



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 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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MANAGEMENT'S DISCUSSION AND ANALYSIS

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
Assets:			
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)%
Total Assets	12,410,367	12,070,728	(2.7)%
Liabilities:			
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%
Total Liabilities	2,366,934	2,259,024	(4.6)%
Net Assets:			
Invested in capital assets (net of related debt)	1,000	0	(100)%
Unrestricted	10,042,433	9,811,704	(2.3)%
Total Net Assets	\$ 10,043,433	\$ 9,811,704	(2.3)%

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
Program Revenues:			
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)%
General Revenues:			
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%
Expenditures:			
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.



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.

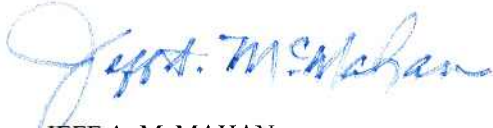
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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

OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2005

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

