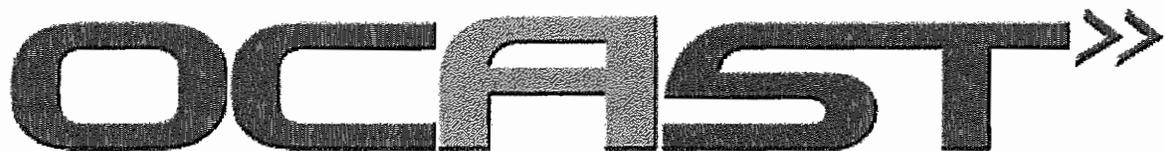


**Oklahoma Center for the Advancement  
of Science & Technology**



**ANNUAL FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

February 7, 2007

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

Transmitted herewith is our audit report on the financial statements of the Oklahoma Center for the Advancement of Science and Technology for the fiscal year ended June 30, 2006. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our engagement.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

Sincerely,

  
JEFF A. McMAHAN  
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, 2006. 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 FY2006 OCAST received state appropriated funding in the amount of \$12,400,942; this is an increase of \$731,295 or 6.3% over the FY2005 appropriation.
- The increased appropriation provided an additional \$500,000 for Research and Development programs, \$200,000 for Technology Commercialization programs and the balance for a mandated pay & benefit increase.

### **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 2005 and 2006:

	FY2005	FY2006	% Change
<b>Assets:</b>			
Cash and cash equivalents	\$ 12,067,537	\$ 11,506,750	(4.6)%
Prepaid items	3,191	3,265	2.3%
Total Assets	<u>12,070,728</u>	<u>11,510,015</u>	<u>(4.6)%</u>
<b>Liabilities:</b>			
Accounts payable	1,240,370	976,920	(21.2)%
Due to other state agencies	896,623	837,251	(6.6)%
Compensated absences:			
Payable within one year	37,830	41,684	10.2%
Payable in more than one year	84,201	92,782	10.2%
Total Liabilities	<u>2,259,024</u>	<u>1,948,637</u>	<u>(13.7)%</u>
<b>Net Assets:</b>			
Unrestricted	<u>9,811,704</u>	<u>9,561,378</u>	<u>(2.6)%</u>
Total Net Assets	<u>\$ 9,811,704</u>	<u>\$ 9,561,378</u>	<u>(2.6)%</u>

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 2005 and 2006:

	FY 2005	FY 2006	% Change
<b>Program Revenues:</b>			
Grants	\$ 115,186	\$ 103,314	(10.3)%
Program Refunds/Reimbursements	464,021	742,677	60.1%
Other (Lapsed Funds)	0	(259)	(100)%
<b>Total Program Revenues</b>	<b>579,207</b>	<b>845,732</b>	<b>46.0%</b>
<b>General Revenues:</b>			
State Appropriation	11,669,647	12,400,942	6.3%
<b>Total General Revenues</b>	<b>11,669,647</b>	<b>12,400,942</b>	<b>6.3%</b>
<b>Total Revenues</b>	<b>12,248,854</b>	<b>13,246,674</b>	<b>8.2%</b>
<b>Expenditures:</b>			
Research & Development Programs	7,197,309	7,966,459	10.7%
Technology Development Programs	4,375,236	4,663,640	6.6%
Technology Information Services	297,994	369,807	24.1%
Administration	609,044	497,094	(18.4)%
Depreciation	1,000	0	(100.0)%
	<b>12,480,583</b>	<b>13,497,000</b>	<b>8.1%</b>
Change in Net Assets	(231,729)	(250,326)	(8.0)%
Net Assets – Beginning of Year	10,043,433	9,811,704	(2.3)%
Assets – End of Year	<b>\$ 9,811,704</b>	<b>\$ 9,561,378</b>	<b>(2.6)%</b>

### 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.

The FY2006 expenses outpaced revenues, though at a slower pace than in previous years, yet still resulting in a decrease in the fund balance of \$237,891. Because both the Health Research and Applied Research program grant awards have out-year commitments, expenses do not change at the same rate as funding changes.

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

For FY2006 the General Fund reported actual budgetary basis revenues in excess of final estimates by \$845,732, which is a 4.8% variance. The difference is the result of the method in which federal grant reimbursements and program reimbursements are received in one year and then budgeted for expenditure in the subsequent year. The uncertainty of refunds from the Technology Business Finance Program is a major contributing factor for this practice (see Note #1, Fund Financial Statement, Program Refund/Reimbursement information for further discussion of the TBFP). The actual expenditures were less than the final budget by \$3,014,942 or 18.8%. The budgeted amounts reflect the budget authority to encumber contracts and establish multi-year Research & Development grant award commitments; the actual expenditure amount includes the current year and prior year contract payments for the multi-year research grant commitments. This level of variation is expected as it is necessary to manage the cash flow for the long-term commitments.

### **Contacting OCAST**

This report is designed to provide the citizens of the State of Oklahoma and other report users an understanding of OCAST's finances and to demonstrate OCAST's accountability for the resources it receives. If you have questions about this report or need additional financial information, you may contact the OCAST offices at 755 Research Parkway, Suite 110, Oklahoma City, OK 73104. You may also contact us by email at [info@ocast.state.ok.us](mailto:info@ocast.state.ok.us).





STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**INDEPENDENT AUDITOR'S REPORT**

**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, 2006, 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.

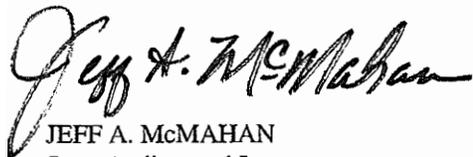
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements of the OCAST are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the OCAST. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the OCAST as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 29, 2007, on our consideration of the OCAST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information presented within the sections of the accompanying financial report, labeled Management's Discussion and Analysis and the Budgetary Comparison Schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Jeff A. McMAHAN". The signature is written in a cursive style with a large initial "J" and "M".

JEFF A. McMAHAN  
State Auditor and Inspector

January 29, 2007



**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2006**

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**STATEMENT OF NET ASSETS**

Assets:

Cash and cash equivalents	\$11,506,750
Prepaid items	3,265
<b>Total Assets</b>	<b><u>11,510,015</u></b>

Liabilities:

Accounts payable	976,920
Due to other state agencies	837,251
Compensated absences:	
Payable within one year	41,684
Payable in more than one year	92,782
<b>Total Liabilities</b>	<b><u>1,948,637</u></b>

Net Assets:

Unrestricted	9,561,378
<b>Total Net Assets</b>	<b><u>\$9,561,378</u></b>

The accompanying notes are an integral part of the financial statement

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
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**STATEMENT OF ACTIVITIES**

Functions/Programs	Expenses (Net Program Reimbursement)	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Administration/Data Processing	\$ 497,353	\$ 0	\$ 0	\$ (497,353)
Research & Development Programs				
Health Research	3,758,521	0	42,636	(3,715,885)
Applied Research	4,135,441	0	0	(4,135,441)
R&D Program Support – DP	49,137	0	0	(49,137)
Technology Development Programs				
Industrial Extension System	1,149,510	0	0	(1,149,510)
Small Business Research	262,463	0	60,678	(201,785)
Tech Access/Commercialization	2,202,577	0	0	(2,202,577)
Inventors Assistance	280,209	0	0	(280,209)
Tech Transfer Support – DP	49,564	0	0	(49,564)
Technology Information Services	369,807	0	0	(369,807)
Total Governmental Activities	\$ 12,754,582	\$ 0	\$ 103,314	\$(12,651,268)
General Revenues:				
State Appropriation				12,400,942
Total General Revenues				12,400,942
Change in Net Assets				(250,326)
Net Assets – Beginning (July 1, 2005)				9,811,704
Net Assets – Ending (June 30, 2006)				\$ 9,561,378

The accompanying notes are an integral part of the financial statement

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
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**BALANCE SHEET  
GOVERNMENTAL FUND**

	<b>General Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 11,506,750
Prepaid items	3,265
Total Assets	11,510,015
 <b>Liabilities</b>	
Accounts payable	976,920
Due to other state agencies	837,251
Total Liabilities	1,814,171
 <b>Fund Balance</b>	
Reserved for encumbrances	450,505
Reserved for program commitments	3,875,210
Reserved for prepaid items	3,265
Unreserved:	
Designated for Research & Development programs	4,207,854
Designated for Technology Development programs	974,862
Undesignated	184,148
Total Fund Balance	9,695,844
 Total Liabilities and Fund Balance	 \$ 11,510,015

The accompanying notes are an integral part of the financial statement

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
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As of and for the Year Ended June 30, 2006**

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**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

Total Fund Balance – Governmental Fund \$ 9,695,844

Amounts reported in the Statement of Net Assets are different because:

Certain long-term liabilities are not due and payable from current resources  
and therefore are not reported in the funds

Accrued compensated absences (134,466)

Net assets in the Statement of Net Assets \$ 9,561,378

The accompanying notes are an integral part of the financial statement

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
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**STATEMENT OF REVENUE, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND**

	<b>General Fund</b>
<b>Revenues:</b>	
Operating Grants	\$ 103,314
Program Refunds / Reimbursements	742,677
Other (Lapsed Funds)	(259)
Total Revenues	845,732
<b>Expenditures:</b>	
<b>Current:</b>	
Administration / Data Processing	503,798
<b>Research &amp; Development Programs</b>	
Health Research	3,760,000
Applied Research	4,149,111
R&D Program Support – DP	51,450
<b>Technology Development Programs</b>	
Industrial Extension System	1,331,647
Small Business Research	261,360
Tech Access / Commercialization	2,853,157
Inventors Assistance	154,479
Tech Transfer Support – DP	51,738
Technology Information Services	367,825
Total Expenditures	13,484,565
<b>Other Financing:</b>	
State Appropriation	12,400,942
Total Other Financing	12,400,942
<b>Change in Fund Balance:</b>	(237,891)
<b>Fund Balance – Beginning – July 1, 2005</b>	9,933,735
<b>Fund Balance – Ending – June 30, 2006</b>	\$ 9,695,844

The accompanying notes are an integral part of the financial 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**

Net Decrease in Fund Balance – Governmental Fund \$ (237,891)

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 (12,435)

Decrease in net assets in the Statement of Net Assets \$ (250,326)

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 FY06 OCAST operated the following programs:

Oklahoma Health Research Program  
Oklahoma Applied Research Support Program  
Oklahoma Applied Research Faculty and Student Intern Partnerships  
Small Business Research Assistance  
Industrial Extension System – Oklahoma Alliance for Manufacturing Excellence  
Oklahoma Technology Commercialization Center & Technology Business Finance Program  
Inventor's Assistance Service  
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.

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds each of which is

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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, this fund has three separate funding sources:

- State Appropriations – Funds provided by annual appropriations from the State Legislature.
- Federal Revenue – Funds reimbursement provided by federal grants as well as contracts with other state agencies.
- Program Refund/Reimbursement - consists primarily of refunds from the Technology Business Finance Program plus other smaller miscellaneous refunds/reimbursements.

In 1999, OCAST established the Technology Business Finance Program to provide contract awards to technology companies whose entrepreneurial business ventures appear to have the capability of both advancing technology in Oklahoma and earning a profit.

OCAST contracts with an Oklahoma non-profit corporation to administer the program through the Oklahoma Technology Commercialization Center (OTCC). The OTCC contracts with various technology companies and requires a repayment of the award amount, plus interest, if the technology company meets agreed-upon milestones relating to profit. All principal and interest received from the awardees are recorded as program revenue. 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.

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

**Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, assets and liabilities resulting from exchange transactions are recognized when the exchange takes place.

In the fund financial statements all governmental funds are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and related current assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year. For this purpose the State considers revenues to be available if collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2006 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

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 30<sup>th</sup>. 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 and program commitments not classified as Accounts Payable in the amount of \$4,325,715 for FY2006 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 2006 all capital assets had fully depreciated. For the fiscal year ended June 30, 2006, 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 FY2006, lease expenditures were \$50,992. The current lease contract has three additional one-year options to renew so for FY2007 through FY2009 the expenditures should be \$50,992 per year.

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**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2006**

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**Note 4. Risk Management**

As part of the State of Oklahoma primary government, OCAST's risk of losses to which they are exposed is managed through the State's risk management activities. OCAST is subject to risks of loss from tort claims, property loss, health claims, and workers' compensation claims. In general, the State is self insured for health care claims, workers' compensation claims, tort claims, and property losses. These services are provided by the certain departments of the State's General Fund and two state component units. OCAST is at no financial risk of loss from these types of risks.

**Note 5. Pension Plan Participation**

OCAST contributes to the Oklahoma Public Employees Retirement System (OPERS) plan. The OPERS is a state-wide cost-sharing multi-employer defined benefit retirement plan. A separately issued annual report for OPERS may be obtained from the Public Employees Retirement System, 6601 N. Broadway Extension, Suite 129, Oklahoma City, 73152-3307. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension benefit provisions are established and amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

Plan members and agencies are required to contribute at rates established by State law. For FY2006, plan member's contribution rate was 3% of the first \$25,000 of salaries and 3.5% for amounts above \$25,000. The agency's contribution for the fiscal year was 11.5%, computed based on all salary levels. For the fiscal year ended June 30, 2006, the OCAST contributions to the plan, which were equal to the required contributions, were \$114,113; OCAST contributions for the two preceding fiscal years were \$89,689 for 2004 and \$93,306 for 2005.

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

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

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**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 shown as Amount Due Within One Year is an estimate based on historical experience. For the year ended June 30, 2006, accrued compensated absences liabilities changed as follows:

Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Amount Due Within One Year
\$ 122,031	\$ 12,435	\$ 0	\$ 134,466	\$ 41,684

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

The reserved for encumbrances amount is the portion of the Fund Balance reserved for encumbered contracts for goods and services as well as grant award contracts not performed prior to June 30<sup>th</sup>. The amount reserved for program commitments is for program grant award contracts, other than those recorded in either Accounts Payable or Due to Other State Agencies, which are unperformed as of the end of September.

The unreserved but designated portion of the Fund Balance is for the award commitment of the 2<sup>nd</sup> and 3<sup>rd</sup> out-year options on the Research & Development multi-year grant award commitments that are not yet encumbered because of the State Constitutional restriction on encumbering funds for more than one year.

**Required Supplementary Information -  
Budgetary Comparison Information**

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**Budgetary Comparison Schedule – General Fund**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Beginning Budgetary Fund Balance	\$ 5,348,117	\$ 5,348,117	\$5,348,117	\$ 0
Resources (Inflows):				
State appropriations	12,400,942	12,400,942	12,400,942	0
Grants	0	0	103,314	103,314
Program Refund/Reimbursement	0	0	742,677	742,677
Other	0	0	(259)	(259)
Total Available for Approp.	<u>17,749,059</u>	<u>17,749,059</u>	<u>18,594,791</u>	<u>845,732</u>
Charges to Appropriations (Outflows):				
Administration / Data Processing	508,175	536,721	500,748	35,973
Health Research	3,688,524	3,672,617	3,466,644	205,973
Applied Research	4,835,642	5,310,642	4,111,520	1,199,122
R&D Program Support – DP	102,064	102,064	52,064	50,000
Industrial Extension System	1,417,100	1,422,055	1,325,246	96,809
Small Business Research	396,700	403,136	218,254	184,882
Tech Access / Commercialization	3,969,860	3,992,737	2,841,606	1,151,131
Inventors Assistance	162,273	164,439	158,656	5,783
Tech Transfer Support – DP	102,064	102,064	52,352	49,712
Technology Information Services	334,362	334,705	299,148	35,557
Total Charges to Approp.	<u>15,516,764</u>	<u>16,041,180</u>	<u>13,026,238</u>	<u>3,014,942</u>
Ending Budgetary Fund Balance	<u>\$ 2,232,295</u>	<u>\$ 1,707,879</u>	<u>\$ 5,568,553</u>	<u>\$ 3,860,674</u>

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, 2006</u>
Budgetary basis fund balance of the General Fund	\$ 5,568,553
Basis differences:	
Add:	
Award contract commitments recognized as expenditures	<u>4,127,291</u>
GAAP basis fund balance in the General Fund	<u>\$ 9,695,844</u>

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



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS**

**TO THE BOARD OF THE OKLAHOMA CENTER FOR THE  
ADVANCEMENT OF SCIENCE AND TECHNOLOGY**

We have audited the financial statements of the governmental activities and each major fund of the Oklahoma Center for the Advancement of Science and Technology (OCAST), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2006, which collectively comprise the OCAST's basic financial statements, and have issued our report thereon dated January 29, 2007. Our report includes an explanatory paragraph stating that the basic financial statements of the OCAST are intended to present the financial position and results of operations of only that portion of the State of Oklahoma attributable to the transactions of the 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 the OCAST's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 the management of the Oklahoma Center for the Advancement of Science and Technology and should not be used for any other purpose. This report is also a public document pursuant to the Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN  
State Auditor and Inspector

January 29, 2007