

OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE & TECHNOLOGY

AS OF AND FOR THE FISCAL YEAR
ENDED JUNE 30, 2008

FINANCIAL STATEMENT AUDIT



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, 2008

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

July 30, 2009

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

Following 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, 2008. 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, reading "Steve Burrage".

Steve Burrage, CPA
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, 2008. 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 FY2008 OCAST received state appropriated funding in the amount of \$22,956,507; this is an increase of \$513,891 or 2.3% over the FY2007 appropriation; however, \$4,850,000 of the Seed Capital Program funding, 21.1% of the agency's appropriation was directed to be transferred to entities outside OCAST for purposes other than OCAST activities. Funding of \$500,000 was later restored to the Seed Capital Program funding.
- The redirection of Seed Capital Program funding resulted in a total of \$650,000 allocated to the program. A contract was not entered due to low demand and the FY 2008 contract amount was carried forward to the FY2009 contract.
- The Oklahoma Nanotechnology Application Project and the Plant Science Research program established in FY2007 as a result of increased funding continued in FY2008.
- OCAST began providing administrative and fiscal services to the EDGE Fund Policy Board in FY2008.

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 2007 and 2008:

| | FY2007 | FY2008 | % Change |
|-------------------------------|---------------|---------------|----------|
| Assets: | | | |
| Cash and cash equivalents | \$ 18,661,182 | \$ 19,932,160 | 6.8% |
| Due from other agencies | 47,462 | 0 | - |
| Prepaid items | 1,036 | 2,753 | 165.7% |
| Total Assets | 18,709,680 | 19,934,913 | 6.5% |
| Liabilities: | | | |
| Accounts payable | 1,906,914 | 2,547,071 | 33.6% |
| Due to other state agencies | 821,934 | 739,103 | -10.1% |
| Compensated absences: | | | |
| Payable within one year | 53,078 | 69,013 | 30.0% |
| Payable in more than one year | 123,849 | 161,031 | 30.0% |
| Total Liabilities | 2,905,775 | 3,516,218 | 21.0% |
| Net Assets: | | | |
| Unrestricted | 15,803,905 | 16,418,695 | 3.9% |
| Total Net Assets | \$ 15,803,905 | \$ 16,418,695 | 3.9% |

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 2007 and 2008:

| | FY 2007 | FY 2008 | % Change |
|--|---------------|---------------|----------|
| Program Revenues: | | | |
| Operating grants & contributions | \$ 226,935 | \$ 424,999 | 87.3% |
| Total Program Revenues | 226,935 | 424,999 | 87.3% |
| General Revenues: | | | |
| State Appropriation | 22,442,616 | 22,956,507 | 2.3% |
| Program refunds & other reimbursements | 577,137 | 407,625 | -29.4% |
| Total General Revenues | 23,019,753 | 23,364,132 | 1.5% |
| Total Revenues | 23,246,688 | 23,789,131 | 2.3% |
| Expenses: | | | |
| Operational Programs | 15,989,179 | 22,109,051 | 38.3% |
| Technology Information Services | 285,255 | 318,470 | 11.6% |
| Administration | 729,727 | 709,099 | -2.8% |
| EDGE | 0 | 37,721 | - |
| Total Expenses | 17,004,161 | 23,174,341 | 36.3% |
| Change in Net Assets | 6,242,527 | 614,790 | -90.2% |
| Net Assets -- Beginning of Year | 9,561,378 | 15,803,905 | 65.3% |
| Net Assets -- End of Year | \$ 15,803,905 | \$ 16,418,695 | 3.9% |

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 2008, total revenues increased a modest \$542,443 or 2.3% in relation to the increased 2008 State Appropriation. The 2008 total expenses increased \$6,170,180 or 36.3% from FY2007. The increase relates to the \$10 Million increase in the agency's 2007 State Appropriation, as award expenditures resulting from additional programs and awards established in 2007 began hitting the agency's budget. Note that the agency's research program's grant awards have out-year (future) 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. As new programs mature, expenses will increase and establish a more stable stream of outflows.

Analysis of Budgetary Comparison Schedule – General Fund

The General Fund reported actual budgetary basis revenues were greater than the final budget estimate by \$770,831, a variance of 3.3%. The difference in Grant revenue of \$424,999 is a result of an increase in funds that “flowed through” the agency in 2008 from other State entities and paid out through the Industrial Extension System contract. The increase in Program refunds/reimbursement revenue of \$345,208 relates to repayments from the Technology Business Finance Program that were received by the agency in 2008. Because the repayments are not guaranteed and the uncertainty of when the payments will be received, the agency does not budget for these amounts.

Actual expenditures were less than the final budget by \$5,549,538 or 20.3%. The major factor impacting this difference 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 OCAST by email at info@ocast.state.ok.us.

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
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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, 2008, 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.

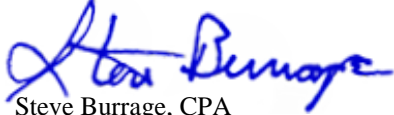
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2008, 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, 2008, 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 July 30, 2009 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 19 through 20, 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.



Steve Burrage, CPA
State Auditor and Inspector

July 30, 2009

OCAST
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2008

Assets:

| | |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 19,932,160 |
| Prepaid items | 2,753 |

| | |
|--------------|-------------------|
| Total Assets | <u>19,934,913</u> |
|--------------|-------------------|

Liabilities:

| | |
|-------------------------------|-----------|
| Accounts payable | 2,547,071 |
| Due to other state agencies | 739,103 |
| Compensated absences: | |
| Payable within one year | 69,013 |
| Payable in more than one year | 161,031 |

| | |
|-------------------|------------------|
| Total Liabilities | <u>3,516,218</u> |
|-------------------|------------------|

Net Assets:

| | |
|--------------|------------|
| Unrestricted | 16,418,695 |
|--------------|------------|

| | |
|------------------|-----------------------------|
| Total Net Assets | <u><u>\$ 16,418,695</u></u> |
|------------------|-----------------------------|

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

OCAST
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year End June 30, 2008

| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Assets |
|--|----------------------|-------------------------|--|--|
| | | | | Governmental Activities |
| Governmental Activities: | | | | |
| Administration / MIS | \$ 709,099 | \$ 0 | \$ 0 | \$ (709,099) |
| Operational Programs | | | | |
| Health Research | 4,613,682 | 0 | 0 | (4,613,682) |
| Applied Research | 4,736,564 | 0 | 0 | (4,736,564) |
| Plant Science | 301,614 | 0 | 0 | (301,614) |
| Industrial Extension System | 2,649,885 | 0 | 424,999 | (2,224,886) |
| Small Business Research | 339,525 | 0 | 0 | (339,525) |
| Technology Commercialization | 3,576,985 | 0 | 0 | (3,576,985) |
| Seed Capital | 1,490,598 | 0 | 0 | (1,490,598) |
| Inventors Assistance | 158,272 | 0 | 0 | (158,272) |
| Programs - MIS | 241,926 | 0 | 0 | (241,926) |
| Bioenergy | 4,000,000 | 0 | 0 | (4,000,000) |
| Technology Information Services | 318,470 | 0 | 0 | (318,470) |
| EDGE Expenses | 37,721 | 0 | 0 | (37,721) |
| Total OCAST Expenses | <u>\$ 23,174,341</u> | <u>\$ 0</u> | <u>\$ 424,999</u> | <u>\$ (22,749,342)</u> |
| General Revenues: | | | | |
| State Appropriation | | | | 22,956,507 |
| Program Refunds & Other Reimbursements | | | | <u>407,625</u> |
| Total Revenues | | | | <u>23,364,132</u> |
| Change in Net Assets | | | | 614,790 |
| Net Assets - Beginning (July 1, 2007) | | | | <u>15,803,905</u> |
| Net Assets - Ending (June 30, 2008) | | | | <u><u>\$ 16,418,695</u></u> |

The notes to the financial statements are an integral part to financial statements.

**OCAST
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

| | <u>General Fund</u> |
|---|-----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 19,932,160 |
| Prepaid items | 2,753 |
| Total Assets | <u>19,934,913</u> |
| Liabilities | |
| Accounts payable | 2,547,071 |
| Due to other state agencies | 739,103 |
| Total Liabilities | <u>3,286,174</u> |
| Fund Balance | |
| Reserved for encumbrances | 438,808 |
| Reserved for program commitments | 7,411,422 |
| Reserved for prepaid items | 2,753 |
| Unreserved: | |
| Designated for Bioenergy | 500,000 |
| Designated for Research programs | 6,537,897 |
| Designated for Commercialization programs | 1,265,643 |
| Undesignated | 492,216 |
| Total Fund Balance | <u>16,648,739</u> |
| Total Liabilities and Fund Balance | <u><u>\$ 19,934,913</u></u> |

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

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008**

| | |
|---|-----------------------------|
| Total Fund Balance – Governmental Fund | \$ 16,648,739 |
| Certain long-term liabilities are not due and payable from current resources and therefore are not reported in the funds | |
| Accrued compensated absences | <u>(230,044)</u> |
| Net assets in the Statement of Net Assets | <u><u>\$ 16,418,695</u></u> |

The accompanying notes are an integral part of the financial statement.

OCAST
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year End June 30, 2008

| | <u>General Fund</u> |
|---|-----------------------------|
| Revenues: | |
| Operating grants & contributions | \$ 424,999 |
| Program refunds & other reimbursements | 407,625 |
| Total Revenues | <u>832,624</u> |
| Expenditures: | |
| Administration / MIS | 696,342 |
| Operational Programs | |
| Health Research | 4,604,349 |
| Applied Research | 4,726,066 |
| Plant Research | 300,997 |
| Industrial Extension System | 2,643,476 |
| Small Business Research | 338,778 |
| Technology Commercialization | 3,570,083 |
| Seed Capital | 1,488,391 |
| Inventors Assistance | 157,934 |
| Programs – MIS | 246,263 |
| Bioenergy | 4,000,000 |
| Technology Information Services | 311,219 |
| EDGE | 37,326 |
| Total OCAST Expenditures | <u>23,121,224</u> |
| Revenues Over (Under) Expenditures | <u>(22,288,600)</u> |
| Other Financing Sources: | |
| State Appropriation | 22,956,507 |
| Total Other Financing Sources | <u>22,956,507</u> |
| Change in Fund Balance | 667,907 |
| Fund Balance - Beginning (July 1, 2007) | 15,980,832 |
| Fund Balance - Ending (June 30, 2008) | <u><u>\$ 16,648,739</u></u> |

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

**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, 2008**

| | |
|--|------------|
| Net Increase in Fund Balance – Governmental Fund | \$ 667,907 |
|--|------------|

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 | (53,117) |
|------------------------------|----------|

| | |
|---|------------|
| Increase in net assets in the Statement of Net Assets | \$ 614,790 |
|---|------------|

The accompanying notes are an integral part of the financial statement.

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**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 industry
- 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 is a part of the primary government of the State of Oklahoma.

In FY08 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
Bioenergy
EDGE – Economic Development Generating Excellence

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.

The program revenue sources that make up the Operating Grants and Contributions are funds received from other governmental agencies to support program initiatives.

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 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.

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 30th 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, 2008 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.

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 estimated useful life of five or more years. Depreciation for capital assets is computed on the straight-line method over the estimated useful life. Prior to fiscal year 2008 all capital assets had been fully depreciated and surplused. There were no capital assets acquired during fiscal year 2008.

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 \$7,850,230 for FY2008 that should be considered when evaluating the Unrestricted Net Assets and the Total Net Asset amounts.

Note 2. Operating Leases

OCAST's operating leases consist only of a contract for office space. For FY2008, lease expenditures were \$50,992. The current lease contract has an additional one-year option to renew so for FY2009 the expenditures should be \$50,992 per year.

Note 3. 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 4. 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, 5801 N. Broadway Extension, Suite 400, Oklahoma City, 73118. 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 FY 2008, 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, 2008, the OCAST contributions to the plan, which were equal to the required contributions, were \$226,654; OCAST contributions for the two preceding fiscal years were \$114,113 for 2006 and \$159,791 for 2007.

Note 5. 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 6. 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, 2008, accrued compensated absences liabilities changed as follows:

| Balance July 1, 2007 | Additions | Deductions | Balance June 30, 2008 | Amount Due Within One Year |
|-------------------------|-----------|------------|--------------------------|-------------------------------|
| \$ 176,927 | \$ 53,117 | \$ 0 | \$ 230,044 | \$ 69,013 |

Note 7. 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 30th. 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 2nd and 3rd 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, 2008

| | Budgeted Amounts | | Actual | Variance with |
|----------------------------------|------------------|--------------|--------------|--------------------|
| | Original | Final | Amounts | Final Budget |
| | | | | Positive(Negative) |
| Beginning Budgetary Fund Balance | \$ 6,787,573 | \$ 6,787,573 | \$ 6,787,573 | \$ 0 |
| Revenues: | | | | |
| State appropriations | 22,956,507 | 22,956,507 | 22,956,507 | 0 |
| Grants | 0 | 0 | 424,999 | 424,999 |
| Due from other agencies | 0 | 0 | 624 | 624 |
| Program refunds/reimbursements | 0 | 61,793 | 407,001 | 345,208 |
| Total Revenues | 22,956,507 | 23,018,300 | 23,789,131 | 770,831 |
| Expenditures: | | | | |
| Administration / MIS | 690,750 | 702,549 | 697,240 | 5,309 |
| Health Research | 4,835,851 | 4,835,851 | 4,480,016 | 355,835 |
| Applied Research | 5,927,402 | 6,012,396 | 4,330,113 | 1,682,283 |
| Plant Research | 590,911 | 590,911 | 545,106 | 45,805 |
| Industrial Extension System | 2,076,561 | 2,671,140 | 1,991,259 | 679,881 |
| Small Business Research | 365,616 | 365,616 | 341,774 | 23,842 |
| Technology Commercialization | 3,857,242 | 4,482,242 | 4,474,381 | 7,861 |
| Seed Capital | 850,000 | 850,000 | 106,586 | 743,414 |
| Inventors Assistance | 220,191 | 220,191 | 171,393 | 48,798 |
| Programs MIS | 809,696 | 809,696 | 273,586 | 536,110 |
| Bioenergy | 4,500,000 | 4,500,000 | 4,000,000 | 500,000 |
| Technology Information Services | 342,141 | 342,141 | 291,915 | 50,226 |
| EDGE | 945,000 | 945,000 | 74,826 | 870,174 |
| Total Expenditures | 26,011,361 | 27,327,733 | 21,778,195 | 5,549,538 |
| Ending Budgetary Fund Balance | \$ 3,732,719 | \$ 2,478,140 | \$ 8,798,509 | \$ 6,320,369 |

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, 2008

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, 2008</u> |
|---|-----------------------------|
| Budgetary basis fund balance of the General Fund | \$ 8,798,509 |
| Basis differences: | |
| Add: | |
| Award contract commitments recognized as expenditures | <u>7,850,230</u> |
| GAAP basis fund balance in the General Fund | <u><u>\$ 16,648,739</u></u> |

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

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, 2008, and have issued our report thereon dated July 30, 2009. 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.

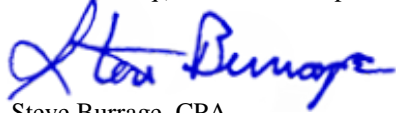
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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.

A handwritten signature in blue ink, appearing to read "Steve Burrage", is positioned above the printed name.

Steve Burrage, CPA
State Auditor and Inspector

July 30, 2009



**OFFICE OF THE STATE AUDITOR AND INSPECTOR
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