,913
Tech access/commercialization	2,836,241	2,317,524
Inventors assistance	154,057	147,310
Oklahoma Institute of Tech	939,894	22,247
Total expenditures	<u>13,229,639</u>	<u>12,838,660</u>
Change in fund balance	(860,839)	(1,083,525)
Fund balance - beginning of year	12,098,522	11,237,683
Fund balance - end of year	<u>\$ 11,237,683</u>	<u>\$ 10,154,158</u>

The accompanying footnotes are an integral part of this statement.

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**RECONCILIATION OF GENERAL FUND BALANCE SHEETS AND STATEMENTS
OF NET ASSETS**

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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Reconciliation of General Fund Balance Sheets and Statements of Net Assets:

	June 30,	
	2003	2004
Fund balance of the General Fund	\$ 11,237,683	\$ 10,154,158
Amounts reported in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets	29,000	29,000
Accumulated depreciation	(24,000)	(28,000)
	5,000	1,000
Certain long-term liabilities are not due and payable from current resources, and, therefore, are not reported in the funds:		
Accrued compensated absences	(127,093)	(111,725)
Net assets in the Statement of Net Assets	\$ 11,115,590	\$ 10,043,433

	For the fiscal year ended June 30,	
	2003	2004
Change in fund balance of the General Fund	\$ (860,839)	\$ (1,083,525)
Amounts reported for governmental activities in the Statement of Activities are different because:		
The General Fund reports capital outlays as expenditures while in the Statement of Net Assets these assets are capitalized and depreciation expense is allocated over the assets' useful lives		
Depreciation expense	(4,000)	(4,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Accrued compensated absences	(8,942)	15,368
Change in net assets in the Statement of Activities	\$ (873,781)	\$ (1,072,157)

The accompanying footnotes are an integral part of this statement.

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Footnotes to General Fund Financial Statements:

- C1. The General Fund is reported on a modified accrual basis of accounting and on a current financial resources measurement focus. In defining revenues as measurable and available, OCAST's policy is to consider revenues collected within 60 days of the end-of-year as available.
- C2. The reconciliation of the General Fund financial statements to the Statements of Net Assets and Activities is the result of the use of the accrual basis of accounting and the economic resources measurement focus in the Statements of Net Assets and Activities.
- C3. OCAST leases office space on an annual basis. Rent of approximately \$45,575 was paid in both FY 2003 and 2004.
- C4. The fund balance reserve for encumbrances represents commitments related to unperformed contracts for the delivery of goods and services to OCAST. The fund balance reserve for commitments represents commitments related to the unperformed portion of contracts with grantees. The fund balance that is unreserved but designated represents amounts designated by management for anticipated out-year commitments on contracts. Due to the nature of the OCAST funding activities, no unreserved, undesignated fund balance exists.

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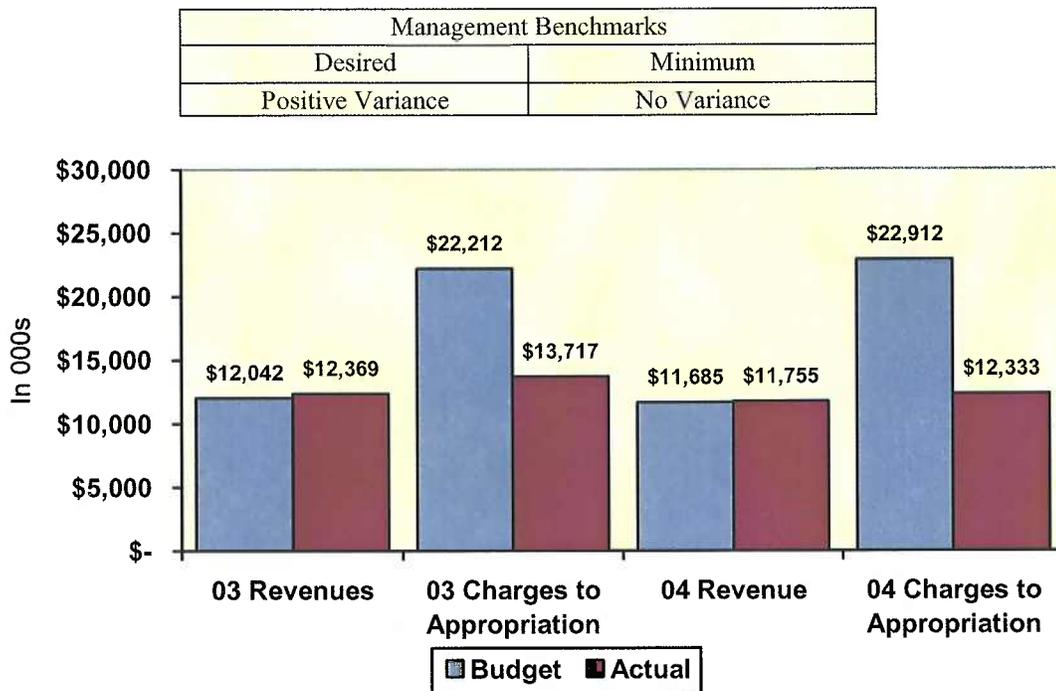
BUDGETARY COMPARISON INFORMATION

Management's Discussion and Analysis on the Budgetary Results (Unaudited)

For FY2003, the General Fund reported actual budgetary basis revenues in excess of final estimates by \$360,000 or a 1% positive variance. The General Fund actual expenditures and encumbrances were less than final budget amounts by \$8,495,000 or a 38% positive variance. For FY2004, budgetary basis revenues exceeded estimates by \$70,325. The General Fund actual expenditures were less than final budget amounts by \$10,579,023 for a 46.2% positive variance. The large expenditure variation from budget is due to the method used to budget for unperformed prior-year commitments of the multi-year R&D awards.

Chart 4 illustrates the budget versus actual results for revenues and charges to appropriations.

**Chart 4
Budget versus Actual Comparison of Revenues and Charges to Appropriations
(How well did we stay within our budget?)**



Category	2001	2002	2003	2004
Revenues	N/A	2% P	1% P	.6% P
Charges to Appropriations	N/A	49% P	38% P	46% P

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BUDGETARY COMPARISON SCHEDULES – GENERAL FUND

OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003
(UNAUDITED)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance (Restated)	\$8,233,897	\$8,233,897	\$8,233,897	\$ -
Resources (Inflows):				
State appropriations	11,626,031	11,626,031	11,626,031	-
Grants	116,381	116,381	-	(116,381)
Refund and reimbursements	300,000	300,000	742,769	442,769
Other	-	-	-	-
Total Resources	<u>20,276,309</u>	<u>20,276,309</u>	<u>20,602,697</u>	<u>326,388</u>
Charges to appropriations (Outflows):				
Administration	536,684	582,102	510,358	71,744
Research and development	70,828	70,828	45,922	24,906
Health research	5,607,862	5,351,608	3,335,216	2,016,392
Applied research	9,551,717	9,237,146	3,831,333	5,405,813
Tech trans services	76,828	76,828	45,472	31,356
Industrial extension system	1,434,165	1,356,651	1,114,965	241,686
Small business research	484,962	464,222	318,946	145,276
Tech information service	889,248	851,853	599,535	252,318
Tech access/commercialization	3,306,407	3,095,663	2,821,517	274,146
Inventors assistance	176,715	163,493	154,112	9,381
Oklahoma Institute of Tech	960,926	962,141	939,894	22,247
	<u>23,096,342</u>	<u>22,212,535</u>	<u>13,717,270</u>	<u>8,495,265</u>
Ending Budgetary Fund Balance	<u>\$ (2,820,033)</u>	<u>\$ (1,936,226)</u>	<u>\$ 6,885,427</u>	<u>\$ 8,821,653</u>

The accompanying footnotes are an integral part of this schedule.

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BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		\$
Beginning Budgetary Fund Balance:	\$6,885,427	\$6,885,427	\$6,885,427	\$ -
Resources (Inflows):				
State appropriations	11,158,810	11,158,810	11,158,810	-
Grants	86,000	86,000	-	(86,000)
Refund and reimbursements	440,000	440,000	596,325	156,325
Other	-	-	-	-
	18,570,237	18,570,237	18,640,562	70,325
Charges to appropriations (Outflows):				
Administration	469,233	537,851	320,702	217,149
Research and development	66,445	66,445	49,297	17,148
Health research	7,158,415	7,160,845	3,625,177	3,535,668
Applied research	8,737,265	8,737,265	3,848,065	4,889,200
Tech trans services	66,445	66,445	50,815	15,630
Industrial extension system	1,095,982	1,107,280	1,145,121	(37,841)
Small business research	754,540	757,577	265,295	492,282
Tech information service	406,786	495,160	196,071	299,089
Tech access/commercialization	3,697,458	3,728,187	2,662,564	1,065,623
Inventors assistance	252,598	254,527	147,205	107,322
Oklahoma Institute of Tech	-	-	22,247	(22,247)
	22,705,167	22,911,582	12,332,559	10,579,023
Ending Budgetary Fund Balance	\$ (4,134,930)	\$ (4,341,345)	\$ 6,308,003	\$ 10,649,348

The accompanying footnotes are an integral part of this schedule.

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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Footnotes to Budgetary Comparison Schedules (Unaudited)

- D1. The budgetary comparison schedules are reported on a non-GAAP budgetary basis that reports revenues on a cash basis and charges to appropriation on a cash basis modified for reporting encumbrances and contractual commitments.
- D2. Because accounting principles applied for the purposes of presenting the budgetary comparison information differ from those used in the presentation of the basic financial statements prepared in accordance with GAAP, a reconciliation resulting from those differences is presented as follows for the General Fund.

	June 30,	
	2003	2004
Budgetary basis fund balance of the General Fund	\$ 6,885,427	\$ 6,308,003
Basis differences:		
Add:		
Encumbrances recognized as expenditures	64,805	77,309
Award contract commitments recognized as expenditures	4,287,451	3,768,846
	\$ 11,237,683	\$ 10,154,158
GAAP basis fund balance in the General Fund		



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

**TO THE BOARD OF THE OKLAHOMA CENTER FOR THE
ADVANCEMENT OF SCIENCE AND TECHNOLOGY**

We have audited the financial statements of the governmental activities and each major fund of the Oklahoma Center for the Advancement of Science and Technology (OCAST), a part of the primary government of the State of Oklahoma, as of and for the years ended June 30, 2003 and 2004, which collectively comprise the OCAST's basic financial statements, and have issued our report thereon dated July 29, 2005. The report includes an explanatory paragraph stating that the basic financial statements of the OCAST are intended to present the financial position and results of operations of only that portion of the State of Oklahoma attributable to the transactions of the OCAST. The report also includes an explanatory paragraph stating that the information provided in Management's Discussion and Analysis differs from the required content and placement of the information as required by accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the OCAST's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management of the Oklahoma Center for the Advancement of Science and Technology and its governing members and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.



JEFF A. McMAHAN
State Auditor and Inspector

July 29, 2005



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