

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

**June 30, 2009**

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

June 30, 2009

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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, 2009 and 2008, 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, 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, 2009 and 2008, 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 23, 2009, 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 23, 2009

STATEMENTS OF NET ASSETS

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

	June 30	
	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 53,315	\$ 534,224
Accounts receivable	1,073,225	413,866
Prepaid expenses	<u>17,986</u>	<u>40,572</u>
TOTAL CURRENT ASSETS	1,144,526	988,662
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	1,384,273	1,316,393
Security deposits, net of accumulated amortization	<u>36,168</u>	<u>33,560</u>
TOTAL NONCURRENT ASSETS	<u>1,420,441</u>	<u>1,349,953</u>
TOTAL ASSETS	<u>\$ 2,564,967</u>	<u>\$ 2,338,615</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 1,515,604	\$ 1,514,572
Deferred revenue	<u>13,699</u>	<u>91,742</u>
Total current liabilities	<u>1,529,303</u>	<u>1,606,314</u>
TOTAL LIABILITIES	1,529,303	1,606,314
NET ASSETS		
Invested in capital assets, net of related debt	1,384,273	1,316,393
Unrestricted net assets (deficiency)	<u>(348,609)</u>	<u>(584,092)</u>
TOTAL NET ASSETS	<u>\$ 1,035,664</u>	<u>\$ 732,301</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	Year Ended June 30	
	2009	2008
OPERATING REVENUES		
Federal grants and contracts	\$ 3,070,876	\$ 2,777,597
Private grant-PCDA	500,000	500,000
Commercial grants and contracts	670,894	-
Commercial proposal writing	-	14,602
Chilocco service center revenue	-	11,750
Other revenue-Community Engagement Program	55,510	39,980
	<u>4,297,280</u>	<u>3,343,929</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES		
Contract labor	2,331,358	2,624,211
Professional services	382,794	73,601
Contract travel expense	364,032	167,147
Office supplies and equipment	285,015	25,917
Rent	296,054	216,122
Insurance	82,746	51,579
Repairs and maintenance	48,869	20,395
Telephone and utilities	78,662	41,753
Other operating expenses	97,997	27,568
Depreciation and amortization	43,059	12,683
	<u>4,010,586</u>	<u>3,260,976</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME	286,694	82,953
NONOPERATING REVENUES (EXPENSES)		
Rent income	16,519	25,600
Interest income	1,154	18,220
Other nonoperating revenues	1,620	13,819
Gain on disposal of fixed assets	412	-
Interest expense	(3,036)	(4,145)
	<u>16,669</u>	<u>53,494</u>
NET NONOPERATING REVENUES		
Net increase in net assets	303,363	136,447
NET ASSETS, BEGINNING OF YEAR	<u>732,301</u>	<u>595,854</u>
NET ASSETS, END OF YEAR	<u>\$ 1,035,664</u>	<u>\$ 732,301</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

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

	Year Ended June 30	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 3,013,045	\$ 3,011,681
Other operating receipts	637,798	83,026
Payments for labor	(2,331,358)	(2,420,122)
Payments to suppliers	<u>(1,617,411)</u>	<u>347,088</u>
NET CASH PROVIDED BY (USED IN ) OPERATING ACTIVITIES	(297,926)	1,021,673
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Rent income	(74,446)	25,600
Agency fund receipts - TRITON	-	728,080
Agency fund payments - SAIC	<u>-</u>	<u>(728,080)</u>
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	(74,446)	25,600
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>1,154</u>	<u>18,220</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,154	18,220
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for fixed assets	(108,275)	(1,071,033)
Interest paid	(3,036)	(4,145)
Other sources	<u>1,620</u>	<u>13,819</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(109,691)</u>	<u>(1,061,359)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(480,909)	4,134
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>534,224</u>	<u>530,090</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 53,315</u>	<u>\$ 534,224</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

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

	Year Ended June 30	
	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 286,694	\$ 82,953
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	40,807	11,932
Changes in assets and liabilities		
Accounts receivable	(568,394)	(249,222)
Prepaid expenses	22,586	(40,572)
Security deposits	(2,608)	(33,560)
Accounts payable and accrued expenses	1,032	1,250,142
Deferred revenue	<u>(78,043)</u>	<u>-</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (297,926)</u>	<u>\$ 1,021,673</u>

See notes to financial statements.



## NOTES TO FINANCIAL STATEMENTS

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

June 30, 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, 2009 and 2008

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 vehicles and equipment, OSU-UML's capitalization policy includes all items with a unit cost of \$500 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. 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. OSU-UML capitalizes interest as a component of capital assets constructed for its own use. In 2009 and 2008, total interest incurred was \$3,036 and \$4,145, respectively, none of which was capitalized.

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, 2009 and 2008

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, 2009 and 2008, 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, 2009 and 2008, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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.

New Pronouncements: In 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB No. 51 establishes standards of accounting and financial reporting for intangible assets and requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also establishes guidance specific to intangible assets related to amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and generally are required to be applied retroactively. Management has determined that this Statement will have no effect on OSU-UML's financial condition or results of operations.

In 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Management is evaluating the effect this Statement will have on OSU-UML's financial condition or results of operations.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2009 and 2008

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Due from government contracts	\$ 1,034,405	\$ 398,341
Other customers	38,820	15,525
	<u>\$ 1,073,225</u>	<u>\$ 413,866</u>

NOTE 3 – SECURITY DEPOSITS

Security deposits consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Rent	\$ 24,306	\$ 19,050
Utility connection charge	14,587	11,261
Cell phones and other	278	4,000
	<u>39,171</u>	<u>34,311</u>
Less accumulated amortization	3,003	751
	<u>\$ 36,168</u>	<u>\$ 33,560</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2009 and 2008

NOTE 4 - CAPITAL ASSETS

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

	2009				Balance June 30, 2009
	Balance June 30, 2008	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other capital assets					
Leasehold improvements	\$ 1,310,043	\$ 65,224	\$ -	\$ -	\$ 1,375,267
Vehicles	15,500	-	-	-	15,500
Machinery and equipment	1,900	42,683	(930)	-	43,653
Software	882	1,123	-	-	2,005
Total other capital assets	<u>1,328,325</u>	<u>109,030</u>	<u>(930)</u>	<u>-</u>	<u>1,436,425</u>
Less accumulated depreciation for					
Leasehold improvements	(1,399)	(31,507)	-	-	(32,906)
Vehicles	(9,300)	(2,480)	-	-	(11,780)
Machinery and equipment	(1,086)	(6,340)	588	-	(6,838)
Software	(147)	(481)	-	-	(628)
Total accumulated depreciation	<u>(11,932)</u>	<u>(40,808)</u>	<u>588</u>	<u>-</u>	<u>(52,152)</u>
Other capital assets, net	<u>\$ 1,316,393</u>	<u>\$ 68,222</u>	<u>\$ (342)</u>	<u>\$ -</u>	<u>\$ 1,384,273</u>
Capital asset summary:					
Capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -	\$ -
Other capital assets, at cost	<u>1,328,325</u>	<u>109,030</u>	<u>(930)</u>	<u>-</u>	<u>1,436,425</u>
Total cost of capital assets	<u>1,328,325</u>	<u>109,030</u>	<u>(930)</u>	<u>-</u>	<u>1,436,425</u>
Less accumulated depreciation	<u>(11,932)</u>	<u>(40,808)</u>	<u>588</u>	<u>-</u>	<u>(52,152)</u>
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, 2009 and 2008

NOTE 4 - CAPITAL ASSETS - Continued

	2008				Balance June 30, 2008
	Balance June 30, 2007	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Construction in progress	\$ 257,292	\$ 1,052,751	\$ -	\$(1,310,043)	\$ -
Total capital assets not being depreciated	<u>\$ 257,292</u>	<u>\$ 1,052,751</u>	<u>\$ -</u>	<u>\$(1,310,043)</u>	<u>\$ -</u>
Other capital assets					
Leasehold improvements	\$ -	\$ -	\$ -	\$ 1,310,043	\$ 1,310,043
Vehicles	-	15,500	-	-	15,500
Machinery and equipment	-	1,900	-	-	1,900
Software	-	882	-	-	882
Total other capital assets	-	18,282	-	1,310,043	1,328,325
Less accumulated depreciation for					
Leasehold improvements	-	(1,399)	-	-	(1,399)
Vehicles	-	(9,300)	-	-	(9,300)
Machinery and equipment	-	(1,086)	-	-	(1,086)
Software	-	(147)	-	-	(147)
Total accumulated depreciation	-	(11,932)	-	-	(11,932)
Other capital assets, net	<u>\$ -</u>	<u>\$ 6,350</u>	<u>\$ -</u>	<u>\$ 1,310,043</u>	<u>\$ 1,316,393</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 257,292	\$ 1,052,751	\$ -	\$(1,310,043)	\$ -
Other capital assets, at cost	-	18,282	-	1,310,043	1,328,325
Total cost of capital assets	257,292	1,071,033	-	-	1,328,325
Less accumulated depreciation	-	(11,932)	-	-	(11,932)
Capital assets, net	<u>\$ 257,292</u>	<u>\$ 1,059,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,316,393</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2009 and 2008

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Oklahoma State University	-	337,633
TRITON Scientific, L.L.C.	585,379	647,296
P&R Services, Inc.	-	363,241
Subcontractors	759,506	-
Others	170,719	166,402
	<u>\$ 1,515,604</u>	<u>\$ 1,514,572</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 2009 and 2008, TRITON paid \$1,641,037 and \$1,206,261, 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	59,975
	<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, 2009 and 2008

### 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 remaining payment of \$500,000 is contingent upon meeting annual employment goals. While employment growth is attainable, unknown factors could affect the ability of OSU-UML to meet the award’s criteria.

### 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2009 and 2008

NOTE 9 – RELATED PARTY TRANSACTIONS--Continued

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 has earmarked the \$5,000,000 for OSU-UML. During 2008 additional funding of \$1.6 million was received by the University and is also earmarked for OSU-UML. The appropriations provided by the State have been appropriated and allotments granted by the Oklahoma State Regents for Higher Education to the University and are not reflected on the OSU-UML financial statements.

*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 governed by an independent Board of Directors who maintain no position at the University. Although the University does not control the timing or amount of receipts from the OSU Foundation, the majority of resources or income thereon that the OSU Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the OSU Foundation can only be used by, or for the benefit of the University, OSU Foundation is considered a component unit of the University, as defined by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

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 balance will be paid in the next fiscal year. The financial support provided by COP has been received by the OSU Foundation and is not reflected in the OSU-UML financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2009 and 2008

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.

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, 2009:

2010	\$	217,052
2011		98,055
2012		73,668
2013		68,344
2014		68,934
Thereafter		<u>5,849</u>
	\$	<u>531,902</u>

*Contingent Liability:*

The architectural firm that provided services during the first phase of OSU-UML's construction activities submitted an invoice in fiscal year 2008. OSU-UML has verified the accuracy of the amount billed. As of June 30, 2009, Triton had paid \$200,000 for the services provided. UML reimburses Triton as funds become available. At June 30, 2009, UML had reimbursed \$175,000 and the remaining \$25,000 was included in the UML's accounts payable. There is an additional amount of \$244,654 that will be paid by Triton in fiscal year 2010.

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, 2009 and have issued our report thereon dated October 23, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 23, 2009

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, 2009. 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, 2009.

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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

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, 2009, and have issued our report thereon dated October 23, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 23, 2009

OSU UNIVERSITY MULTISPECTRAL LABORATORY, LLC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Agreement Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Department of Defense	Subcontract #: GbH-08-08A	12.XXX	\$ 109,395
Department of Defense	Seal Team 2 - HAT	12.XXX	34,678
<b>Department of Defense</b>			
<b>Pass-Through Program From:</b>			
Space and Naval Warfare Systems	N65236-07-D-7878 DO0005	12.XXX	36,533
Space and Naval Warfare Systems	N65236-07-D-7878 DO0006	12.XXX	341,147
Space and Naval Warfare Systems	N65236-07-D-7878 DO0007	12.XXX	322,719
Space and Naval Warfare Systems	N65236-07-D-7878 DO0008	12.XXX	30,212
Space and Naval Warfare Systems	N65236-07-D-7878 DO0009	12.XXX	373,676
Space and Naval Warfare Systems	N65236-07-D-7878 DO0010	12.XXX	153,572
Space and Naval Warfare Systems	N65236-07-D-7878 DO0011	12.XXX	232,087
Space and Naval Warfare Systems	N65236-07-D-7878 DO0012	12.XXX	47,261
Space and Naval Warfare Systems	N65236-07-D-7878 DO0013	12.XXX	102,126
Space and Naval Warfare Systems	N65236-07-D-7878 DO0014	12.XXX	307,784
Space and Naval Warfare Systems	N65236-07-D-7878 DO0015	12.XXX	67,526
Space and Naval Warfare Systems	N65236-07-D-7878 DO0016	12.XXX	209,093
Science Applications International Corp	Subcontract # 4400153448	12.XXX	<u>577,666</u>
<b>Total Department of Defense</b>			<b>\$ <u>2,945,474</u></b>

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, 2009

### 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, 2008.

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, 2008, 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, 2009

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 \$635,973 in federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Year Ended June 30, 2009

**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 that are not considered to be material weakness(es)?  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 that are not considered to be material weakness(es)?  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 Center	12.XXX

\* See Detailed Schedule of Expenditures of Federal awards at Appendix A and Appendix B for identification of CFDA numbers applicable to the major programs.

Dollar threshold used to distinguish between type A and type B programs: \$300,000

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, 2009

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

None to report for the June 30, 2009 period.

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

None to report for the June 30, 2009 period.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

Year Ended June 30, 2009

Findings Required to be Reported by *Government Auditing Standards*

FINDING 2008-01

### Recording of Capital Assets

During 2007, there were no formal asset capitalization policies in effect. That lack of policy has resulted in an inconsistent application of the capitalization of fixed assets within the organization between years and as a result, during 2008, OSU-UML determined that certain expenditures for construction were not properly capitalized and were instead expensed during the year ended June 30, 2007. OSU-UML has recorded a prior period adjustment of \$257,292 to correct this error and to restate the prior year financial statements.

### OSU-UML's Response

The primary funding source for the property and facilities used by OSU-UML is a capital funding program authorized through the Oklahoma State Regents for Higher Education ("OSRHE"). The capital costs incurred and charged to the OSRHE funding are recorded on the University's capital assets. Thus a capital asset policy is supported through University policy and procedures.

The \$257,292 in expenses recorded in 2007 and subsequently restated were actually incurred prior to OSU-UML receiving available funding during the very early months of OSU-UML's start-up. In accordance with the management agreement between the University, OSU-UML, and AMTI/SAIC— now TRITON, OSU-UML could not incur debts without available funding. The expenses incurred, and later reclassified were costs absorbed by the management group until OSU-UML funding became available.

### Current Status

The OSU-UML's 2007 financial statements were restated to correctly reflect the fixed asset values, and the OSU-UML has begun the formalization of the organization's capital asset policy. While the OSU-UML occupies facilities gifted to the University and manages the construction, renovation, and equipment purchases paid by funds appropriated to the development and improvement of the Ponca City or Stillwater sensor-related facilities, any increases in value, disposal of equipment, and associated depreciation of any capital assets affects the University's capital asset records. The OSU-UML management, with assistance from the University's financial personnel, reviewed asset capitalization activities during FY2009 and determined whether or not the appropriate capital asset recordings and associated disposal or depreciation transactions should or should not affect the OSU-UML financial statements. As renovations are completed in the near future, any lingering concerns over the recording of fixed assets should be alleviated.