

**OKLAHOMA STATE UNIVERSITY  
UNIVERSITY MULTISPECTRAL  
LABORATORIES, L.L.C.**

**June 30, 2010**

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report .....	1
Statements of Net Assets .....	3
Statements of Revenues, Expenses and Changes in Net Assets .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	7

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	15
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REPORTS REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards .....	17
Schedule of Expenditures of Federal Awards .....	19
Notes to Schedule of Expenditures of Federal Awards.....	20
Schedule of Findings and Questioned Costs.....	22
Summary Schedule of Prior Audit Findings.....	24

Independent Auditors' Report

Board of Directors  
OSU-University Multispectral Laboratories, L.L.C.  
Stillwater, Oklahoma

We have audited the accompanying statements of net assets of the OSU-University Multispectral Laboratories, L.L.C. ("OSU-UML"), a component unit of Oklahoma State University, as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of OSU-UML's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSU-UML as of June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years 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 October 29, 2010, on our consideration of OSU-UML's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audits.

OSU-UML has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 29, 2010

**OSU UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.**

**STATEMENTS OF NET ASSETS**

	June 30	
	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 58,435	\$ 53,315
Accounts receivable	2,612,618	1,073,225
Prepaid expenses	13,528	17,986
Total current assets	2,684,581	1,144,526
<b>NONCURRENT ASSETS</b>		
Capital assets, net of accumulated depreciation	1,731,604	1,384,273
Security deposits, net of accumulated amortization	39,637	36,168
Total noncurrent assets	1,771,241	1,420,441
<b>TOTAL ASSETS</b>	4,455,822	2,564,967
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	2,410,237	1,515,604
Deferred revenue	1,500	13,699
Total current liabilities	2,411,737	1,529,303
<b>TOTAL LIABILITIES</b>	2,411,737	1,529,303
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,731,604	1,384,273
Unrestricted net assets (deficiency)	312,481	(348,609)
<b>TOTAL NET ASSETS</b>	\$ 2,044,085	\$ 1,035,664

See notes to financial statements.

**OSU UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

		Year Ended June 30	
		2010	2009
Operating revenues:			
Federal grants and contracts		\$ 12,056,110	\$ 3,070,876
State grants and contracts		197,363	-
Private source-PCDA		500,000	500,000
Other revenue: Community Engagement Program		42,500	55,510
Commercial grants and contracts		1,555,910	670,894
	Total operating revenues	14,351,883	4,297,280
Operating expenses:			
Contract labor		9,690,976	2,331,358
Professional services		210,460	382,794
Contract travel expense		390,438	364,032
Office supplies and equipment		1,466,405	285,015
Rent		389,463	296,054
Insurance		153,052	82,746
Repairs and maintenance		25,800	48,869
Telephone and utilities		133,017	78,662
Other operating expenses		821,425	97,997
Depreciation and amortization		105,481	43,059
	Total operating expenses	13,386,517	4,010,586
	Operating income	965,366	286,694
Nonoperating revenues (expenses)			
Rent income		42,101	16,519
Interest income		1,568	1,154
Other nonoperating revenues		238	1,620
Gain on disposal of fixed assets		-	412
Interest expense		(852)	(3,036)
	Net nonoperating revenues	43,055	16,669
	Net increase in net assets	1,008,421	303,363
	NET ASSETS, beginning of year	1,035,664	732,301
	NET ASSETS, end of year	\$ 2,044,085	\$ 1,035,664

See notes to financial statements.

**OSU UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.**

**STATEMENTS OF CASH FLOWS**

	Year Ended	
	June 30	
	2010	2009
Cash flows from operating activities		
Grants and contracts	\$ 12,654,217	\$ 3,013,045
Other operating receipts	55,109	637,798
Payments for labor	(8,796,343)	(2,331,358)
Payments to suppliers	(3,591,323)	(1,617,411)
Net cash provided by (used in) operating activities	321,660	(297,926)
Cash flows from noncapital financing activities		
Rent income	133,066	(74,446)
Net cash provided by (used in) noncapital financing activities	133,066	(74,446)
Cash flows from investing activities		
Interest received	1,568	1,154
Net cash provided by investing activities	1,568	1,154
Cash flows from capital and related financing activities		
Cash paid for fixed assets	(450,560)	(108,275)
Interest paid	(852)	(3,036)
Other sources	238	1,620
Net cash used in capital and related financing activities	(451,174)	(109,691)
Net increase (decrease) in cash and cash equivalents	5,120	(480,909)
Cash and cash equivalents, beginning of year	53,315	534,224
Cash and cash equivalents, end of year	\$ 58,435	\$ 53,315

**OSU UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.**

**STATEMENTS OF CASH FLOWS--Continued**

	Year Ended June 30	
	2010	2009
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income	\$ 965,366	\$ 286,694
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	105,481	43,059
Changes in assets and liabilities		
Accounts receivable	(1,632,610)	(570,646)
Prepaid expenses	4,458	22,586
Security deposits	(3,469)	(2,608)
Accounts payable and accrued expenses	894,633	1,032
Deferred revenue	(12,199)	(78,043)
	<u>\$ 321,660</u>	<u>\$ (297,926)</u>
Net cash provided by (used in) operating activities	<u>\$ 321,660</u>	<u>\$ (297,926)</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

#### NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: OSU–University Multispectral Laboratories L.L.C. (“OSU-UML”), a sensor testing center, is a nonprofit limited liability company founded in April 2006 for the purposes of research, development, testing, evaluation, validation, and verification of sensors and other technologies for use in chemical, biological, radiological, nuclear, and explosives: command, control, communications, computers, and intelligence for surveillance and reconnaissance, and other associated disciplines in support of the global war on terrorism, homeland security, and other related national security requirements for the benefit of OSU-UML’s sole member, Oklahoma State University (the “University”). OSU-UML receives and administers funds from Federal and State organizations and from private sources for the purpose of carrying on its business purpose. OSU-UML contracted with Applied Marine Technology, Inc. (“AMTI”) to oversee and maintain its operations. On December 15, 2006, AMTI was acquired by Science Applications International Corporation (“SAIC” or “the Contractor”). However, effective January 1, 2008 TRITON Scientific, L.L.C. (“TRITON”) assumed the duties as the operating contractor of OSU-UML and the contract with SAIC was terminated.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

OSU-UML is governed by a board of directors comprised primarily of management of the University. Accordingly, OSU-UML is a component unit of the University.

Basis of Accounting: Although legally a non-profit limited liability company, for financial reporting purposes, OSU-UML is considered a special-purpose government engaged only in business-type activities. Accordingly, OSU-UML’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

OSU-UML has the option to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. OSU-UML has elected to not apply FASB pronouncements issued after the applicable date.

NOTES TO FINANCIAL STATEMENTS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Cash Equivalents: OSU-UML considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable: Accounts receivable is mostly comprised of amounts due from the cost reimbursable and time and material contracts with the Federal government and commercial entities.

Capital Assets: For equipment and software, OSU-UML's capitalization policy includes all items with a unit cost of \$5,000 or more and a useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value of a useful life of the structure are capitalized regardless of acquisition value. Vehicles and computers are capitalized regardless of acquisition value. Property, plant, equipment and leasehold improvements are recorded at costs and are depreciated over their useful lives on the modified accelerated cost recovery method (MACRS). Machinery and equipment is depreciated over 5 to 7 years and leasehold improvements are depreciated over 39 years. Utility connection charges included in security deposits and costs of software are capitalized and amortized over 3 to 5 years using the straight-line method.

Routine repairs and maintenance are charged to operating expense in the year in which the expense occurs.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

Income Taxes: OSU-UML's business purpose related income is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Net Assets: OSU-UML's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents OSU-UML's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted net assets - expendable:* Restricted expendable net assets include resources in which OSU-UML is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. At June 30, 2010 and 2009, OSU-UML has no restricted, expendable net assets.

*Restricted net assets - nonexpendable:* Restricted nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. At June 30, 2010 and 2009, OSU-UML has no restricted, nonexpendable net assets.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from the recovery of facilities and administrative costs and services of auxiliary operations. These resources are used for transactions relating to the educational and general operations of OSU-UML, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, OSU-UML's policy is to use prudent decision processes to determine which resources will be applied based on availability of funding, donor intent, and returns available from idle funds.

Classification of Revenues: OSU-UML has classified its revenues as either operating or nonoperating according to the following criteria:

*Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as consulting services and most Federal, state, local, and commercial grants and contracts.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as investment income.

NOTES TO FINANCIAL STATEMENTS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

New Pronouncements: In 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. GASB No. 59 provides updates and improvements to existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged. Management has determined that this Statement will have not significantly effect OSU-UML's financial condition or results of operations.

NOTE 2--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Due from government contracts	\$ 1,139,205	\$ 1,034,405
Other customers	1,473,413	38,820
	<u>\$ 2,612,618</u>	<u>\$ 1,073,225</u>

NOTE 3--SECURITY DEPOSITS

Security deposits consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Rent	\$ 29,423	\$ 24,306
Utility connection charge	14,587	14,587
Cell phones and other	882	278
	<u>44,892</u>	<u>39,171</u>
Less accumulated amortization	5,255	3,003
	<u>\$ 39,637</u>	<u>\$ 36,168</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

NOTE 4--CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30:

	2010				Balance June 30, 2010
	Balance June 30, 2009	Additions	Retirements	Transfers	
	Other capital assets				
Leasehold improvements	\$ 1,375,267	\$ 168,714	\$ -	\$ -	\$ 1,543,981
Vehicles	15,500	-	-	-	15,500
Machinery and equipment	43,652	219,940	-	-	263,592
Software	2,005	61,906	-	-	63,911
Total other capital assets	1,436,424	450,560	-	-	1,886,984
Less accumulated depreciation for					
Leasehold improvements	(32,906)	(36,351)	-	-	(69,257)
Vehicles	(11,780)	(1,488)	-	-	(13,268)
Machinery and equipment	(6,837)	(44,087)	-	-	(50,924)
Software	(628)	(21,303)	-	-	(21,931)
Total accumulated depreciation	(52,151)	(103,229)	-	-	(155,380)
Other capital assets, net	<u>\$ 1,384,273</u>	<u>\$ 347,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,731,604</u>
	2009				
	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Other capital assets					
Leasehold improvements	\$ 1,310,043	\$ 65,224	\$ -	\$ -	\$ 1,375,267
Vehicles	15,500	-	-	-	15,500
Machinery and equipment	1,900	42,682	(930)	-	43,652
Software	882	1,123	-	-	2,005
Total other capital assets	1,328,325	109,029	(930)	-	1,436,424
Less accumulated depreciation for					
Leasehold improvements	(1,399)	(31,507)	-	-	(32,906)
Vehicles	(9,300)	(2,480)	-	-	(11,780)
Machinery and equipment	(1,086)	(6,339)	588	-	(6,837)
Software	(147)	(481)	-	-	(628)
Total accumulated depreciation	(11,932)	(40,807)	588	-	(52,151)
Other capital assets, net	<u>\$ 1,316,393</u>	<u>\$ 68,222</u>	<u>\$ (342)</u>	<u>\$ -</u>	<u>\$ 1,384,273</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

NOTE 5--ACCOUNTS PAYABLE

Accounts payable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
TRITON Scientific, L.L.C.	1,408,430	585,379
Subcontractors	701,440	759,506
Others	<u>300,367</u>	<u>170,719</u>
	<u>\$ 2,410,237</u>	<u>\$ 1,515,604</u>

NOTE 6--AMTI/SAIC CONTINGENT REIMBURSEMENT

The contract negotiated between OSU-UML and the Contractor for management and operation of OSU-UML does not allow for OSU-UML to incur costs beyond excess revenue accumulated within the operating account. Certain expenses related to operating costs were paid by the contractor ("AMTI/SAIC") during 2007 and 2008. During 2008, TRITON acquired the contract to operate the OSU-UML from SAIC. In the course of acquiring the contract, contingent liabilities owed to SAIC were settled. During 2010 and 2009, TRITON paid \$4,175,769 and \$1,641,037, respectively, in operating expenses in accordance with the contract. As funds become available, it is the UML's intent to reimburse the contractor for those expenses from contractually available funds. However, those expenses do not become payable from OSU-UML resources until appropriate funds become available.

In the course of settling the AMTI/SAIC contingent reimbursement, certain principals of TRITON Scientific deposited funds into OSU-UML. The funds deposited into OSU-UML were used to clear the contingent liability owed to SAIC by TRITON. The funding contributed during fiscal year 2008 by TRITON principals individually is as follows:

Keogh	\$ 293,000
Viera	204,969
Hassell	170,136
Reynolds	<u>59,975</u>
	<u>\$ 728,080</u>

In accordance with the previous contractor's AMTI/SAIC operating agreement, which was assumed by TRITON, the contractor cannot obligate OSU-UML with debt, beyond available funding. Funding provided by the principals of TRITON becomes payable as and when appropriate funds become available.

## NOTES TO FINANCIAL STATEMENTS--Continued

### OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

#### NOTE 7--REVENUE-PRIVATE SOURCE

Ponca City Development Authority ("PCDA") approved a \$2 million economic incentive grant for the OSU-UML center provided certain benchmarks are achieved during the first years of operation. The payment of the award is contingent upon OSU-UML making significant economic impact in Ponca City, Oklahoma. Installments of \$500,000 each, upon meeting the grant requirements, was received in December 2006, December 2007, and October 2008. The final payment of \$500,000, which was contingent upon meeting annual employment goals, was received in October 2009.

#### NOTE 8--OTHER REVENUE--COMMUNITY ENGAGEMENT PROGRAM

OSU-UML has adopted a community engagement program ("CEP") whereby they provide information technological ("IT") services at a discounted rate to selected governmental entities and schools. They also accept requests for providing IT services to local commercial entities.

#### NOTE 9--RELATED PARTY TRANSACTIONS

OSU-UML's sole member is the University. It engages in research for the benefit and advancement of the University. OSU-UML receives funds from Federal and state organizations and from private sources for the express purpose of carrying out certain research programs of the University.

##### *Oklahoma State University:*

Nature of relationship – The University is a component unit of the State of Oklahoma (the "State") and is included in the comprehensive annual financial report of the State of Oklahoma as part of the higher education component unit. The University is a modern comprehensive land grant university that serves the state, national and international communities by providing its students with academic instruction, by conducting research and other activities that advance fundamental knowledge and by disseminating knowledge to the people of Oklahoma and throughout the world. The University, as a political subdivision of the State, is excluded from Federal income taxes under §115(a) of the Internal Revenue Code, as amended.

During 2007 the University received state appropriation funding of \$5,000,000 for infrastructure and related facilities for testing and evaluation of sensors and sensor technologies. The University earmarked the \$5,000,000 for OSU-UML. During 2008 additional funding of \$1.6 million was received by the University and was also earmarked for OSU-UML. All of these funds had been drawn down and expended in fiscal years 2007 and 2008. The appropriations provided by the State were appropriated and allotments granted by the Oklahoma State Regents for Higher Education to the University and were not reflected on the OSU-UML financial statements. As of June 30, 2010 and 2009, there were no state appropriations held by the University on behalf of the OSU-UML.

NOTES TO FINANCIAL STATEMENTS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2010 and 2009

NOTE 9--RELATED PARTY TRANSACTIONS--Continued

*Oklahoma State University Foundation:*

Nature of relationship – The Oklahoma State University Foundation (“OSU Foundation”) is a not-for-profit corporation formed to promote and foster the educational, benevolent and scientific purposes of the University, and to create a fund to be used for any program, project or enterprise undertaken in the interest of the University, and to promote and foster educational and cultural interests in the state, southern and southwestern regions of the United States.

OSU Foundation is considered a component unit of the University.

Effective December 1, 2006, OSU Foundation and ConocoPhillips Company, a Delaware Corporation (“COP”) entered into an agreement and the parties agreed to the following:

- COP donated, transferred, and conveyed unto OSU Foundation the donor’s R&D East facility (Ponca City, Oklahoma.)
- COP also agreed to contribute a total of \$2,000,000 to OSU Foundation for the financial support and renovation of R&D east facilities, payable \$500,000 per year over four years. Installments of \$500,000 were received in January 2007, December 2007, and October 2008. The final installment was received in January 2010. The financial support provided by COP has been received by the OSU Foundation and is not reflected in the OSU-UML financial statements.

NOTE 10--COMMITMENTS AND CONTINGENCIES

*Lease Commitments:*

COP and OSU-UML have entered into a ground lease agreement effective December 1, 2006 for 99 years for a sum of one dollar (\$1) per year. The company leases land, certain office space and equipment under non-cancellable operating leases expiring in various years through 2105. Total lease expense in 2010 and 2009 was approximately \$469,000 and \$258,000, respectively.

Future minimum payments under non-cancellable operating leases with initial or remaining terms of one year or more consist of the following at June 30, 2010:

2011	\$ 400,750
2012	316,473
2013	302,456
2014	300,907
2015	236,407
Thereafter	<u>192,090</u>
	<u>\$ 1,749,083</u>

Independent Auditors' 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

Board of Directors  
OSU-University Multispectral Laboratories, L.L.C.  
Stillwater, Oklahoma

We have audited the financial statements of the OSU-University Multispectral Laboratories, L.L.C. ("OSU-UML"), a component unit of Oklahoma State University, as of and for the year ended June 30, 2010 and have issued our report thereon dated October 29, 2010. Our report was modified to include an explanatory paragraph stating that OSU-UML has not presented Management's Discussion and Analysis. 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 OSU-UML'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 OSU-UML's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OSU-UML'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 OSU-UML's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, considered to be 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 OSU-UML'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 Board of Directors of the OSU-University Multispectral Laboratories, L.L.C., management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 29, 2010

Independent Auditors' Report on Compliance with  
Requirements Applicable to each Major Program and Internal Control over  
Compliance in Accordance with OMB Circular A-133 and the Schedule of  
Expenditures of Federal Awards

Board of Regents  
Oklahoma Agricultural and Mechanical Colleges

Compliance

We have audited the compliance of the OSU-University Multispectral Laboratories, L.L.C. ("OSU-UML") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. OSU-UML's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of OSU-UML's management. Our responsibility is to express an opinion on OSU-UML's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OSU-UML's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on OSU-UML's compliance with those requirements.

In our opinion, OSU-UML complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of OSU-UML is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered OSU-UML's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OSU-UML's internal control over compliance.



*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of OSU-UML as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise OSU-UML's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Fiscal Affairs Committee and Board of Regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 29, 2010

OSU UNIVERSITY MULTISPECTRAL LABORATORY, LLC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Agreement Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>			
<b>National Science Foundation</b>			
ARRA-Trans NSF Recovery Act Research Support	0959787	47.082	\$ 4,145
<b>Department of Defense</b>			
<b>Pass-Through Program From:</b>			
Space and Naval Warfare Systems	N65236-07-D-7878 DO0009	12.XXX	532,669
Space and Naval Warfare Systems	N65236-07-D-7878 DO0010	12.XXX	216,134
Space and Naval Warfare Systems	N65236-07-D-7878 DO0011	12.XXX	522,611
Space and Naval Warfare Systems	N65236-07-D-7878 DO0012	12.XXX	375,059
Space and Naval Warfare Systems	N65236-07-D-7878 DO0013	12.XXX	748,851
Space and Naval Warfare Systems	N65236-07-D-7878 DO0014	12.XXX	444,218
Space and Naval Warfare Systems	N65236-07-D-7878 DO0015	12.XXX	218,535
Space and Naval Warfare Systems	N65236-07-D-7878 DO0016	12.XXX	1,551,630
Space and Naval Warfare Systems	N65236-07-D-7878 DO0017	12.XXX	1,482,102
Space and Naval Warfare Systems	N65236-07-D-7878 DO0018	12.XXX	184,818
Space and Naval Warfare Systems	N65236-07-D-7878 DO0019	12.XXX	540,419
Space and Naval Warfare Systems	N65236-07-D-7878 DO0020	12.XXX	103,670
Space and Naval Warfare Systems	N65236-07-D-7878 DO0021	12.XXX	1,220,700
Space and Naval Warfare Systems	N65236-07-D-7878 DO0022	12.XXX	914,007
Space and Naval Warfare Systems	N65236-07-D-7878 DO0023	12.XXX	98,145
Space and Naval Warfare Systems	N65236-07-D-7878 DO0024	12.XXX	57,342
Space and Naval Warfare Systems	N65236-07-D-7878 DO0025	12.XXX	10,938
Space and Naval Warfare Systems	N65236-07-D-7878 DO0026	12.XXX	571,324
Space and Naval Warfare Systems	N65236-07-D-7878 DO0028	12.XXX	809,243
Science Applications International Corp	Subcontract # 4400153448	12.XXX	304,589
Premier Technology, Inc #88075	PTI SubK #88075	12.XXX	30,021
Premier Technology, Inc - Red Bud	PTI SubK #90342	12.XXX	214,020
U.S. Army	W912L6-09-P0173	12.XXX	41,999
U.S. Special Operations Command	H9222210C0021	12.XXX	187,085
	Total Department of Defense		<u>11,380,129</u>
	<b>Total Research and Development Cluster</b>		<u>11,384,274</u>
<b>OTHER PROGRAMS</b>			
<b>Department of Energy</b>			
<b>Pass-Through Program From:</b>			
Honeywell FMT, LLC - KCP Website	Kansas City Plant: EP26997	81.XXX	<u>128,882</u>
	<b>Total Expenditures of Federal Awards</b>		<u>\$ 11,513,156</u>

See notes to schedule of expenditures of federal awards.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

Year Ended June 30, 2010

### NOTE A--BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes all Federal awards for the year ended June 30, 2010.

For purposes of the Schedule, Federal awards include all grants, contracts, and similar agreements entered into directly between OSU-UML and agencies and departments of the Federal government, Federal appropriations to land grant universities and all subawards to OSU-UML by nonfederal organizations pursuant to Federal grants, contracts, and similar agreements. As described in OMB Circular A-133, and in the related OMB Circular A-133 Compliance Supplement, the Federal awards have been classified into two categories, Type A programs and Type B programs. Type A programs depend on an auditee's total federal awards expended, and Type B programs are all other Federal programs. For the year ended June 30, 2010, the dollar threshold used to distinguish between Type A Federal programs and Type B Federal programs was \$300,000 or 3% of federal awards expended.

Type A programs include the following:

Awards for research and development work under grants and contracts with agencies and divisions of the Federal government.

Catalog of Federal Assistance ("CFDA"):

OSU-UML has obtained CFDA numbers to ensure that all Federal programs have been identified in the Schedule. CFDA numbers for applicable programs have been appropriately listed by those programs

Federal Pass-through Funds:

OSU-UML passes through certain Funds to subgrantee organizations. Expenditures incurred by the subgrantees and reimbursed by OSU-UML are included in the Schedule.

OSU-UML is also the subrecipient of Federal funds that are reported as expenditures and included in the Schedule. The Schedule denotes funding sources for pass-through funds. Federal awards other than those indicated as pass-through are denoted as Federal direct funds.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

Year Ended June 30, 2010

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For purposes of the Schedule, expenditures for Federal award programs are recognized on the accrual basis of accounting.

NOTE C--SUBRECIPIENTS

Of the Federal expenditures presented in the Schedule, OSU-UML provided \$4,753,265 in federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

Year Ended June 30, 2010

**Section I--Summary of Auditors' Results**

*Financial statements*

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Research and Development Cluster	12.XXX

Dollar threshold used to distinguish between type A and type B programs: \$345,395

Auditee qualified as low-risk auditee?  yes  no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

Year Ended June 30, 2010

**Section II--Findings Required to be Reported in Accordance with *Government Auditing Standards*:**

None to report for the June 30, 2010 period.

**Section III--Finding Required to be Reported in Accordance with OMB Circular A-133:**

None to report for the June 30, 2010 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

Year Ended June 30, 2010

No matters are reportable.