



# STATE OF OKLAHOMA OFFICE OF THE STATE AUDITOR & INSPECTOR

## F I N A N C I A L A U D I T

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

### FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

*FOR THE FISCAL YEAR ENDED JUNE 30, 2005*



**JEFF A. McMAHAN, CFE**  
**OKLAHOMA STATE AUDITOR & INSPECTOR**

**Oklahoma Center for the Advancement  
of Science & Technology**



**ANNUAL FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



**STATE OF OKLAHOMA**  
**OFFICE OF THE AUDITOR AND INSPECTOR**

**JEFF A. McMAHAN**  
State Auditor and Inspector

June 13, 2006

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

Transmitted herewith is our audit report on the financial statements of the Oklahoma Center for the Advancement of Science and Technology for the fiscal year ended June 30, 2005. 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. McMahon".

**JEFF A. McMAHAN**  
State Auditor and Inspector

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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 OCAST's financial condition and activities as of and for the fiscal year ended June 30, 2005. 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.

### **Financial Highlights**

- For FY2005 OCAST received state appropriated funding in the amount of \$11,669,647; this is an increase of \$654,767 or 5.9% over the initial FY2004 appropriation.
- The increased appropriation provided \$250,000 for a functional Magnetic Resonance Imaging (fMRI) project, \$125,000 for a nanotechnology initiative, \$250,000 for the Alliance program and the balance for a mandated pay & benefit increase.
- Approximately 95% of expenditures during FY2005 were for Research & Development and Technology Commercialization programs and services; this is down from the FY2004 level of 97%.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to OCAST's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of OCAST's finances in a manner similar to a private-sector business; included are a Statement of Net Assets and a Statement of Activities.

The statement of net assets presents information on all of OCAST's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of OCAST is improving or deteriorating.

The statement of activities presents information showing how OCAST's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that result in cash flow of previous and future periods.

#### Fund financial statements

Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. All governmental activities of OCAST are reflected in a single fund – the General Fund. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the

governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

### Analysis of Government-wide Balances

The following table provides OCAST's Net Assets information as of the end of fiscal years 2004 and 2005:

	FY2004	FY2005	% Change
<b>Assets:</b>			
Cash and cash equivalents	\$ 12,404,233	\$ 12,067,537	(2.7)%
Prepaid items	5,134	3,191	(37.8)%
Capital assets (net of depreciation)	1,000	0	(100)%
<b>Total Assets</b>	<b>12,410,367</b>	<b>12,070,728</b>	<b>(2.7)%</b>
<b>Liabilities:</b>			
Accounts payable	1,077,643	1,240,370	15.1%
Due to other state agencies	1,177,566	896,623	(23.9)%
Compensated absences:			
Payable within one year	35,193	37,830	7.5%
Payable in more than one year	76,532	84,201	10.0%
<b>Total Liabilities</b>	<b>2,366,934</b>	<b>2,259,024</b>	<b>(4.6)%</b>
<b>Net Assets:</b>			
Invested in capital assets (net of related debt)	1,000	0	(100)%
Unrestricted	10,042,433	9,811,704	(2.3)%
<b>Total Net Assets</b>	<b>\$ 10,043,433</b>	<b>\$ 9,811,704</b>	<b>(2.3)%</b>



OCAST's expenditures are greatly impacted by the 3-year R&D grant awards and the variations in cash flow resulting from factors affecting the research projects. Because of this, OCAST has purposely accumulated a cash balance in the agency's revolving fund to manage the resulting cash flow fluctuations. The following table reflects OCAST's changes in net assets, from the government-wide financial statement perspective, for fiscal years 2004 and 2005:

	FY 2004	FY 2005	% Change
<b>Program Revenues:</b>			
Grants	\$ 223,427	\$ 115,186	(48.4)%
Program Refunds/Reimbursements	372,898	464,021	24.4%
Total Program Revenues	596,325	579,207	(2.9)%
<b>General Revenues:</b>			
State Appropriation	11,158,810	11,669,647	4.6%
Total General Revenues	11,158,810	11,669,647	4.6%
Total Revenues	11,755,135	12,248,854	4.2%
<b>Expenditures:</b>			
Research & Development Programs	7,977,460	7,197,309	(9.8)%
Technology Development Programs	3,991,750	4,375,236	9.6%
Technology Information Services	544,461	297,994	(45.3)%
Oklahoma Institute of Technology	22,247	0	(100.0)%
Administration	287,374	609,044	111.9%
Depreciation	4,000	1,000	(75.0)%
Total Expenditures	12,827,292	12,480,583	(2.7)%
Change in Net Assets	(1,072,157)	(231,729)	78.4%
Net Assets – Beginning of Year	11,115,590	10,043,433	(9.6)%
Assets – End of Year	\$ 10,043,433	\$ 9,811,704	(2.3)%

### Analysis of Governmental Fund Balances – General Fund

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 resources measurement focus. 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 the fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the OCAST programs.

When reviewed from this perspective, in FY2004 there was a decrease in the fund balance of \$1,083,525, which was due to a decrease in both state appropriated funding and program refund/reimbursement receipts but with a slower rate of decrease in expenditures. In FY2005 there was an overall decrease in



fund balance of \$220,423. Though still negative, this was a positive change between years which resulted from an increase in state appropriation funding along with a continued decrease in expenditures. Because both the Health Research and Applied Research program grant awards have out-year commitments, expenses do not change at the same rate as funding changes.

### **Analysis of Budgetary Comparison Schedule – General Fund**

For FY2005 the General Fund reported actual budgetary basis revenues in excess of final estimates by \$479,207, which is a 2.7% variance. The difference is the result of under-estimating the timing of federal grant reimbursements and program reimbursements. Particularly, the uncertainty of refunds from the Technology Business Finance Program was a major contributing factor (see Note #1, Fund Financial Statement, Program Refund/Reimbursement information for further discussion of the TBFP). The actual expenditures were less than the final budget amounts by \$3,724,881 or 22%. The budgeted amounts reflect the budget authority to encumber contracts and establish multi-year Research & Development grant award commitments whereas the actual expenditures, greatly impacted by the multi-year commitments and the timing of these research projects, are expected to have this level of variation – this is necessary to manage the cash flow for the long-term commitments.

### **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 [info@ocast.state.ok.us](mailto:info@ocast.state.ok.us).





**STATE OF OKLAHOMA**  
**OFFICE OF THE AUDITOR AND INSPECTOR**

**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 year ended June 30, 2005, 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, 2005, and the changes in its financial position and its cash flows, where applicable, for the year 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 and each major fund of the OCAST as of June 30, 2005, and the respective changes in financial position thereof, for the year 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 June 12, 2006, 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.



JEFF A. McMAHAN  
State Auditor and Inspector

June 12, 2006



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**STATEMENT OF NET ASSETS**

Assets:

Cash and cash equivalents	\$12,067,537
Prepaid items	3,191
Capital assets	29,000
Accumulated depreciation	(29,000)
 Total Assets	 <u>12,070,728</u>

Liabilities:

Accounts payable	1,240,370
Due to other state agencies	896,623
Compensated absences:	
Payable within one year	37,830
Payable in more than one year	84,201
 Total Liabilities	 <u>2,259,024</u>

Net Assets:

Unrestricted	9,811,704
 Total Net Assets	 <u>\$9,811,704</u>

The accompanying notes are an integral part of the financial statement

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**STATEMENT OF ACTIVITIES**

Functions/Programs	Expenses (Net Program Reimbursement)	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets  Governmental Activity
Governmental Activities:				
Administration/Data Processing	\$ 609,044	\$ 0	\$ 0	(\$ 609,044)
Research & Development Programs				
Health Research	3,519,543	0	64,384	(3,455,159)
Applied Research	3,570,434	0	0	(3,570,434)
R&D Program Support – DP	95,550	0	0	(95,550)
Technology Development Programs				
Industrial Extension System	1,203,557	0	0	(1,203,557)
Small Business Research	301,070	0	50,802	(250,268)
Tech Access/Commercialization	2,178,410	0	0	(2,178,410)
Inventors Assistance	149,658	0	0	(149,658)
Tech Transfer Support – DP	90,804	0	0	(90,804)
Technology Information Services	297,492	0	0	(297,492)
Depreciation Expense	1,000	0	0	(1,000)
Total Expense	\$ 12,016,562	\$ 0	\$ 115,186	(\$ 11,901,376)
General Revenues:				
State Appropriation				11,669,647
Total Revenues				11,669,647
Change in Net Assets				(231,729)
Net Assets – Beginning (July 1, 2004)				10,043,433
Net Assets – Ending (June 30, 2005)				\$ 9,811,704

The accompanying notes are an integral part of the financial statement



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**BALANCE SHEET**  
**GOVERNMENTAL FUND**

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 12,067,537
Prepaid items	3,191
Total Assets	<u>12,070,728</u>
Liabilities	
Accounts payable	1,240,370
Due to other state agencies	896,623
Total Liabilities	<u>2,136,993</u>
Fund Balance	
Reserved for encumbrances	21,605
Reserved for program commitments	4,564,013
Reserved for prepaid items	3,191
Unreserved:	
Designated for Research & Development programs	4,641,564
Designated for Technology Development programs	623,936
Undesignated	79,426
Total Fund Balance	<u>9,933,735</u>
Total Liabilities and Fund Balance	<u>\$ 12,070,728</u>

The accompanying notes are an integral part of the financial statement

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**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

Total Fund Balance – Governmental Fund	\$ 9,933,735
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Amounts reported in the Statement of Net Assets are different because:

Certain long-term liabilities are not due and payable from current resources  
and therefore are not reported in the funds

Accrued compensated absences	(122,031)
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Net assets in the Statement of Net Assets	\$ 9,811,704
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The accompanying notes are an integral part of the financial statement

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**STATEMENT OF REVENUE, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND**

	<u>General Fund</u>
Revenues:	
Operating Grants	\$ 115,186
Program Refunds / Reimbursements	464,021
Total Revenues	<u>579,207</u>
Expenditures:	
Current:	
Administration / Data Processing	593,065
Research & Development Programs	
Health Research	3,518,421
Applied Research	3,578,812
R&D Program Support – DP	95,138
Technology Development Programs	
Industrial Extension System	1,430,480
Small Business Research	302,177
Tech Access / Commercialization	2,409,358
Inventors Assistance	150,031
Tech Transfer Support – DP	90,392
Technology Information Services	301,403
Total Expenditures	<u>12,469,277</u>
Other Financing:	
State Appropriation	11,669,647
Total Other Financing	<u>11,669,647</u>
Change in Fund Balance:	(220,423)
Fund Balance – Beginning – July 1, 2004	10,154,158
Fund Balance – Ending – June 30, 2005	<u>\$ 9,933,735</u>

The accompanying notes are an integral part of the financial statement

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**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE  
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

Net Decrease in Fund Balance – Governmental Fund \$ (220,423)

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 (1,000)

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 (10,306)

Decrease in net assets in the Statement of Net Assets \$ (231,729)

The accompanying notes are an integral part of the financial statement

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**Notes to the Basic Financial Statements**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Oklahoma Center for the Advancement of Science and Technology (OCAST) 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 (OARS) 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

**B. Basis of Presentation**

**Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the reporting government as a whole. They include all resources of the reporting entity. OCAST is involved only in governmental activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenue.

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds each of which is

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considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

The fund financial statements report the detailed activities by fund type, which for OCAST the governmental fund is the General Fund. For OCAST, this fund has three separate funding sources:

- State Appropriations – Funds provided by annual appropriations from the State Legislature.
- Federal Revenue – Funds reimbursement provided by federal grants and contracts as well as contracts with other state agencies.
- Program Refund/Reimbursement - consists primarily of refunds from the Technology Business Finance Program plus other smaller miscellaneous refunds/reimbursements.

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 an Oklahoma non-profit corporation to administer the program through the Oklahoma Technology Commercialization Center (OTCC). The OTCC contracts with various technology companies and requires a repayment of the award amount, plus interest, if the technology company meets agreed-upon milestones relating to profit. All principal and interest repayments received from the awardees are recorded as program revenue. The contract also indicates that if the technology company does not meet the profit milestone, no repayment is required. Although funds advanced to awardees under award contracts are anticipated to be repaid, they are at potentially high risk of not being repaid at all due to the start-up stage of the awardees. Therefore, OCAST does not record a receivable related to these awards.

### **C. Measurement Focus and Basis of Accounting**

Measurement of focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

#### Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets and financial position. All assets or liabilities (whether current or non-current) associated with their activities are reported.

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In the fund financial statements all governmental funds are accounted for using a current resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets. 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 undesignated fund balance exists

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, assets and liabilities resulting from exchange transactions are recognized when the exchange takes place.

In the fund financial statements all governmental funds are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and related current assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year. For this purpose the state considers revenues to be available if collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2005 has been reported only in the government-wide financial statements.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

**D. Assets, Liabilities, and Equity**

Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. OCAST's cash is pooled with the cash of all other state agencies; this pool of cash is deposited in banks or invested by the State Treasurer in accordance with Oklahoma Statutes. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution.



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Capital Assets

The Department of Central Services, in accordance with Oklahoma Statutes, Title 74 § 110.1, has primary responsibility to maintain control of all property and equipment owned by the State of Oklahoma with a cost in excess of \$500. The Department of Central Services has delegated to each of the various state agencies the responsibility to maintain the accounting records for property and equipment purchased and used by each agency. 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.

Compensated Absences

Employees earn annual leave at the average rate of 10 hours per month for up to 5 years service, an average of 12 hours per month for 5 to 10 years, an average of 13.33 hours per month for 10 to 20 years, and an average of 16.67 hours per month for over 20 years of service. Employees with up to 5 years service may accumulate to a maximum of 240 hours and employees with over five years service may accumulate to a maximum of 480 hours.

Accounts Payable

Payables consist of all prior year payments made during the months of July through September of the following fiscal year. While a portion of the payments are for operational expenses, the majority of the payments are for program management contract costs and for research project grant payments.

OCAST had encumbered contracts not classified as Accounts Payable in the amount of \$4,564,013 for FY2005 that should be considered when evaluating the Unrestricted Net Assets and the Total Net Asset amounts.

**Note 2. Capital Assets**

OCAST reports capital assets at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life. For the fiscal year ended June 30, 2005, capital asset balances changed as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Computer Equipment	\$ 29,000	\$ 0	\$ 0	\$ 29,000
Accumulated Depreciation	28,000	1,000	0	29,000
	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

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**Note 3. Operating Leases**

OCAST's operating leases consist only of a contract for office space. For FY2005, lease expenditures were \$47,381. The current lease contract has four one-year options to renew so for FY2006 through FY2010 the expenditures should be \$50,992 per year.

**Note 4. 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.

**Note 5. 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 agencies are required to contribute at rates established by State law. For FY2005, plan member's contribution rates were 3% of the first \$25,000 of salaries and 3.5% for amounts above \$25,000 while the agency's contribution rate was 10%, computed based on all salaries. For the fiscal year ended June 30, 2005, the OCAST contributions to the plan, which were equal to the required contributions, were \$93,306; OCAST contributions for the two preceding fiscal years were \$99,537 for 2003 and \$89,689 for 2004.

**Note 6. 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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**Note 7. Long-Term Obligations**

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 year ended June 30, 2005, accrued compensated absences liabilities changed as follows:

Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Amount Due Within One Year
\$ 111,725	\$ 10,306	\$ 0	\$ 122,031	\$ 37,830

**Note 8. Reserved & Unreserved Fund Balance**

The reserved for encumbrances amount is the portion of the Fund Balance reserved for encumbered contracts for goods and services ordered but not received prior to June 30<sup>th</sup>. The amount reserved for program commitments is for program grant award contracts, other than those recorded in either Accounts Payable or Due to Other State Agencies, which are unperformed as of the end of September.

The unreserved but designated portion of the Fund Balance is for the award commitment of the 2<sup>nd</sup> and 3<sup>rd</sup> out-year options on the agency's three-year grant award contracts that are not yet encumbered because of the State Constitutional restriction on encumbering funds for more than one year.

**Required Supplementary Information -  
Budgetary Comparison Information**

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**Budgetary Comparison Schedule – General Fund**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$ 6,308,003	\$ 6,308,003	\$6,308,003	\$ 0
Resources (Inflows):				
State appropriations	11,669,647	11,669,647	11,669,647	0
Grants	0	0	115,186	115,186
Program Refund/Reimbursement	100,000	100,000	464,021	364,021
Other	0	0	0	0
Total Available for Approp.	18,077,650	18,077,650	18,556,857	479,207
Charges to Appropriations (Outflows):				
Administration / Data Processing	469,233	600,000	587,209	12,791
Health Research	7,048,175	5,175,952	4,028,068	1,147,884
Applied Research	8,775,413	4,735,533	3,564,852	1,170,681
R&D Program Support – DP	66,694	114,094	95,138	18,956
Industrial Extension System	1,776,333	1,479,942	1,420,639	59,303
Small Business Research	699,902	444,302	347,669	96,633
Tech Access / Commercialization	3,713,916	3,654,829	2,550,689	1,104,140
Inventors Assistance	282,450	160,302	150,522	9,780
Tech Transfer Support – DP	66,694	108,962	90,392	18,570
Technology Information Services	537,607	459,705	373,562	86,143
Total Charges to Approp.	23,436,417	16,933,621	13,208,740	3,724,881
Ending Budgetary Fund Balance	<u>\$ (5,358,767)</u>	<u>\$ 1,144,029</u>	<u>\$ 5,348,117</u>	<u>\$ 4,204,088</u>

The accompanying notes are an integral part of this schedule

See independent auditor's report.

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**Notes to the Budgetary Comparison Schedule**

- Note 1.** The budgetary comparison schedule is 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.
- Note 2.** 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.

	<u>June 30, 2005</u>
Budgetary basis fund balance of the General Fund	\$ 5,348,117
Basis differences:	
Add:	
Encumbrances recognized as expenditures	21,605
Award contract commitments recognized as expenditures	<u>4,564,013</u>
GAAP basis fund balance in the General Fund	<u>\$ 9,933,735</u>







**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 year ended June 30, 2005, which collectively comprise the OCAST's basic financial statements, and have issued our report thereon dated June 12, 2006. 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. 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 should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN  
State Auditor and Inspector

June 12, 2006



## Office of the State Auditor and Inspector

2300 North Lincoln Boulevard, Room 100  
Oklahoma City, Oklahoma 73105-4896  
(405) 521-3495

[www.sai.state.ok.us](http://www.sai.state.ok.us)