

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

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

**AS OF AND FOR THE FISCAL
YEAR ENDED JUNE 30, 2009**

**FINANCIAL
AUDIT**



Oklahoma State Auditor
& Inspector

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



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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2009

This publication is printed and issued by the State Auditor and Inspector, as required by 74 O.S. §212. Pursuant to 74 O.S., §3105, 33 copies have been prepared and distributed at a cost of \$125.70. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

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

November 23, 2010

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

Transmitted 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, 2009. 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 "Steve Burrage".

Steve Burrage, CPA
State Auditor and Inspector

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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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, 2009. 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 FY2009 OCAST received state appropriated funding in the amount of \$22,429,374; this is a decrease of \$527,133 (2.3%) less than the FY2008 appropriation.
- From the FY2009 \$22,429,374 appropriation, OCAST made an additional \$4,350,000 (19.4%) available to the Seed Capital Revolving Fund.
- OCAST continues to provide administrative and fiscal services to the EDGE Fund Policy Board. OCAST processed expenditures totaling \$1,691,206 on behalf of the EDGE Fund Policy Board in FY2009.
- OCAST general administrative costs remain low at \$637,913 (3.1%).

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

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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 2008 and 2009:

	FY2008	FY2009	% Change
Assets:			
Cash and cash equivalents	\$ 19,932,160	\$ 23,747,362	19.1%
Due from other agencies	27,055	709,072	2,520.9%
Prepaid items	2,753	3,905	41.8%
Total Assets	19,961,968	24,460,339	22.5%
Liabilities:			
Accounts payable	2,547,071	1,621,507	-36.3%
Due to other state agencies	739,103	626,883	-15.2%
Compensated absences:			
Payable within one year	69,013	51,904	-24.8%
Payable in more than one year	161,031	121,108	-24.8%
Total Liabilities	3,516,218	2,421,402	-31.1%
Net Assets:			
Unrestricted	16,445,750	22,038,937	34.0%
Total Net Assets	\$ 16,445,750	\$ 22,038,937	34.0%

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OCAST's expenses 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 2008 and 2009:

	FY 2008	FY 2009	% Change
Program Revenues:			
Operating grants& contributions	\$ 424,999	\$ 140,000	-67.1%
Total Program Revenues	424,999	140,000	-67.1%
General Revenues:			
State Appropriation	22,956,507	22,429,374	-2.3%
Other	0	48,180	-
Program refunds & other reimbursements	407,625	449,029	10.2%
Total General Revenues	23,364,132	22,926,583	-1.9%
Total Revenues	23,789,131	23,066,583	-3.0%
Expenses:			
Operational Programs	22,109,051	16,517,875	-25.3%
Technology Information Services	318,470	328,274	3.1%
Administration	709,099	637,913	-10.0%
EDGE	37,721	-10,666	-128.3%
Total Expenses	23,174,341	17,473,396	-24.6%
Change in Net Assets	614,790	5,593,187	809.8%
Net Assets -- Beginning of Year	15,803,905	16,418,695	3.9%
Adjustments to Beginning Net Assets	0	27,055	0%
Net Assets -- End of Year	\$ 16,418,695	\$ 22,038,937	34.2%

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

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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 2009 total revenues decreased by \$722,548 or 3% related to the decrease in State Appropriations and the decrease in Program Revenues related to the suspension of funding from outside agencies to support the Center for Aerospace Supplier Quality (CASQ) program. The 2009 total expenditures decreased by \$5,700,945 or 24.6%. Over \$5 million of the decrease relates to “flow through” expenditures in 2008 that were suspended for 2009. The Department of Commerce had legislatively designated \$4,000,000 in 2008 for the Bioenergy Center which did not occur for 2009. In addition, approximately \$1 million in expenditures relates to two contracts, CASQ and the Oklahoma Nanotechnology Applications Services (ONAS) that ended in 2008 and were not in place for 2009.

Analysis of Budgetary Comparison Schedule – General Fund

The General Fund reported actual budgetary basis revenues were greater than the final budget estimate by \$637,209 a variance of 2.0%. The difference is made up of three elements. The first is a “flow through” amount of \$140,000 received from an outside agency and paid to the Industrial Extension System contract. The \$48,180 in Other Revenues are fees from outside programs that pay the agency for administrative and management services. These fee amounts vary and cannot be anticipated for budgeting. The final category in the amount of \$449,029 for Program refunds/reimbursements is repayments from the Technology Business Finance Program received by the agency in 2009. Because repayments are not guaranteed, the uncertainty of the amount and when the payments will be received cannot be estimated and are not budgeted as revenue.

Actual expenditures were less than the final budget by \$11,316,797 or 41.0%. Approximately two-thirds of the difference relates to the Seed Capital Revolving Fund of which \$4,867,662 from the initial FY2009 appropriation and prior year funds was budgeted for the program; however, was deobligated and was not paid in FY2009. The remaining unexpended balance in the Seed Capital Fund relates to the balance in the Series One contract between OCAST and i2E that was budgeted, but because of the nature of the contract is paid out in various increments and at various times over several years and was not expended in FY2009. \$1,173,388 relates to the Technology Commercialization contracts that had a remaining balance at year end that were re-budgeted for the following year or rolled into the FY2010 contract. The Programs MIS balance at the end was rolled forward to FY2010 for the completion of the new programs database and in anticipation of expanding the database and developing e-application software. The final remaining balance differences primarily relate to 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.

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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

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, 2009, 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, 2009, 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, 2009, 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 November 15, 2010 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.

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The Management's Discussion and Analysis and Budgetary Comparison Schedule on pages 1 through 5 and 22 through 24, 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

November 15, 2010

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OCAST
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2009

Assets:

Cash and cash equivalents	\$ 23,747,362
Due from other agencies	709,072
Prepaid items	3,905

Total Assets	24,460,339
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Liabilities:

Accounts payable	1,621,507
Due to other state agencies	626,883
Compensated absences:	
Payable within one year	51,904
Payable in more than one year	121,108

Total Liabilities	2,421,402
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Net Assets:

Unrestricted	22,038,937
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Total Net Assets	\$ 22,038,937
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The notes to the financial statements are an integral part of this statement.

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OCAST
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year End June 30, 2009

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Assets
				Governmental Activity
Governmental Activities:				
Administration / MIS	\$ 637,913	\$ 0	\$ 0	\$ (637,913)
Operational Programs				
Health Research	4,445,184	0	0	(4,445,184)
Applied Research	4,699,149	0	0	(4,699,149)
Plant Science	556,865	0	0	(556,865)
Industrial Extension System	1,605,884	0	140,000	(1,465,884)
Small Business Research	319,902	0	0	(319,902)
Technology Commercialization	3,293,803	0	0	(3,293,803)
Seed Capital	581,523	0	0	(581,523)
Inventors Assistance	132,723	0	0	(132,723)
Programs - MIS	382,842	0	0	(382,842)
Bioenergy	500,000	0	0	(500,000)
Technology Information Services	328,274	0	0	(328,274)
Total OCAST Expenses	\$ 17,484,062	\$ 0	\$ 140,000	\$ (17,344,062)
EDGE Expenses	(10,666)	0	0	10,666
Overall Expenses	\$ 17,473,396	\$ 0	\$ 140,000	\$ (17,333,396)
General Revenues:				
State Appropriation				22,429,374
Other				48,180
Program Refunds & Other Reimbursements				449,029
Total Revenues				<u>22,926,583</u>
Change in Net Assets				5,593,187
Net Assets - Beginning (July 1, 2008) of Year (as restated)				<u>16,445,750</u>
Net Assets - Ending (June 30, 2009)				<u>\$ 22,038,937</u>

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

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OCAST
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2009

	General Fund
Assets	
Cash and cash equivalents	\$ 23,747,362
Due from other agencies	709,072
Prepaid items	3,905
Total Assets	24,460,339
Liabilities	
Accounts payable	1,621,507
Due to other state agencies	626,883
Total Liabilities	2,248,390
Fund Balance	
Reserved for encumbrances	435,503
Reserved for program commitments	6,180,307
Reserved for prepaid items	3,905
Unreserved:	
Designated for Bioenergy	-
Designated for Research programs	8,147,556
Designated for Commercialization programs	1,924,750
Designated for Seed Capital program	5,020,996
Undesignated	498,932
Total Fund Balance	22,211,949
Total Liabilities and Fund Balance	\$ 24,460,339

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

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RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total Fund Balance – Governmental Fund	\$ 22,211,949
Certain long-term liabilities are not due and payable from current resources and therefore are not reported in the funds	
Accrued compensated absences	<u>(173,012)</u>
Net assets in the Statement of Net Assets	<u><u>\$ 22,038,937</u></u>

The accompanying notes are an integral part of the financial statement

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OCAST
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year End June 30, 2009

	General Fund
Revenues:	
Operating grants & contributions	\$ 140,000
Other	48,180
Program refunds & other reimbursements	449,029
Total Revenues	637,209
Expenditures:	
Administration / MIS	653,755
Operational Programs	
Health Research	4,454,919
Applied Research	4,710,100
Plant Research	557,508
Industrial Extension System	1,612,572
Small Business Research	320,684
Technology Commercialization	3,303,044
Seed Capital	584,965
Inventors Assistance	133,078
Programs - MIS	380,236
Bioenergy	500,000
Technology Information Services	329,838
Total Expenditures	17,540,699
EDGE	(10,271)
Overall Expenditures	17,530,428
Revenue Over (Under) Expenditures	(16,893,219)
Other Financing Sources:	
State Appropriation	22,429,374
Total Other Financing Sources	22,429,374
Change in Fund Balance	5,536,155
Fund Balance - Beginning (July 1, 2008)	16,675,794
Fund Balance - Ending (June 30, 2009)	\$ 22,211,949

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

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**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**
For the Fiscal Year End June 30, 2009

Net Increase in Fund Balance – Governmental Fund \$ 5,536,155

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 57,032

Increase in net assets in the Statement of Net Assets \$ 5,593,187

The accompanying notes are an integral part of the financial statement

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Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

In FY09 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

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.

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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
- 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 administrative fees received from the EDGE Fund Policy Board for services rendered.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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In the fund financial statements all governmental funds are accounted for using a current resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets. The fund balance 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 the following year's unencumbered 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 expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2009 has been reported only in the government-wide financial statements.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

D. Assets, Liabilities, and Equity

Cash

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

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Capital Assets

The Department of Central Services, in accordance with Oklahoma Statutes, Title 74 § 110.1, has primary responsibility to maintain control of all property and equipment owned by the State of Oklahoma with a cost in excess of \$500. The Department of Central Services has delegated to each of the various state agencies the responsibility to maintain the accounting records for property and equipment purchased and used by each agency. Capital assets are defined as assets that have a cost in excess of \$25,000 at the date of acquisition and have an expected useful life of five or more years.

Compensated Absences

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

Accounts Payable

Payables consist of all prior year payments made during the months of July through September of the following fiscal year 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 \$6,615,810 for FY2009 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 2008 all capital assets had fully depreciated. For the fiscal year ended June 30, 2009, 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 FY2009, lease expenditures were \$50,992.

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.

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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, 5801 N. Broadway Extension, Suite 400, Oklahoma City, 73118-7484. 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 FY2009, plan member's contribution rate was 3.5% for all salary levels. The agency's contribution for the entire fiscal year was 14.5%, computed based on all salaries. For the fiscal year ended June 30, 2009, the OCAST contributions to the plan, which were equal to the required contributions, were \$195,605; OCAST contributions for the two preceding fiscal years were \$159,791 for 2007 and \$226,654 for 2008.

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, 2009, accrued compensated absences liabilities changed as follows:

Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Amount Due Within One Year
\$ 230,044	\$ 0	\$ 57,032	\$ 173,012	\$ 51,904

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 30th. The amount reserved for program commitments is for program grant award contracts,

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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 following year's 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.

Note 9. EDGE Fund Policy

OCAST has a contract to provide administrative assistance to the EDGE Fund Policy Board (EFPB). OCAST runs the EFPB's expenditures through the OCAST financial system and accounts for the expenditures through a separate department number. OCAST is reimbursed quarterly from the EDGE fund maintained by the Oklahoma State Treasurer's Office. A receivable amount totaling \$709,072 is due at year end for fourth quarter fiscal year 2009 expenditures.

Note 10. Beginning Net Assets Adjustment

Beginning net assets related to the Government-Wide Statement of Activities has been restated by \$27,055 related to a receivable (Due From) from EDGE for services provided that failed to get recorded correctly in the prior year.

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**Required Supplementary Information -
Budgetary Comparison Information**

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OCAST
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year End June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive(Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 8,798,509	\$ 8,798,509	\$ 8,825,564	\$ 27,055
Revenues:				
State appropriations	22,456,507	22,429,374	22,429,374	0
Grants	0	0	140,000	140,000
Other	0	0	48,180	48,180
Program				
Refunds/reimbursements	0	0	449,029	449,029
Total Revenues	22,456,507	22,429,374	23,066,583	637,209
Expenditures:				
Administration / MIS	690,750	668,085	652,849	15,236
Health Research	4,733,697	4,733,697	4,200,039	533,658
Applied Research	6,553,310	6,553,310	5,109,287	1,444,023
Plant Research	694,766	694,766	667,841	26,925
Industrial Extension System	1,508,274	1,508,274	1,610,342	(102,068)
Small Business Research	372,194	372,194	317,723	54,471
Technology Commercialization	3,572,787	3,572,787	2,399,055	1,173,732
Seed Capital	5,101,344	7,673,468	100,491	7,572,977
Inventors Assistance	181,107	181,107	107,233	73,874
Programs MIS	791,696	791,696	352,913	438,783
Bioenergy	500,000	500,000	500,000	-
Technology Information Services	363,421	363,421	326,006	37,415
Total Expenditures	25,063,346	27,612,805	16,343,779	11,269,026
EDGE	-	-	(47,771)	47,771
Overall Total Expenditures	25,063,346	27,612,805	16,296,008	11,316,797
Ending Budgetary Fund Balance	\$ 6,191,670	\$ 3,615,078	\$ 15,596,139	\$ 11,981,061

The accompanying notes are an integral part of this schedule.

See independent auditor's report.

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Notes to the Budgetary Comparison Schedule

- Note 1.** The budgetary comparison schedule is reported on a non-GAAP budgetary basis that reports revenues on a cash basis and charges to appropriation on a cash basis modified for reporting encumbrances and contractual commitments.
- Note 2.** Because accounting principles applied for the purposes of presenting the budgetary comparison information differ from those used in the presentation of the basic financial statements prepared in accordance with GAAP, a reconciliation resulting from those differences is presented as follows for the General Fund.

	<u>June 30, 2009</u>
Budgetary basis fund balance of the General Fund	\$ 15,596,139
Basis differences:	
Add:	
Award contract commitments recognized as expenditures	<u>6,615,810</u>
GAAP basis fund balance in the General Fund	<u><u>\$ 22,211,949</u></u>

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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters**



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, 2009, and have issued our report thereon dated November 15, 2010. The report includes an explanatory paragraph stating that the financial statements of OCAST are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of OCAST. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

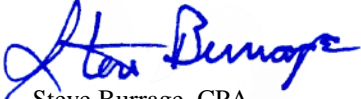
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

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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.



Steve Burrage, CPA
State Auditor and Inspector

November 15, 2010



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