

FINANCIAL AUDIT

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, 2010



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

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, 2010

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

August 16, 2011

**TO THE HONORABLE MARY FALLIN
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, 2010. 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 issuing reports that serve as a management tool to the State to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2010. Management of 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 FY2010 OCAST received state appropriated funding in the amount of \$20,374,567; this is a decrease of \$2,054,807 (9.2%) from the FY2009 appropriation.
- Budget cuts totaling \$1,651,996 (7.5%) were made to the initial FY2010 appropriated funding of \$22,026,563 appropriated funds throughout FY2010.
- From the FY2010 \$20,374,567 appropriation, OCAST made an additional \$3,588,898 (17.6%) 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 \$6,627,841 on behalf of the EDGE Fund Policy Board in FY2010.
- OCAST general administrative costs remain low at \$763,727 (4.3%).

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.

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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 2009 and 2010:

	FY2009	FY2010	% Change
Assets:			
Cash and cash equivalents	\$ 23,747,362	\$ 26,924,993	13.4%
Due from other agencies	709,072	939,263	32.5%
Prepaid items	3,905	2,945	-24.6%
Total Assets	24,460,339	27,867,201	13.9%
Liabilities:			
Accounts payable	1,621,507	1,710,872	5.5%
Due to other state agencies	626,883	682,630	8.9%
Compensated absences:			
Payable within one year	51,904	51,050	-1.6%
Payable in more than one year	121,108	119,116	-1.6%
Total Liabilities	2,421,402	2,563,668	5.9%
Net Assets:			
Unrestricted	22,038,937	25,303,533	14.8%
Total Net Assets	\$ 22,038,937	\$ 25,303,533	14.8%

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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 2009 and 2010:

	FY 2009	FY 2010	% Change
Program Revenues:			
Operating grants& contributions	\$ 140,000	\$ 116,550	-16.8%
Total Program Revenues	140,000	116,550	-16.8%
General Revenues:			
State Appropriation	22,429,374	20,374,567	-9.2%
Other	48,180	71,988	49.4%
Program refunds & other reimbursements	449,029	410,771	-8.5%
Total General Revenues	22,926,583	20,857,326	-9.0%
Total Revenues	23,066,583	20,973,876	-9.1%
Expenses:			
Operational Programs	16,517,875	16,638,593	0.7%
Technology Information Services	328,274	306,960	-6.5%
Administration	637,913	763,727	19.7%
EDGE	-10,666	0	-100%
Total Expenses	17,473,396	17,709,280	1.3%
Change in Net Assets	5,593,187	3,264,596	-41.6%
Net Assets -- Beginning of Year	16,445,750	22,038,937	34.0%
Net Assets -- End of Year	\$ 22,038,937	\$ 25,303,533	14.8%

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

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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 OCAST programs.

In 2010 total revenues decreased by \$2,092,707 or 9% attributable to a decrease in State Appropriations and a decrease in Program Revenues related to a decrease in pass-through funding from the Department of Commerce to support the Oklahoma Manufacturing Alliance. The 2010 total expenses increased by \$235,884 or 1.3%.

Analysis of Budgetary Comparison Schedule – General Fund

The General Fund reported actual budgetary basis revenues were greater than the final budget estimate by \$599,309 a variance of 2.9%. The difference is made up of three elements. The first is a pass-through amount of \$116,550 received from the Department of Commerce and paid to the Oklahoma Manufacturing Alliance. The \$71,988 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 \$410,771 for Program refunds/reimbursements is repayments from the Technology Business Finance Program received by the agency in 2010. 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 \$4,119,349 or 14.8%. The difference primarily relates to the budget authority to encumber contracts and establish multi-year research grant award commitments within programs; 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.ok.gov.

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405-521.3495 • Fax: 405-521.3426

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, 2010, which collectively comprise OCAST's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 OCAST. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2010, 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 OCAST, as of June 30, 2010, 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 August 5, 2011 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 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 5 and 21 through 23, 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.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

August 5, 2011

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OCAST
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2010

Assets:

Cash and cash equivalents	\$26,924,993
Due from other agencies	939,263
Prepaid items	2,945

Total Assets	27,867,201
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Liabilities:

Accounts payable	1,710,872
Due to other state agencies	682,630
Compensated absences:	
Payable within one year	51,050
Payable in more than one year	119,116

Total Liabilities	2,563,668
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Net Assets:

Unrestricted	25,303,533
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Total Net Assets	\$ 25,303,533
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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, 2010

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	\$ 763,727	\$ 0	\$ 0	\$ (763,727)
Operational Programs				
Health Research	4,168,385	0	0	(4,168,385)
Applied Research	4,747,909	0	0	(4,747,909)
Plant Science	592,839	0	0	(592,839)
Nanotechnology	560,434	0	0	(560,434)
Industrial Extension System	1,373,827	0	116,550	(1,257,277)
Small Business Research	178,552	0	0	(178,552)
Technology Commercialization	2,940,244	0	0	(2,940,244)
Seed Capital	770,699	0	0	(770,699)
Inventors Assistance	166,917	0	0	(166,917)
Programs - MIS	256,347	0	0	(256,347)
Program Services	882,440	0	0	(882,440)
Technology Information Services	306,960	0	0	(306,960)
Total OCAST Expenses	\$ 17,709,280	\$ 0	\$ 116,550	\$ (17,592,730)
General Revenues:				
State Appropriation				20,374,567
Other				71,988
Program Refunds & Other Reimbursements				410,771
Total Revenues				<u>20,857,326</u>
Change in Net Assets				3,264,596
Net Assets - Beginning (July 1, 2009)				<u>22,038,937</u>
Net Assets - Ending (June 30, 2010)				<u><u>\$ 25,303,533</u></u>

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

OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY
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OCAST
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2010

	General Fund
Assets	
Cash and cash equivalents	\$ 26,924,993
Due from other agencies	939,263
Prepaid items	2,945
Total Assets	27,867,201
Liabilities	
Accounts payable	1,710,872
Due to other state agencies	682,630
Total Liabilities	2,393,502
Fund Balance	
Reserved for encumbrances	672,977
Reserved for program commitments	11,850,508
Reserved for prepaid items	2,945
Unreserved:	
Designated for Bioenergy	-
Designated for Research programs	11,353,470
Designated for Commercialization programs	677,760
Designated for Seed Capital program	6,144
Undesignated	909,895
Total Fund Balance	25,473,699
Total Liabilities and Fund Balance	\$ 27,867,201

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, 2010

Total Fund Balance – Governmental Fund	\$ 25,473,699
Certain long-term liabilities are not due and payable from current resources and therefore are not reported in the funds	
Accrued compensated absences	<u>(170,166)</u>
Net assets in the Statement of Net Assets	<u><u>\$ 25,303,533</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, 2010

	General Fund
Revenues:	
Operating grants & contributions	\$ 116,550
Other	71,988
Program refunds & other reimbursements	410,771
Total Revenues	599,309
Expenditures:	
Administration / MIS	731,573
Operational Programs	
Health Research	4,185,892
Applied Research	4,767,601
Plant Research	593,998
Nanotechnology	560,434
Industrial Extension System	1,385,844
Small Business Research	179,946
Technology Commercialization	2,952,626
Seed Capital	772,818
Inventors Assistance	167,548
Programs - MIS	263,836
Programs Services	844,289
Technology Information Services	305,721
Total Expenditures	17,712,126
Revenue Over (Under) Expenditures	(17,112,817)
Other Financing Sources:	
State Appropriation	20,374,567
Total Other Financing Sources	20,374,567
Change in Fund Balance	3,261,750
Fund Balance - Beginning (July 1, 2009)	22,211,949
Fund Balance - Ending (June 30, 2010)	\$ 25,473,699

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, 2010

Net Increase in Fund Balance – Governmental Fund \$ 3,261,750

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 2,846

Change in Net Assets of Governmental Activities \$ 3,264,596

The accompanying notes are an integral part of the financial statement

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Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

In FY10 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

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 an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2010 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 \$12,523,484 for FY2010 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 2009, all capital assets had fully depreciated. For the fiscal year ended June 30, 2010, 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 FY2010, lease expenditures were \$58,072.

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 statewide cost-sharing multiemployer 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 FY2010, plan member's contribution rate was 3.5% for all salary levels. The agency's contribution for the entire fiscal year was 15.5%, computed based on all salaries. For the fiscal year ended June 30, 2010, OCAST contributions to the plan, which were equal to the required contributions, were \$188,735; OCAST contributions for the two preceding fiscal years were \$226,654 for 2008 and \$195,605 for 2009.

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, 2010, accrued compensated absences liabilities changed as follows:

Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amount Due Within One Year
\$ 173,012	\$ 0	\$ 2,846	\$ 170,166	\$ 51,050

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 OCAST's 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 \$872,086 is due at year end for fourth quarter fiscal year 2010 expenditures.

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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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive(Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 15,596,139	\$ 15,596,139	\$ 15,596,139	\$ 0
Revenues:				
State appropriations	22,026,563	20,374,567	20,374,567	0
Grants	0	0	116,550	116,550
Other	0	0	71,988	71,988
Program				
Refunds/reimbursements	0	0	410,771	410,771
Total Revenues	22,026,563	20,374,567	20,973,876	599,309
Expenditures:				
Administration / MIS	850,000	734,244	735,196	(952)
Health Research	4,253,299	5,762,587	4,091,674	1,670,913
Applied Research	4,506,249	5,558,211	4,161,907	1,396,304
Plant Research	567,983	1,016,756	635,557	381,199
Nanotechnology	1,437,100	1,222,787	962,303	260,484
Industrial Extension System	1,372,028	1,386,200	1,385,676	524
Small Business Research	338,500	316,000	214,907	101,093
Technology Commercialization	2,914,776	4,191,837	4,165,364	26,473
Seed Capital	3,868,922	5,650,082	5,634,236	15,846
Inventors Assistance	190,000	175,749	167,525	8,224
Programs MIS	355,750	378,042	282,811	95,231
Program Services	998,925	978,123	861,626	116,497
Technology Information Services	373,031	368,531	321,018	47,513
Total Expenditures	22,026,563	27,739,149	23,619,800	4,119,349
Ending Budgetary Fund Balance	\$ 15,596,139	\$ 8,231,557	\$ 12,950,215	\$ 4,718,658

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, 2010</u>
Budgetary basis fund balance of the General Fund	\$ 12,950,215
Basis differences:	
Add:	
Award contract commitments recognized as expenditures	<u>12,523,484</u>
GAAP basis fund balance in the General Fund	<u><u>\$ 25,473,699</u></u>

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**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***



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

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 governmental activities and each major fund of the Oklahoma Center for Advancement of Science and Technology (OCAST) as of and for the year ended June 30, 2010 and have issued our report thereon dated August 5, 2011 which 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

Management of OCAST is responsible for establishing and maintaining effective 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

August 5, 2011



OFFICE OF THE STATE AUDITOR AND INSPECTOR

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