

FINANCIAL AUDIT

OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE & TECHNOLOGY

For the fiscal year ended June 30, 2011



*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 STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011



Oklahoma State Auditor & Inspector

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

February 12, 2015

**TO THE HONORABLE MARY FALLIN
GOVERNOR OF THE STATE OF OKLAHOMA**

This is the audit report of the Oklahoma Center for the Advancement of Science and Technology for the fiscal year ended June 30, 2011. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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 our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

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REPORT OF STATE AUDITOR AND INSPECTOR



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, 2011, 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 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 the OCAST. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2011, 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, 2011, 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.

Effective July 1, 2010 OCAST implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). As more fully discussed in Note 1.D, the effect of implementing GASB 54 resulted in certain changes to the presentation of fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014 on our consideration of OCAST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements, but is 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.

A handwritten signature in blue ink that reads "Gary A. Jones".

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

September 16, 2014

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Management's Discussion and Analysis (MD&A)

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, 2011. 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 FY 2011 OCAST received state appropriated funding in the amount of \$19,152,085; this is a decrease of \$1,222,482 (6%) from the FY2010 appropriation, as adjusted by revenue shortfall adjustments of \$1,651,996 (7.5%), of \$20,374,567.
- From the FY 2011 appropriation of \$19,152,085, \$4,264,898 was transferred by statute to the Seed Capital Revolving Fund.
- OCAST continues to provide administrative and fiscal services to the EDGE Fund Policy Board. OCAST processed expenditures totaling \$6,423,563 on behalf of the EDGE Fund Policy Board in FY 2011.
- OCAST general administrative costs remain low at \$780,857 (4.5%).

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

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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 2010 and 2011:

	FY 2010	FY 2011	% Change
Assets:			
Cash and cash equivalents	\$ 26,924,993	\$ 30,067,341	11.7%
Accounts receivable	0	2,700	100%
Due from other agencies	939,263	235,725	-74.9%
Prepaid items	2,945	2,419	-17.9%
Total Assets	27,867,201	30,308,185	8.8%
Liabilities:			
Accounts payable	1,710,872	1,565,511	-8.5%
Due to other state agencies	682,630	740,501	8.5%
Compensated absences:			
Payable within one year	51,050	47,707	-6.5%
Payable in more than one year	119,116	111,317	-6.5%
Total Liabilities	2,563,668	2,465,036	-3.8%
Net Assets:			
Restricted for:			
Seed Capital	0	10,345,497	100%
Technology Business Finance Program	0	480,084	100%
Industrial Extension System	0	145,000	100%
Other	0	4,046	100%
Unrestricted	25,303,533	16,868,522	-33.3%
Total Net Assets	\$ 25,303,533	\$ 27,843,149	10.0%

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Due from other state agencies decreased significantly between FY 2010 and FY 2011 because a much larger amount of the fiscal agent payments for EDGE had been reimbursed at the end of FY 2011 than at the end of FY 2010.

Restricted Net Assets increased significantly between FY 2010 and FY 2011 for the most part due to a change in the statute authorizing the Seed-Capital Revolving Fund, which was effective July 1, 2010 (the start of FY 2011). A new restriction was enacted, allowing the monies in the Fund to be used only for seed-capital for enterprises and other related purposes set forth in the statute. Expenditures related to administration, management or operating expenses of OCAST from the Seed-Capital Revolving Fund are specifically prohibited by the new statute. This statutory restriction, beginning in FY 2011, is reflected in the Net Asset classifications above. In addition, the Technology Business Finance Program has accumulated repayments, which are also restricted from use in any other program by statute, and are shown in Restricted Net Assets above. Appropriations and appropriation carryover which have been designated for use of the Technology Business Finance Program continue to be reported in Unrestricted Net Assets in the Government-wide statements, as they could be redirected by the Board to other purposes.

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 2010 and 2011:

	FY 2010	FY 2011	% Change
Program Revenues:			
Charges for services	\$ 0	\$ 41,607	100%
Operating grants & contributions	116,550	300,902	158.2%
Total Program Revenues	\$ 116,550	\$ 342,509	193.9%
General Revenues:			
State Appropriation	\$ 20,374,567	\$ 19,152,085	-6.0%
Other	71,988	0	-100.0%
Program refunds & other reimbursements	410,771	242,444	-41.0%
Total General Revenues	\$ 20,857,326	\$ 19,394,529	-7.0%
Total Revenues	\$ 20,973,876	\$ 19,737,038	-5.9%
Expenses:			
Operational Programs	\$ 16,638,593	\$ 16,108,744	-3.2%
Technology Information Services	306,960	307,821	0.3%
Administration	763,727	780,857	2.2%
Total Expenses	\$ 17,709,280	\$ 17,197,422	-2.9%

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Change in Net Assets	3,264,596	2,539,616	-22.2%
Net Assets -- Beginning of Year	<u>22,038,937</u>	<u>25,303,533</u>	14.8%
Net Assets -- End of Year	<u>\$ 25,303,533</u>	<u>\$ 27,843,149</u>	10.0%

Analysis of Governmental Fund Balances – General Fund

The General Fund reports activities on a modified accrual basis of accounting and on a current financial resources measurement focus that is different from the economic resources measurement focus. For example, the General Fund reports the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. This General Fund information identifies (through a review of changes to the fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the OCAST programs.

In FY 2011 total revenues and other financing sources decreased by \$1,236,838, or 5.9%, related to the decrease in State Appropriations and other minor decreases in revenues. The FY 2011 total expenses decreased by \$503,562, or 2.9%.

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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OCAST
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2011

Assets:

Cash and cash equivalents	\$ 30,067,341
Accounts receivable	2,700
Due from other agencies	235,725
Prepaid items	2,419
Total Assets	<u>\$ 30,308,185</u>

Liabilities:

Accounts payable	\$ 1,565,511
Due to other state agencies	740,501
Compensated absences:	
Payable within one year	47,707
Payable in more than one year	111,317
Total Liabilities	<u>\$ 2,465,036</u>

Net Assets:

Restricted for:	
Seed Capital	\$ 10,345,497
Technology Business Finance Program	480,084
Industrial Extension System	145,000
Other	4,046
Unrestricted	16,868,522
Total Net Assets	<u>\$ 27,843,149</u>

The Notes to the Financial Statements are an integral part of this statement.

OCAST
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year End June 30, 2011

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Administration / MIS	\$ 780,857	\$ 41,607	\$ 0	\$ (739,250)
Operational Programs				
Health Research	4,122,925	0	0	(4,122,925)
Applied Research	3,763,762	0	10,902	(3,752,860)
Plant Science	860,406	0	0	(860,406)
Nanotechnology	895,849	0	0	(895,849)
Industrial Extension System	1,482,978	0	290,000	(1,192,978)
Small Business Research	262,210	0	0	(262,210)
Technology Commercialization	2,594,512	0	0	(2,594,512)
Seed Capital	873,398	0	0	(873,398)
Inventors Assistance	155,793	0	0	(155,793)
Programs - MIS	110,117	0	0	(110,117)
Program Services	986,794	0	0	(986,794)
Technology Information Services	307,821	0	0	(307,821)
Total OCAST Expenses	<u>\$ 17,197,422</u>	<u>\$ 41,607</u>	<u>\$ 300,902</u>	<u>\$ (16,854,913)</u>
General Revenues:				
State Appropriation				\$ 19,152,085
Program Refunds & Other Reimbursements				242,444
Total Revenues				<u>\$ 19,394,529</u>
Change in Net Assets				2,539,616
Net Assets - Beginning (July 1, 2010)				25,303,533
Net Assets - Ending (June 30, 2011)				<u>\$ 27,843,149</u>

The Notes to the Financial Statements are an integral part of this statement.

**OCAST
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2011**

	General Fund
Assets	
Cash and cash equivalents	\$ 30,067,341
Accounts Receivable	2,700
Due from other agencies	235,725
Prepaid items	2,419
Total Assets	\$ 30,308,185
Liabilities	
Accounts payable	\$ 1,565,511
Due to other state agencies	740,501
Total Liabilities	\$ 2,306,012
Fund Balance	
Nonspendable	\$ 2,419
Restricted	10,974,627
Committed	13,177,863
Assigned	201,977
Unassigned	3,645,287
Total Fund Balance	\$ 28,002,173
Total Liabilities and Fund Balance	\$ 30,308,185

The Notes to the Financial Statements are an integral part of this statement.

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total Fund Balance – Governmental Fund	\$ 28,002,173
Certain long-term liabilities are not due and payable from current resources and therefore are not reported in the funds	
Accrued compensated absences	<u>(159,024)</u>
Net assets in the Statement of Net Assets	<u>\$ 27,843,149</u>

The Notes to the Financial Statements are an integral part of this statement.

OCAST
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year End June 30, 2011

	General Fund
Revenues:	
Charges for services	\$ 41,607
Operating grants & contributions	300,902
Program refunds & other reimbursements	242,444
Total Revenues	\$ 584,953
Expenditures:	
Administration / MIS	\$ 789,845
Operational Programs	
Health Research	4,122,925
Applied Research	3,763,762
Plant Research	860,406
Nanotechnology	895,849
Industrial Extension System	1,482,978
Small Business Research	262,210
Technology Commercialization	2,594,512
Seed Capital	878,480
Inventors Assistance	155,793
Programs - MIS	110,622
Programs Services	984,395
Technology Information Services	306,787
Total Expenditures	\$ 17,208,564
Revenue Over (Under) Expenditures	\$(16,623,611)
Other Financing Sources:	
State Appropriation	\$ 19,152,085
Total Other Financing Sources	\$ 19,152,085
Change in Fund Balance:	2,528,474
Fund Balance - Beginning (July 1, 2010)	25,473,699
Fund Balance - Ending (June 30, 2011)	\$ 28,002,173

The Notes to the Financial Statements are an integral part of this statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year End June 30, 2011**

Net Increase in Fund Balance – Governmental Fund \$ 2,528,474

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 11,142

Change in net assets of Governmental Activities \$ 2,539,616

The Notes to the Financial Statements are an integral part of this 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 FY 2011 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

Competitive awards for all of OCAST's research programs (Health, Applied, Intern Partnerships, Plant, and Nanotechnology) may be, and usually are, for between two and three years. Each year of an award is contracted separately to allow evaluation of the research project as it progresses.

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

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is involved only in governmental activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenue.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

The fund financial statements report the detailed activities by fund type. OCAST's activities are reported in one governmental fund, the General Fund. For OCAST, the funding sources are:

- State Appropriations – Funds provided by annual appropriations from the State Legislature, less any appropriations lapsing in the current fiscal year.
- Charges for services – OCAST serves as fiscal agent for the Economic Development Generating Excellence (EDGE) Fund Policy Board, and receives a fee for the services it provides.
- Operating Grants & Contributions – reimbursement of federal and state grant funded program initiatives. For FY 2011, these grants were a grant from the State Department of Commerce for operation of the Industrial Extension System (\$290,000) and a federal Experimental Program to Stimulate Competitive Research (EPSCoR) grant (\$10,902).
- Program Refunds and Other Reimbursements – includes program paybacks from Technology Business Finance Program (TBFP) clients (\$203,000) as well as repayments of overbilling by award recipients (\$35,017) and other miscellaneous operating refunds (\$4,427).

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.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The *economic resources measurement focus* recognizes the net economic effect of transactions on all resources, whether financial or capital, regardless of when they will be received or disbursed in cash, presenting both long and short-term consequences of transactions. All assets and liabilities are accounted for, as well as all inflows and outflows of resources. Under the *accrual basis of accounting*, revenues are recorded when earned and expenses are recorded when a liability is

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incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The *current financial resources measurement focus* accounts for near-term (current) inflows, outflows, and balances of spendable financial resources, and focuses on the short run. This measurement focus is intended to determine if there are sufficient current financial resources available to pay for goods and services. In general, only current assets and liabilities are included in the financial statements. Under the *modified accrual basis of accounting*, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OCAST considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due. The amount of accumulated annual leave unpaid at June 30, 2011 has been reported only in the government-wide statements.

D. Assets, Liabilities, and Net Assets or Fund Balance

Cash

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

Capital Assets

The Office of Management and Enterprise Services Division of Capital Assets Management, 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 Divisions of Capital Assets Management 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. OCAST has no assets meeting this definition.

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.

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Accounts Payable / Due To Other State Agencies / Out-year Commitments

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. 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.

For FY 2011, OCAST had encumbered contracts not classified as Accounts Payable in the amount of \$5,575,783 and out-year commitments for multi-year contracts which had not yet been contracted in the amount of \$7,804,057 that should be considered when evaluating the Unrestricted Net Assets and the Total Net Asset amounts of the government-wide financial statements.

Net Assets

Net assets, in the government-wide statements, may consist of three components:

Invested in capital assets, net of related debt consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or commercial paper, and leases that are attributable to the acquisition, construction, or improvement of those assets. OCAST has no net assets in this category.

Restricted net assets consist of net assets in which constraints are placed on the use of those net assets either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state.

Unrestricted net assets consist of net assets that do not meet the definition of “restricted net assets” or “invested in capital assets, net of related debt.”

Fund equity

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned.

- *Nonspendable* fund balance represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Prepaid items are not in spendable form, so it is included in this classification.
- *Restricted* fund balance represents amounts where constraints placed on the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
 - The following are restricted due to constraints externally imposed by grantors:
 - Contract with the Oklahoma Department of Commerce for additional funding for the Oklahoma Manufacturing Alliance (contractor for the Industrial Extension Service);

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- Contract with Oklahoma State University for “Experimental Program to Stimulate Competitive Research” (“EPSCoR”) grant.
- The following are restricted due to constraints imposed by laws or regulations of governments (the State of Oklahoma) other than the reporting entity (OCAST):
 - That portion of the Technology Business Finance Program which is funded from “royalties, fees, interest, profits, or other payments or return of funding and financing” which is required by Title 74, Section 5060.20a of the Oklahoma Statutes, a law imposed by the State of Oklahoma, a government other than the reporting entity of OCAST, to be retained for use in the program.
 - All funds available for the Seed Capital Program, which are accounted for in the State Treasury fund the “Seed Capital Revolving Fund,” created by Title 74, Section 5060.21 of the Oklahoma Statutes, a law imposed by the State of Oklahoma, a government other than the reporting entity of OCAST. This law restricts the use of monies in this fund, which includes a yearly state appropriation, to be used in the Seed Capital Program.
- *Committed* fund balance represents amounts that can be used only for the specific purposes determined by a formal action of a government’s highest level of decision-making authority. The Oklahoma Science and Technology Research and Development (“OSTRaD”) Board, OCAST’s governing board, is the highest level of decision-making authority that can, by formal action in a legally convened board meeting, commit fund balance. The OSTRaD Board approves the following competitive research awards, contracts for operation of technology commercialization assistance, and other major contracts in its Board meetings:
 - Competitive research awards for Health Research, Applied Research, Intern Partnerships, Plant Research, and Nanotechnology Research. The majority of these awards are for multiple years, although each year is separately contracted. The amount reported as committed is the remaining balance of the contract as of the end of June, as represented by the encumbrance balance, less amounts recorded in either Accounts Payable or Due to Other State Agencies, plus any out-year amounts which have not yet been contracted.
 - Oklahoma Technology Commercialization Center (contracted with i2E)
 - Technology Business Finance Program (“TBFP,” contracted with i2E). TBFP was created to provide Oklahoma technology start-up companies with pre-seed financing and early-stage risk capital to stimulate investments from private sources. It was originally funded from state appropriations, although the intent is for the program to become fully self-funding from repayments of financing. The portion of TBFP’s funding provided from state appropriations does not qualify as “restricted,” as the state appropriation is not made specifically for TBFP, but is “committed” through action taken by the OSTRaD Board.
 - Industrial Extension Service (contracted with the Oklahoma Manufacturing Alliance) – portion funded with state appropriations
 - Inventors Assistance (contracted with Oklahoma State University)
 - Oklahoma Nanotechnology Institute (contracted with Oklahoma 2000)
 - Various operating contracts such as legal, audit, marketing and information technology services.
- *Assigned* fund balance represents amounts that are intended to be used by OCAST for specific purposes but do not meet the criteria to be classified as committed. Outstanding

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encumbrances for purposes not included in “restricted” or “committed” are included in this classification.

- *Unassigned* fund balance represents the residual amount for the general fund not included in the four categories described above.

With the exception of the Technology Business Finance Program, when both restricted and unrestricted resources are available for use, it is OCAST’s policy to use restricted resources first, then unrestricted resources. Of the unrestricted resources, OCAST considers the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

The Technology Business Finance Program was originally funded with state appropriations. However, by statute, all of the repayments are restricted for use by the program. As the intent is for the program to become self-funded, through those repayments, with no additional state appropriations provided, it is OCAST’s policy to use committed resources first and then restricted resources, for the TBFP, until the committed resources are fully utilized.

Note 2. Operating Leases

OCAST’s operating leases consist only of a contract for office space and parking, expiring 1/31/16. For FY 2011, lease expenditures were \$58,799.

Note 3. Risk Management

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

Note 4. Pension Plan Participation

OCAST contributes to the Oklahoma Public Employees Retirement System (OPERS) plan. The OPERS is a state-wide cost-sharing multi-employer defined benefit retirement plan. A separately issued annual report for OPERS may be obtained from the Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, 73118-7484. 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 FY 2011, plan member’s contribution rate was 3.5% for all salary levels. The agency’s contribution for the entire fiscal year was 16.5%, computed based on all salaries. For the fiscal year ended June 30, 2011, the OCAST contributions to the plan, which were equal to

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the required contributions, were \$178,349; OCAST contributions for the two preceding fiscal years were \$195,605 for 2009 and \$188,735 for 2010.

Note 5. Other Post-Employment Benefits

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

Note 6. Long-Term Obligations

Long-term debt is comprised of accrued compensated absences. Vested accrued leave, up to a total of 480 hours, is payable upon termination, resignation, retirement, or death. In the Statement of Net Assets, this accrued leave is reported as a liability. The Amount Due Within One Year varies from year to year based on personnel turnover and the amount reported is an estimate. For the year ended June 30, 2011, accrued compensated absences liabilities changed as follows:

Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Amount Due Within One Year
\$ 170,166	\$ 0	\$ 11,142	\$ 159,024	\$ 47,707

Note 7. EDGE Fund Policy Board fiscal agent

The trust fund for Economic Development Generating Excellence was created by Title 62, Section 47 of the Oklahoma Statutes in 2006. The Oklahoma State Treasurer’s Office, pursuant to the direction of the Board of Investors of the EDGE Fund, manages and invests the trust fund. Each year, the Board of Investors certifies an amount available for expenditure from the fund. The EDGE Fund Policy Board is the entity responsible for expenditure of funds certified as available by the Board of Investors, for projects and programs which will increase private and public applied research and development, technology transfer and technology commercialization in Oklahoma.

OCAST is charged by statute with providing administrative, planning and other assistance to both the Board of Investors and the EDGE Fund Policy Board, and has contracted with the EDGE Fund Policy Board to act as its fiscal agent. OCAST pays for contract awards and expenses of the EDGE Fund Policy Board, and requests reimbursement from the State Treasurer’s Office.

As OCAST only acts as fiscal agent for the EDGE Fund Policy Board, financial transactions for the EDGE Fund Policy Board and the EDGE Fund are not included in OCAST’s financial statements, except for reporting the amount receivable from the State Treasurer’s Office for unreimbursed expenditures made as fiscal agent. As of June 30, 2011, this amount is \$77,009, and is reported as part of “Due from other state agencies.”

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



Oklahoma State Auditor & Inspector

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREPARED 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, 2011 and have issued our report thereon dated September 16, 2014 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 OCAST's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCAST'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 OCAST management, and is not intended to be and should not be used by anyone other than this specified party. 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

September 16, 2014



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