

# OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY

JULY 1, 2006 THROUGH JUNE 30, 2007

# FINANCIAL STATEMENT AUDIT



Jeff A. McMahan

Oklahoma State Auditor  
& Inspector

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



## **ANNUAL FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

February 6, 2008

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

Transmitted herewith is our report on the financial statements of the Oklahoma Center for the Advancement of Science and Technology for the fiscal year ended June 30, 2007. 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 to the agency's staff 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 serving 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 "Michelle R. Day".

Michelle R. Day, Esq.  
Deputy 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, 2007. 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 FY2007 OCAST received state appropriated funding in the amount of \$22,442,616; this is an increase of \$10,041,674 or 81% over the FY2006 appropriation.
- Of the increase, \$7,300,000 (72.7%) funded new program initiatives leaving \$2,741,674 (27.3%) for previously existing agency program purposes.
- The new program initiatives included a Seed Capital program, the Oklahoma Nanotechnology Applications Project, and start-up funding for a Plant Science Research program.

### **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 2006 and 2007:

	FY2006	FY2007	% Change
<b>Assets:</b>			
Cash and cash equivalents	\$ 11,506,750	\$ 18,661,182	62.2%
Due from other agencies	0	47,462	-
Prepaid items	3,265	1,036	(68.3)%
<b>Total Assets</b>	<b>11,510,015</b>	<b>18,709,680</b>	<b>62.6%</b>
<b>Liabilities:</b>			
Accounts payable	976,920	1,906,914	95.2%
Due to other state agencies	837,251	821,934	(1.8)%
Compensated absences:			
Payable within one year	41,684	53,078	27.3%
Payable in more than one year	92,782	123,849	33.5%
<b>Total Liabilities</b>	<b>1,948,637</b>	<b>2,905,775</b>	<b>49.1%</b>
<b>Net Assets:</b>			
Unrestricted	9,561,378	15,803,905	65.3%
<b>Total Net Assets</b>	<b>\$9,561,378</b>	<b>\$ 15,803,905</b>	<b>65.3%</b>



OCAST's expenditures are greatly impacted by the three-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 2006 and 2007:

	FY 2006	FY 2007	% Change
<b>Program Revenues:</b>			
Operating grants & contributions	\$ 301,525	\$226,935	(24.7)%
Total Program Revenues	301,525	226,935	(24.7)%
<b>General Revenues:</b>			
State Appropriation	12,400,942	22,442,616	81.0%
Program refunds & other reimbursements	544,207	577,137	6.1%
Total General Revenues	12,945,149	23,019,753	77.8%
Total Revenues	13,246,674	23,246,688	75.5%
<b>Expenditures:</b>			
Operational Programs	12,630,099	15,989,179	26.6%
Technology Information Services	369,807	285,255	(22.9)%
Administration	497,094	729,727	46.8%
Total Expenditures	13,497,000	17,004,161	26.0%
Change in Net Assets	(250,326)	6,242,527	2,593.8%
Net Assets – Beginning of Year	9,811,704	9,561,378	(2.6)%
Net Assets – End of Year	\$ 9,561,378	\$ 15,803,905	65.3%

#### **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.

In FY2007 both revenues and expenses increased dramatically from FY2006, revenues 54.7% and expenses 69.1%. The growth is directly related to the \$10M increase in general appropriation. Each of the research program's grant awards have out-year commitments that impact the expenditure rate and as such, expenses are not expected to change at the same rate as funding changes – each year is impacted by prior-year award commitment levels. Overall the fund balance increased \$6,237,526 though the large amount is largely due to establishment of several new award programs during the fiscal year – the full impact will not be felt until the programs mature.



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

The General Fund reported actual budgetary basis revenues were less than the final budget estimate by \$520,928, a variance of 1.2%. The difference is the result of several factors: 1) an anticipated federal grant was not awarded so the revenues were not realized; 2) OCAST's support and the budgeted expense reimbursement for the State's Economic Development Generating Excellence (EDGE) trust fund policy board did not begin in FY2007 as anticipated; and 3) OCAST's practice in which federal grant reimbursements and program reimbursements are received in one year but not budgeted for expenditure until the subsequent year (the uncertainty of refunds from the Technology Business Finance Program is a major contributing factor for this practice - see Note #1, Fund Financial Statement, Program Refund/Reimbursement information for further discussion of the TBFP).

Actual expenditures were less than the final budget by \$4,079,258 or 15.6%. One impacting factor was the anticipated \$1M federal grant that was not received. An additional major factor is that the budget for expenditures reflects the budget authority to encumber contracts and establish multi-year research grant award commitments; actual expenditures include only the current year and prior year contract payments for these multi-year research grant commitments. This level of variation is expected as it is necessary to manage the cash flow for these 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**

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, 2007, which collectively comprise OCAST's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the OCAST's management. Our responsibility is to express opinions 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCAST's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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.

As discussed in Note 1, the financial statements of 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, 2007, the changes in its financial position, or, where applicable, its cash flows 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, 2007, and the respective changes in financial position 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 January 14, 2008 on our consideration of OCAST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Management's Discussion and Analysis and Budgetary Comparison Schedule on pages 1 through 4 and 17 through 18, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Michelle R. Day, Esq.  
Deputy State Auditor and Inspector

January 14, 2008



**OCAST**  
**STATEMENT OF NET ASSETS**  
**For the Fiscal Year End June 30, 2007**

**Assets:**

Cash and cash equivalents	\$ 18,661,182
Due from other agencies	47,462
Prepaid items	1,036
 Total Assets	 <u>18,709,680</u>

**Liabilities:**

Accounts payable	1,906,914
Due to other state agencies	821,934
Compensated absences:	
Payable within one year	53,078
Payable in more than one year	123,849
 Total Liabilities	 <u>2,905,775</u>

**Net Assets:**

Unrestricted	15,803,905
 Total Net Assets	 <u>\$ 15,803,905</u>

The notes to the financial statements are an integral part of this statement.

**OCAST**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year End June 30, 2007**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Assets
				Governmental Activity
Governmental Activities:				
Administration / MIS	\$ 729,727	\$ 0	\$ 0	\$ (729,727)
Operational Programs				
Health Research	3,573,757	0	0	(3,573,757)
Applied Research	4,385,791	0	24,146	(4,361,645)
Plant Science	30,682	0	0	(30,682)
Industrial Extension System	2,690,598	0	176,363	(2,514,235)
Small Business Research	365,903	0	26,426	(339,477)
Technology Commercialization	3,931,321	0	0	(3,931,321)
Seed Capital	801,329	0	0	(801,329)
Inventors Assistance	36,437	0	0	(36,437)
Programs - MIS	173,361	0	0	(173,361)
Technology Information Services	285,255			(285,255)
Total Expense	\$ 17,004,161	\$ 0	\$ 226,935	\$ (16,777,226)
General Revenues:				
State Appropriation				22,442,616
Program Refunds & Other Reimbursements				577,137
Total Revenues				23,019,753
Change in Net Assets				6,242,527
Net Assets – Beginning (July 1, 2006)				9,561,378
Net Assets – Ending (June 30, 2007)				\$ 15,803,905

The notes to the financial statements are an integral part of this statement.

**OCAST  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2007**

	<u><b>General Fund</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 18,661,182
Due from other agencies	47,462
Prepaid items	1,036
Total Assets	<u>18,709,680</u>
<b>Liabilities</b>	
Accounts payable	1,906,914
Due to other state agencies	821,934
Total Liabilities	<u>2,728,848</u>
<b>Fund Balance</b>	
Reserved for encumbrances	281,006
Reserved for program commitments	8,912,253
Reserved for prepaid items	1,036
Unreserved:	
Designated for Research programs	4,663,763
Designated for Commercialization programs	1,518,944
Undesignated	603,830
Total Fund Balance	<u>15,980,832</u>
<b>Total Liabilities and Fund Balance</b>	<u><b>\$ 18,709,680</b></u>

The notes to the financial statements are an integral part of this statement.



**OCAST**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2007**

Total Fund Balance – Governmental Fund	\$ 15,980,832
Certain long-term liabilities are not due and payable from current resources and therefore are not reported in the funds	
Accrued compensated absences	<u>(176,927)</u>
Net assets in the Statement of Net Assets	<u>\$ 15,803,905</u>

The notes to the financial statements are an integral part of this statement.

**OCAST**  
**STATEMENT OF REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**For the Fiscal Year End June 30, 2007**

	<u><b>General Fund</b></u>
<b>Revenues:</b>	
Operating grants & contributions	\$ 226,935
Program refunds & other reimbursements	577,137
Total Revenues	<u>804,072</u>
<b>Expenditures:</b>	
Current:	
Administration / MIS	700,137
Operational Programs	
Health Research	3,570,135
Applied Research	4,392,647
Plant Research	29,497
Industrial Extension System	2,684,583
Small Business Research	369,247
Technology Commercialization	3,936,805
Seed Capital	791,187
Inventors Assistance	37,400
Programs - MIS	165,538
Technology Information Services	284,524
Total Expenditures	<u>16,961,700</u>
<b>Other Financing Sources:</b>	
State Appropriation	22,442,616
Total Other Financing Sources	<u>22,442,616</u>
Change in Fund Balance:	6,284,988
Fund Balance – Beginning (July 1, 2006)	9,695,844
Fund Balance – Ending (June 30, 2007)	<u>\$ 15,980,832</u>

The notes to the financial statements are an integral part of this statement.

**OCAST**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF THE**  
**GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year End June 30, 2007**

Net Increase in Fund Balance – Governmental Fund	\$ 6,284,988
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Amounts reported for governmental activities in the Statement of Activities are different because:

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	<u>(42,461)</u>
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Increase in net assets in the Statement of Net Assets	<u>\$ 6,242,527</u>
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The notes to the financial statements are an integral part of this statement.

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**OCAST**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year End June 30, 2007**

**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.

In fiscal year 2007 OCAST operated the following programs:

Oklahoma Health Research Program  
Oklahoma Applied Research Support Program  
Oklahoma Applied Research Faculty and Student Intern Partnerships  
Plant Science Research Program  
Small Business Research Assistance  
Industrial Extension System – Oklahoma Manufacturing Alliance  
Oklahoma Nanotechnology Applications Project  
Oklahoma Technology Commercialization Center  
Oklahoma Technology Business Finance Program  
Seed Capital Program  
Inventors Assistance Services  
Technology Information Services

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of Oklahoma that is attributable to the transactions of OCAST.

**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 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, the funding sources are:

- State Appropriations – Funds provided by annual appropriations from the State Legislature
- Grants – reimbursement of federal grant funded program initiatives
- Other Program Reimbursements – funding of program initiatives by contract with other state agencies and/or by federal agency non-grant agreements
- Program Refunds - consists of program paybacks from Technology Business Finance Program (TBFP) clients

OCAST's Technology Business Finance Program provides contract awards to technology companies whose entrepreneurial business ventures appear to have the capability of both advancing technology in Oklahoma and earning a profit. This program is administered through an Oklahoma non-profit corporation, i2E. The TBFP award contracts require repayment of the award amount, plus interest, if the technology company meets agreed-upon milestones relating to profit. 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.

- Other Revenues – consists of small refunds from purchase rebates, refund of employee travel costs by other entities, etc.

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

Measurement 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.

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 reserved for encumbrances represents commitments related to contracts for the delivery of goods and services as well as grant contract performance unperformed as of June 30<sup>th</sup> but subsequently performed during the period July through September. Whereas the fund balance reserved for program commitments represents the encumbered grant contract commitments with grantees unperformed as of the end of September. The fund balance that is unreserved but designated represents amounts designated by management for unencumbered out-year commitments on grant award contracts.

#### 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, 2007 has been reported only on the Statement of Net Assets.
- 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.

### Capital Assets

OCAST's capitalization policy for capital assets is 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 for which the goods or services were received prior to June 30th. For OCAST, 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 \$9,193,259 for FY2007 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. Prior to fiscal year 2007 all capital assets had fully depreciated. For the fiscal year ended June 30, 2007, there was no change in capital asset balances.

#### **Note 3. Operating Leases**

OCAST's operating leases consist only of a contract for office space. For FY2007, lease expenditures were \$50,992. The current lease contract has two additional one-year options to renew so for FY2008 and FY2009 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 System (OPERS) plan. 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 FY2007, plan member's contribution rate was 3.5% for all salary levels. The agency's contribution for the entire fiscal year was 12.5%, computed based on all salaries. For the fiscal year ended June 30, 2007, the OCAST contributions to the plan, which were equal to the required contributions, were \$159,791; OCAST contributions for the two preceding fiscal years were \$93,306 for 2005 and \$114,113 for 2006.

**Note 6. Other Post-Employment Benefits**

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

**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 Due Within One Year varies from year to year based on personnel turnover and the amount reported is an estimate. For the year ended June 30, 2007, accrued compensated absences liabilities changed as follows:

Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Amount Due Within One Year
\$ 134,466	\$ 42,461	\$ 0	\$ 176,927	\$ 53,078

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

The reserve for encumbrances is the portion of the Fund Balance reserved for encumbered contracts for goods and services as well as grant award contracts not performed 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 Research & Development multi-year grant award commitments that are not yet encumbered because of the State Constitutional restriction on encumbering funds for more than one year.



**OCAST**  
**Budgetary Comparison Schedule – General Fund**  
**For the Fiscal Year End June 30, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$ 5,568,553	\$ 5,568,553	\$ 5,568,553	\$ 0
Revenues:				
State appropriations	22,442,616	22,442,616	22,442,616	0
Grants	0	1,000,000	26,426	(973,574)
Due from other agencies	175,000	325,000	150,000	(175,000)
Program refunds/reimbursements	0	0	627,646	627,646
Total Revenues	28,186,169	29,336,169	28,815,241	(520,928)
Expenditures:				
Administration / MIS	676,859	709,423	698,823	10,600
Health Research	4,817,637	4,081,259	4,088,326	(7,067)
Applied Research	6,534,146	5,524,736	5,182,805	341,931
Plant Research	296,159	296,159	202,338	93,821
Industrial Extension System	3,235,080	4,385,080	3,339,063	1,046,017
Small Business Research	370,120	396,546	365,919	30,627
Technology Commercialization	3,601,219	4,659,081	2,878,439	1,780,642
Seed Capital	5,000,000	5,000,000	4,771,927	228,073
Inventors Assistance	171,897	176,583	45,085	131,498
Programs MIS	365,040	365,040	164,310	200,730
Technology Information Services	338,019	338,019	290,633	47,386
EDGE	175,000	175,000	0	175,000
Total Expenditures	25,581,176	26,106,926	22,027,668	4,079,258
Ending Budgetary Fund Balance	\$ 2,604,993	\$ 3,229,243	\$ 6,787,573	\$ 3,558,330

The accompanying notes are an integral part of this schedule.

See independent auditor's report.

**OCAST**  
**Notes to the Budgetary Comparison Schedule**  
**For the Fiscal Year End June 30, 2007**

- 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, 2007</u>
Budgetary basis fund balance of the General Fund	\$ 6,787,573
Basis differences:	
Add:	
Award contract commitments recognized as expenditures	<u>9,193,259</u>
GAAP basis fund balance in the General Fund	<u>\$ 15,980,832</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 Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

**To the Oklahoma Science & Technology Research and Development Board**

We have audited the financial statements of the Oklahoma Center for Advancement of Science and Technology (OCAST) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 14, 2008. 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 OCAST's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

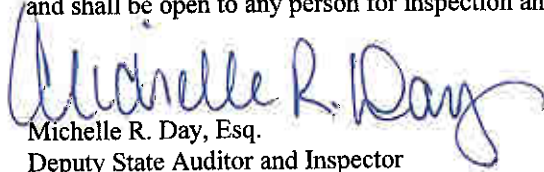
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 management of the OCAST 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.

  
Michelle R. Day, Esq.  
Deputy State Auditor and Inspector

January 14, 2008



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