

**OKLAHOMA STATE UNIVERSITY
CENTER FOR INNOVATION AND
ECONOMIC DEVELOPMENT, INC.**

June 30, 2011

OKLAHOMA STATE UNIVERSITY
CENTER FOR INNOVATION AND ECONOMIC DEVELOPMENT, INC.

June 30, 2011

Audited Financial Statements

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Independent Auditors' Report

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the accompanying statements of net assets of the Oklahoma State University Center for Innovation and Economic Development, Inc. ("CIED"), a component unit of Oklahoma State University, as of June 30, 2011 and 2010, 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 CIED'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 CIED as of June 30, 2011 and 2010, 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 14, 2011, on our consideration of CIED'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.

CIED 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 14, 2011

Oklahoma State University
Center for Innovation and Economic Development, Inc.

STATEMENTS OF NET ASSETS
June 30,

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,964,121	\$ 2,715,575
Accounts receivable, net	3,304,343	3,022,668
Investments	4,931,517	3,500,977
Total current assets	10,199,981	9,239,220
Noncurrent assets		
Capital assets, net of accumulated depreciation	736,179	853,172
Total noncurrent assets	736,179	853,172
TOTAL ASSETS	10,936,160	10,092,392
LIABILITIES		
Current liabilities		
Accounts payable	931,860	989,778
Due to Oklahoma State University	1,246,347	764,466
Deferred revenue	11,661	168,548
Deposits	8,072	8,072
Accrued compensated absences	664,450	580,398
Current portion of notes payable and lease obligations	-	18,958
Total current liabilities	2,862,390	2,530,220
Noncurrent liabilities		
Obligations under other capital leases	-	79,567
Total noncurrent liabilities	-	79,567
TOTAL LIABILITIES	2,862,390	2,609,787
NET ASSETS		
Invested in capital assets, net of debt	736,178	754,647
Restricted for:		
Expendable		
Scholarships, research, instruction, and other	191,181	274,530
Capital Projects	4,932	5,932
Unrestricted	7,141,479	6,447,496
TOTAL NET ASSETS	\$ 8,073,770	\$ 7,482,605

See notes to financial statements.

Oklahoma State University
Center for Innovation and Economic Development, Inc.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Federal grants and contracts	\$ 18,428,334	\$ 17,913,690
State and local grants and contracts	104,021	664,032
Nongovernmental grants and contracts	230,937	36,920
Auxiliary revenue	306,308	1,062,084
Other operating revenues	<u>285,806</u>	<u>75,889</u>
Total operating revenues	19,355,406	19,752,615
 Operating expenses		
Compensation and employee benefits	13,172,657	11,998,688
Contractual services	1,810,100	2,824,920
Supplies and materials	349,773	545,031
Utilities	22,833	26,118
Communication	70,274	85,718
Other operating expenses	3,315,591	3,553,839
Depreciation expense	<u>137,473</u>	<u>135,813</u>
Total operating expenses	<u>18,878,701</u>	<u>19,170,127</u>
 Operating income	<u>476,705</u>	<u>582,488</u>
Nonoperating revenues (expenses)		
Investment income	15,935	632,669
Interest expense	<u>-</u>	<u>(8,699)</u>
Net nonoperating revenues	<u>15,935</u>	<u>623,970</u>
 Income before other revenues, expenses, gains and losses	492,640	1,206,458
Loss on disposal of capital assets	-	(1,370,051)
Other additions, net	<u>98,525</u>	<u>5,760</u>
Net increase (decrease) in net assets	591,165	(157,833)
 Net assets - beginning of year	<u>7,482,605</u>	<u>7,640,438</u>
 Net assets - end of year	<u>\$ 8,073,770</u>	<u>\$ 7,482,605</u>

See notes to financial statements.

Oklahoma State University
Center for Innovation and Economic Development, Inc.

STATEMENTS OF CASH FLOWS
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Grants and contracts	\$ 18,176,311	\$ 19,439,299
Other operating receipts	740,533	1,202,677
Payments to OSU employees for salaries and benefits	(13,040,831)	(11,949,683)
Payments to suppliers	<u>(5,192,383)</u>	<u>(12,171,278)</u>
Net cash provided by (used in) operating activities	683,630	(3,478,985)
Cash flows from investing activities		
Purchases of investments	(1,454,458)	(4,983,750)
Proceeds from sales of investments	98,878	8,131,311
Interest received on investments	<u>(59,024)</u>	<u>16,552</u>
Net cash provided by (used in) investing activities	(1,414,604)	3,164,113
Cash flows from capital and related financing activities		
Cash paid for capital assets	(20,480)	(309,908)
Proceeds from sale of capital assets	-	1,523,544
Repayments of capital debt and leases	(98,525)	(1,318,071)
Interest paid on capital debt and leases	-	(8,699)
Other sources	<u>98,525</u>	<u>5,760</u>
Net cash used in capital and related financing activities	<u>(20,480)</u>	<u>(107,374)</u>
Net decrease in cash and cash equivalents	(751,454)	(422,246)
Cash and cash equivalents, beginning of year	<u>2,715,575</u>	<u>3,137,821</u>
Cash and cash equivalents, end of year	<u>\$ 1,964,121</u>	<u>\$ 2,715,575</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 476,705	\$ 582,488
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense	137,473	135,813
Changes in assets and liabilities		
Accounts receivable	(281,675)	737,247
Accounts payable and accrued expenses	(57,919)	240,120
Due to Oklahoma State University	481,881	(5,377,064)
Deferred revenue	(156,887)	152,114
Compensated absences	<u>84,052</u>	<u>50,297</u>
Net cash provided by (used in) operating activities	<u>\$ 683,630</u>	<u>\$ (3,478,985)</u>

See notes to financial statements.

Oklahoma State University
Center for Innovation and Economic Development, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Oklahoma State University Center for Innovation and Economic Development, Inc. (“CIED”) is a nonprofit corporation founded in 1967, established to engage in research, extension and academic contractual arrangements for the benefit and advancement of Oklahoma State University (the “University”). CIED receives and administers funds from Federal and state organizations and from private sources for the purpose of carrying out the educational, research and economic development programs of the University.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity* and 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. Accordingly, the financial statements include the accounts of Oklahoma State University Center for Innovation and Economic Development, Inc. (“OSU CIED”), as the primary government, and the accounts of OSU-Enterprise Center, LLC (“OSU EC”), collectively referred to as “CIED”. OSU EC is an Oklahoma not-for-profit corporation which was formed on June 12, 2006 exclusively to support the activities, affairs and programs of OSU CIED. Accordingly, OSU EC has been reported as a blended component unit in the financial statements.

CIED is governed by a board of directors comprised primarily of management of the University. In addition, University employees and facilities are used for virtually all activities of CIED. Accordingly, CIED is a component unit of the University and is included in the financial statements of the University.

Financial Statement Presentation: CIED is an integral component unit of the University and, as such, the financial activity of CIED is combined with other University activity and reported in the University’s financial statements. Therefore, the financial statements of CIED have been presented consistent with the University’s financial statements rather than in accordance with the provisions of the Financial Accounting Standards Board’s (“FASB”) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

As a component unit of the State of Oklahoma, the University (which includes CIED) presents its financial statements in accordance with requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of CIED’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Basis of Accounting: For financial reporting purposes, CIED is considered a special-purpose government entity engaged only in business-type activities. Accordingly, CIED’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.

Oklahoma State University
Center for Innovation and Economic Development, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - Continued: As a component unit of the University, CIED has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. CIED has elected to not apply FASB pronouncements issued after the applicable date.

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

Investments: CIED accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consist of amounts due from the Federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to CIED's grants and contracts. Accounts receivable also include travel advances. Accounts receivable are recorded net of estimated uncollectible amounts.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, CIED's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and five to seven years for equipment.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. CIED capitalizes interest as a component of capital assets constructed for its own use. In 2011 and 2010, total interest incurred was \$0 and \$8,699, respectively, none of which was capitalized.

Deferred Revenues: Deferred revenues include amounts received for certain auxiliary and endowment activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: The liability and expense incurred for employee vacation pay are recorded as accrued compensated absences in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

Oklahoma State University
Center for Innovation and Economic Development, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: CIED's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents CIED'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 CIED is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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.

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 CIED, 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, CIED'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.

Income Taxes: CIED is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Classification of Revenues: CIED 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 sales and services of auxiliary enterprises and most Federal, state and local 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.

Oklahoma State University
Center for Innovation and Economic Development, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

New Pronouncements: In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In 2011, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

Management has not yet determined the effect, if any, of adoption of the new GASB statements for the financial statements.

**Oklahoma State University
Center for Innovation and Economic Development, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents: At June 30, 2011 and 2010, the carrying amount of CIED's cash and cash equivalents was \$1,964,121 and \$2,715,575, respectively. These amounts consisted of deposits with the State Treasurer (\$1,418,659 and \$1,474,193), U.S. financial institutions (\$544,262 and \$1,240,182) and petty cash and change funds (\$1,200 and \$1,200).

The State Treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation ("FDIC"), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. Government obligations. CIED's deposits with the State Treasurer are pooled with funds of other state agencies, and then in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

CIED requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in CIED's name.

Investments:

Credit Risk. State law limits investments in obligations of state and local governments to the highest rating from at least one nationally recognized rating agency acceptable to the State Treasurer. Additionally, it is CIED's policy to limit its investments in municipal and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. As of June 30, 2011 and 2010, CIED's investments in municipal and corporate bonds were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service.

	2011	2010
U.S. Government securities	\$ 3,260,522	\$ 2,226,064
Money funds	101	938
Equity securities	1,670,894	1,273,975
	\$ 4,931,517	\$ 3,500,977

Interest Rate Risk. CIED's investment policy does not specifically limit the investment portfolio to maturities of less than one year. CIED is responsible for determining the operating cash flow requirements and insure that adequate funds are available to service routine needs. In determining liquidity needs, the appropriate mix of short-term, intermediate and long-term investments will be evaluated. The University's Investment Committee and CIED's Board of Directors are responsible for evaluating investment performance. CIED's investments are categorized by maturity dates to reflect the fair values that are sensitive to changes in interest rates.

**Oklahoma State University
Center for Innovation and Economic Development, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments--Continued:

CIED's investment schedule by maturity date as of June 30, 2011 is as follows:

Maturity year ending June 30	U.S. Government Securities	Total
2012	3,260,522	3,260,522
	<u>\$ 3,260,522</u>	<u>\$ 3,260,522</u>

Investments not subject to maturity dates:

Equity securities	1,670,894
Money funds	101
Total Investments	<u>\$ 4,931,517</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2011	2010
Federal, state and private grants and contracts	\$ 3,092,850	\$ 2,662,756
USDA and other loans to private companies	224,354	366,645
Travel advances	600	600
	3,317,804	3,030,001
Less allowance for doubtful accounts	13,461	7,333
	<u>\$ 3,304,343</u>	<u>\$ 3,022,668</u>

Oklahoma State University
Center for Innovation and Economic Development, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 4 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2011 and 2010:

	2011				Balance June 30, 2011
	Balance June 30, 2010	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Construction in progress	32,594	-	-	(32,594)	-
Total capital assets not being depreciated	<u>\$ 145,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,594)</u>	<u>\$ 112,923</u>
Other capital assets					
Buildings	\$ 358,932	\$ -	\$ -	\$ 32,594	\$ 391,526
Furniture, fixtures and equipment	<u>1,365,627</u>	<u>20,480</u>	<u>-</u>	<u>-</u>	<u>1,386,107</u>
Total other capital assets	1,724,559	20,480	-	32,594	1,777,633
Less accumulated depreciation for					
Buildings	(31,387)	(9,517)	-	-	(40,904)
Furniture, fixtures and equipment	<u>(985,517)</u>	<u>(127,956)</u>	<u>-</u>	<u>-</u>	<u>(1,113,473)</u>
Total accumulated depreciation	<u>(1,016,904)</u>	<u>(137,473)</u>	<u>-</u>	<u>-</u>	<u>(1,154,377)</u>
Other capital assets, net	<u>\$ 707,655</u>	<u>\$ (116,993)</u>	<u>\$ -</u>	<u>\$ 32,594</u>	<u>\$ 623,256</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 145,517	\$ -	\$ -	\$ (32,594)	\$ 112,923
Other capital assets, at cost	<u>1,724,559</u>	<u>20,480</u>	<u>-</u>	<u>32,594</u>	<u>1,777,633</u>
Total cost of capital assets	1,870,076	20,480	-	-	1,890,556
Less accumulated depreciation	<u>(1,016,904)</u>	<u>(137,473)</u>	<u>-</u>	<u>-</u>	<u>(1,154,377)</u>
Capital assets, net	<u>\$ 853,172</u>	<u>\$ (116,993)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 736,179</u>

**Oklahoma State University
Center for Innovation and Economic Development, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 4 - CAPITAL ASSETS - CONTINUED

	2010				Balance June 30, 2010
	Balance June 30, 2009	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 915,098	\$ -	\$ (802,175)	\$ -	\$ 112,923
Construction in progress	-	32,594	-	-	32,594
Total capital assets not being depreciated	<u>\$ 915,098</u>	<u>\$ 32,594</u>	<u>\$ (802,175)</u>	<u>\$ -</u>	<u>\$ 145,517</u>
Other capital assets					
Buildings	\$ 2,896,962	\$ -	\$ (2,538,030)	\$ -	\$ 358,932
Furniture, fixtures and equipment	1,089,192	277,315	(880)	-	1,365,627
Total other capital assets	3,986,154	277,315	(2,538,910)	-	1,724,559
Less accumulated depreciation for					
Buildings	(457,724)	(20,272)	446,609	-	(31,387)
Furniture, fixtures and equipment	(870,856)	(115,541)	880	-	(985,517)
Total accumulated depreciation	<u>(1,328,580)</u>	<u>(135,813)</u>	<u>447,489</u>	<u>-</u>	<u>(1,016,904)</u>
Other capital assets, net	<u>\$ 2,657,574</u>	<u>\$ 141,502</u>	<u>\$ (2,091,421)</u>	<u>\$ -</u>	<u>\$ 707,655</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 915,098	\$ 32,594	\$ (802,175)	\$ -	\$ 145,517
Other capital assets, at cost	3,986,154	277,315	(2,538,910)	-	1,724,559
Total cost of capital assets	4,901,252	309,909	(3,341,085)	-	1,870,076
Less accumulated depreciation	<u>(1,328,580)</u>	<u>(135,813)</u>	<u>447,489</u>	<u>-</u>	<u>(1,016,904)</u>
Capital assets, net	<u>\$ 3,572,672</u>	<u>\$ 174,096</u>	<u>\$ (2,893,596)</u>	<u>\$ -</u>	<u>\$ 853,172</u>

**Oklahoma State University
Center for Innovation and Economic Development, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 5 - DUE TO OKLAHOMA STATE UNIVERSITY

The amount due to the University includes amounts owed to University colleges and departments in connection with certain CIED grants and contracts that have an overhead distribution that is allocated 40% to various colleges and departments of the University. The 40% earned for the University is recorded in working fund accounts and remains in these accounts until a transfer of funds is requested. The working funds amounts due to the University as of June 30, 2011 and 2010 are as follows:

	2011	2010
<i>Working Funds:</i>		
Education	\$ 148,160	\$ (2,031)
Engineering	114,882	305,649
Agriculture	22,693	3,556
Human Environmental Science	1,369	24,064
Business	2,685	-
Veterinary Medicine	23,823	-
Center for Health Sciences	14,087	-
Vice President for Research	26,721	13,264
Institute for Teaching and Learning Excellence	-	10
Arts and Sciences	5,574	-
Environmental Institute	(10)	-
Various other departments	708,331	384,240
Total Working Funds	1,068,315	728,752
Other amounts due to Oklahoma State University	178,032	35,714
	\$ 1,246,347	\$ 764,466

NOTE 6 - DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	2011	2010
Grants and contracts	\$ 11,661	\$ 168,548
	\$ 11,661	\$ 168,548

**Oklahoma State University
Center for Innovation and Economic Development, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 7 - LEASE OBLIGATIONS

Oklahoma Development Finance Authority Master Lease Program

Master Lease payable consisted of the following at June 30:

	2011	2010
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2005A, allocated for Aviation Education in the original amount of \$184,800 and matures in May 2015	\$ -	\$ 98,525

NOTE 8 - RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies including CIED, the insurance portfolio contains a comprehensive variety of coverage. Oklahoma Statutes require participation of all State agencies in basic tort, educator’s legal liability, property and casualty programs, and fidelity bonding provided by the State of Oklahoma Department of Central Services Risk Management Division (the “SRMD”). In addition to these basic policies, the University’s Department of Risk and Property Management establishes enterprise risk management guidelines for risk assessment, risk avoidance, risk acceptance and risk transfer

The University and individual employees are provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma Governmental Tort Claims Act. For risks not protected by sovereign immunity, it is the internal policy of the University’s Risk and Property Management department to accept initial risk in the form of retention or deductibles only to the extent that funds are available from the University’s general operations to maintain this risk.

Beyond acceptable retention levels, risk transfer is practiced by purchasing conventional insurance coverage directly or through the SRMD. These coverages are outlined as follows:

- The buildings and contents are insured for replacement value. Each loss incident is subject to a \$500,000 deductible.
- Out-of-state and out-of-country comprehensive general liability, auto liability, aircraft liability, watercraft liability, leased vehicles, equipment, and fidelity bonds are acquired by the University from the SRMD. To complement coverage provided by State Statute and to meet specific coverage requirements for special grants and/or contracts, additional coverage is purchased based on specific departmental and institutional needs and risks, but the related risks are not considered material to the University as a whole. Claim settlements have not exceeded insurance coverage in each of the past three fiscal years.

Oklahoma State University
Center for Innovation and Economic Development, Inc.
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 8 - RISK MANAGEMENT - CONTINUED

Self-Funded Programs

The University's life insurance program for the University and its constituent agencies including CIED, was self-funded through December 31, 2003. Effective January 1, 2004, life waivers for disabled employees and their dependents were all that remained in the self-funded plan. Reserves were established at the onset of disability to pay the claims. Effective January 1, 2004, the University's life coverage is handled through an insured plan.

Through June 30, 1999, the University's health care programs were also self-funded. Effective July 1, 1999, the University terminated its self-insurance program, and participated in the State self-insurance program through December 31, 2007. Effective January 1, 2008, the University began participation in an insured program with BlueCross BlueShield of Oklahoma as the provider. The University believes that there is no exposure to pay run-off claims for the previous self-insured program at June 30, 2011.

The University's workers' compensation program is self-funded and is administered by a third party. The University maintains a cash deposit with the administrator and reimburses the administrator for claims paid and administrative expenses on a monthly basis. Benefits provided are prescribed by state law and include lump-sum payments for rated disabilities, in addition to medical expenses and a portion of salary loss resulting from a job-related injury or illness. The University records a liability for workers' compensation in its financial statements based on annual actuarial valuations.

The University's unemployment compensation insurance program is also self-funded. Unemployment benefits that separated employees receive are determined by Oklahoma Statutes and are administered by the Oklahoma Employment Security Commission ("OESC"). As a reimbursing employer, the University is billed quarterly by the OESC for benefits paid to former employees. The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges requires that the University maintain a minimum of \$700,000 in reserve to cover claims. This minimum cash balance is considered each year during the rate-setting process.

NOTE 9 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the years ended June 30, 2011 and 2010, including a description of the relationship and operations are as follows:

Oklahoma State University

Nature of Relationship - CIED engages in research, extension and academic contractual arrangements for the benefit and advancement of the University. CIED receives and administers funds from Federal and state organizations and from private sources for the purpose of carrying out certain education and research programs of the University.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Oklahoma State University
Center for Innovation and Economic Development, Inc.

June 30, 2011 and 2010

NOTE 9 - RELATED PARTY TRANSACTIONS - CONTINUED

Description of Operations - CIED administers contracts with the National Aeronautics and Space Administration and the U.S. Department of Defense, among others. The University incurs certain overhead related expenditures on behalf of CIED in the administration of the contracts. In return, CIED allocates to the University colleges approximately 40% of the facilities and administrative costs recovered under these contracts. The amounts allocated during the years ended June 30, 2011 and 2010 totaled \$1,302,686 and \$1,221,381, respectively.

CIED allocated an additional \$250,000 and \$312,500 to the University from the recovery of facilities and administrative costs during fiscal years 2011 and 2010, respectively.

In August 2009, the University purchased Cowboy Mall from CIED for a purchase price of \$1,523,544. CIED originally purchased the Cowboy Mall Property in 2001 with a commercial loan from Stillwater National Bank, but later paid off the loan with funding derived from an existing line of credit with UBS-Paine Webber. CIED renovated portions of Cowboy Mall and created classroom space for freshman level/remedial courses. The University, Northern Oklahoma College, and local merchants leased or subleased Cowboy Mall space from CIED until the University agreed to purchase the Cowboy Mall facility. CIED used the proceeds from this sale to pay off the line of credit with UBS-Paine Webber in the amount of \$1,283,832 principal and amortized leasehold improvements of \$239,712.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

CIED participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes CIED has complied with grant requirements and that disallowances, if any, will not be material.

CIED utilizes certain office space and equipment under operating leases expiring in 2013. Rent expense under operating leases was \$394,647 and \$1,123,031 for the years ended June 30, 2011 and 2010, respectively.

On September 13, 2010, the University purchased the multi-tenant building (Venture I) from OTRP One, also referred to as Idea Partnerships, for a purchase price of \$7,500,000. CIED previously leased the Venture I from OTRP One. In turn, CIED subleased the facility to the University for additional research capacity. In addition to the University's occupancy of the facility, there were two non-university tenants (Lucas Newman Science & Technology and Nomadics, Inc.) residing in the Venture I building at the time of the University's purchase of the building. The sublease with CIED was terminated upon the purchase of the property by the University. The University will continue to lease the space to the remaining tenants under the existing agreements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Oklahoma State University
Center for Innovation and Economic Development, Inc.

June 30, 2011 and 2010

NOTE 11 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

CIED's operating expenses by functional classification were as follow as of June 30:

Year ended June 30, 2011								
Functional classification	Natural classification							Total
	Compen- sation and benefits	Contract- ual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses	Depreciation	
Instruction	\$ 4,366,162	\$ 288,599	\$ 232,864	\$ -	\$ 40,494	\$ 1,610,780	\$ -	\$ 6,538,899
Research	7,596,252	821,384	54,810	-	5,830	395,490	-	8,873,766
Academic support	1,202,916	455,397	61,474	12,311	23,950	1,307,153	-	3,063,201
Auxiliary enterprises	7,327	244,720	625	10,522	-	2,168	-	265,362
Depreciation	-	-	-	-	-	-	137,473	137,473
Total expenses	<u>\$ 13,172,657</u>	<u>\$ 1,810,100</u>	<u>\$ 349,773</u>	<u>\$ 22,833</u>	<u>\$ 70,274</u>	<u>\$ 3,315,591</u>	<u>\$ 137,473</u>	<u>\$ 18,878,701</u>

Year ended June 30, 2010								
Functional classification	Natural classification							Total
	Compen- sation and benefits	Contract- ual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses	Depreciation	
Instruction	\$ 3,698,407	\$ 608,054	\$ 116,890	\$ -	\$ 46,259	\$ 1,538,129	\$ -	\$ 6,007,739
Research	7,328,240	841,571	350,169	-	11,847	277,983	-	8,809,810
Academic support	960,795	394,682	77,372	12,722	27,612	1,732,638	-	3,205,821
Auxiliary enterprises	11,246	980,613	600	13,396	-	5,089	-	1,010,944
Depreciation	-	-	-	-	-	-	135,813	135,813
Total expenses	<u>\$ 11,998,688</u>	<u>\$ 2,824,920</u>	<u>\$ 545,031</u>	<u>\$ 26,118</u>	<u>\$ 85,718</u>	<u>\$ 3,553,839</u>	<u>\$ 135,813</u>	<u>\$ 19,170,127</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 Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the financial statements of the Oklahoma State University Center for Innovation and Economic Development, Inc. ("CIED"), a component unit of Oklahoma State University, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 14, 2011. Our report was modified to include an explanatory paragraph stating that CIED 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 CIED'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 CIED's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CIED'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 CIED'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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CIED'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 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 14, 2011