

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

June 30, 2010

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

June 30, 2010

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, 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 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, 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 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 29, 2010

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

STATEMENTS OF NET ASSETS

June 30,

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,715,575	\$ 3,137,821
Accounts receivable, net	3,022,668	3,759,915
Investments	3,500,977	6,021,490
Interest receivable	-	10,931
Total current assets	9,239,220	12,930,157
Noncurrent assets		
Capital assets, net of accumulated depreciation	853,172	3,572,672
Total noncurrent assets	853,172	3,572,672
TOTAL ASSETS	10,092,392	16,502,829
LIABILITIES		
Current liabilities		
Accounts payable	989,778	749,658
Due to Oklahoma State University	764,466	6,141,530
Deferred revenue	168,548	16,434
Deposits	8,072	8,072
Accrued compensated absences	580,398	530,101
Current portion of notes payable and other capital leases	18,958	1,318,071
Total current liabilities	2,530,220	8,763,866
Noncurrent liabilities		
Obligations under other capital leases	79,567	98,525
Total noncurrent liabilities	79,567	98,525
TOTAL LIABILITIES	2,609,787	8,862,391
NET ASSETS		
Invested in capital assets, net of debt	754,647	2,156,075
Restricted for:		
Expendable		
Scholarships, research, instruction, and other	274,530	263,547
Capital Projects	5,932	4,932
Unrestricted	6,447,496	5,215,884
TOTAL NET ASSETS	\$ 7,482,605	\$ 7,640,438

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,

	2010	2009
Operating revenues:		
Federal grants and contracts	\$ 17,913,690	\$ 15,288,026
State and local grants and contracts	664,032	660,203
Nongovernmental grants and contracts	36,920	164,591
Auxiliary revenue	1,062,084	1,306,100
Other operating revenues	75,889	100,231
Total operating revenues	19,752,615	17,519,151
Operating expenses		
Compensation and employee benefits	11,998,688	11,408,848
Contractual services	2,824,920	2,420,864
Supplies and materials	545,031	478,270
Utilities	26,118	27,453
Communication	85,718	88,676
Other operating expenses	3,553,839	2,533,366
Depreciation expense	135,813	138,757
Total operating expenses	19,170,127	17,096,234
Operating income	582,488	422,917
Nonoperating revenues (expenses)		
Investment income (loss)	632,669	(1,002,081)
Interest expense	(8,699)	(46,776)
Net nonoperating revenues	623,970	(1,048,857)
Income (loss) before other revenues, expenses, gains and losses	1,206,458	(625,940)
Loss on disposal of capital assets	(1,370,051)	(85,757)
Other additions, net	5,760	(110,400)
Net decrease in net assets	(157,833)	(822,097)
Net assets - beginning of year	7,640,438	8,462,535
Net assets - end of year	\$ 7,482,605	\$ 7,640,438

See notes to financial statements

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

STATEMENTS OF CASH FLOWS
Year Ended June 30,

	2010	2009
Cash flows from operating activities		
Grants and contracts	\$ 19,439,299	\$ 16,361,006
Other operating receipts	1,202,677	1,267,996
Payments to OSU employees for salaries and benefits	(11,949,683)	(11,371,324)
Payments to suppliers	(12,171,278)	(5,063,272)
Net cash provided by (used in) operating activities	(3,478,985)	1,194,406
Cash flows from investing activities		
Purchases of investments	(4,983,750)	7,087
Proceeds from sales of investments	8,131,312	-
Interest received on investments	16,552	61,029
Net cash provided by investing activities	3,164,114	68,116
Cash flows from capital and related financing activities		
Cash paid for capital assets	(309,909)	-
Proceeds from the sale of capital assets	1,523,544	-
Proceeds of capital debt	-	129,967
Repayments of capital debt and leases	(1,318,071)	(217,392)
Interest paid on capital debt and leases	(8,699)	(46,776)
Other sources	5,760	(110,400)
Net cash used in capital and related financing activities	(107,375)	(244,601)
Net increase (decrease) in cash and cash equivalents	(422,246)	1,017,921
Cash and cash equivalents, beginning of year	3,137,821	2,119,900
Cash and cash equivalents, end of year	\$ 2,715,575	\$ 3,137,821

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

STATEMENTS OF CASH FLOWS - CONTINUED
Year Ended June 30,

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 582,488	\$ 422,917
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense	135,813	138,757
Changes in assets and liabilities		
Accounts receivable	737,247	85,345
Accounts payable and accrued expenses	240,120	234,614
Due to Oklahoma State University	(5,377,064)	215,314
Deferred revenue	152,114	16,434
Deposits	-	8,072
Compensated absences	50,297	72,953
Net cash provided by (used in) operating activities	\$ (3,478,985)	\$ 1,194,406

See notes to financial statements

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

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
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

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 2010 and 2009, total interest incurred was \$8,699 and \$46,776, 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
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

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
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

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 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 not significantly effect CIED's financial condition or results of operations.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents: At June 30, 2010 and 2009, the carrying amount of CIED's cash and cash equivalents was \$2,715,575 and \$3,137,821, respectively. These amounts included deposits with financial institutions (\$1,240,182 and \$296,075) 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, 2010 and 2009, CIED's investments in municipal and corporate bonds were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service.

	2010	2009
U.S. Government securities	\$2,226,064	\$ 534,805
U.S. Treasury notes	-	751,991
Money funds	938	294,494
Corporate bonds and notes	-	26,623
Equity securities	<u>1,273,975</u>	<u>4,413,577</u>
	<u>\$3,500,977</u>	<u>\$6,021,490</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

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. CIED's investment schedule by maturity date as of June 30, 2010 is as follows:

Maturity year ending June 30	U.S. Government Securities	Total
2011	-	-
2012	2,226,064	2,226,064
	\$ 2,226,064	\$ 2,226,064

Investments not subject to maturity dates:

Equity securities	1,273,975
Money funds	938
Total Investments	\$ 3,500,977

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2010	2009
Federal, state and private grants and contracts	\$ 2,662,756	\$ 3,318,865
USDA and other loans to private companies	366,645	448,674
Travel advances	600	1,350
	3,030,001	3,768,889
Less allowance for doubtful accounts	7,333	8,974
	\$ 3,022,668	\$ 3,759,915

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 4 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2010 and 2009:

	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	<u>-</u>	<u>32,594</u>	<u>-</u>	<u>-</u>	<u>32,594</u>
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	<u>1,089,192</u>	<u>277,315</u>	<u>(880)</u>	<u>-</u>	<u>1,365,627</u>
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	<u>(870,856)</u>	<u>(115,541)</u>	<u>880</u>	<u>-</u>	<u>(985,517)</u>
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	<u>3,986,154</u>	<u>277,315</u>	<u>(2,538,910)</u>	<u>-</u>	<u>1,724,559</u>
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, 2010 and 2009

NOTE 4 - CAPITAL ASSETS - CONTINUED

	2009				Balance June 30, 2009
	Balance June 30, 2008	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 915,098	\$ -	\$ -	\$ -	\$ 915,098
Construction in progress	74,557	-	(74,557)	-	-
Total capital assets not being depreciated	<u>\$ 989,655</u>	<u>\$ -</u>	<u>\$ (74,557)</u>	<u>\$ -</u>	<u>\$ 915,098</u>
Other capital assets					
Buildings	\$ 2,896,962	\$ -	\$ -	\$ -	\$ 2,896,962
Furniture, fixtures and equipment	1,130,694	-	(41,502)	-	1,089,192
Total other capital assets	4,027,656	-	(41,502)	-	3,986,154
Less accumulated depreciation for					
Buildings	(380,921)	(76,803)	-	-	(457,724)
Furniture, fixtures and equipment	(839,204)	(61,954)	30,302	-	(870,856)
Total accumulated depreciation	<u>(1,220,125)</u>	<u>(138,757)</u>	<u>30,302</u>	<u>-</u>	<u>(1,328,580)</u>
Other capital assets, net	<u>\$ 2,807,531</u>	<u>\$ (138,757)</u>	<u>\$ (11,200)</u>	<u>\$ -</u>	<u>\$ 2,657,574</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 989,655	\$ -	\$ (74,557)	\$ -	\$ 915,098
Other capital assets, at cost	4,027,656	-	(41,502)	-	3,986,154
Total cost of capital assets	5,017,311	-	(116,059)	-	4,901,252
Less accumulated depreciation	<u>(1,220,125)</u>	<u>(138,757)</u>	<u>30,302</u>	<u>-</u>	<u>(1,328,580)</u>
Capital assets, net	<u>\$ 3,797,186</u>	<u>\$ (138,757)</u>	<u>\$ (85,757)</u>	<u>\$ -</u>	<u>\$ 3,572,672</u>

Oklahoma State University
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

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, 2010 and 2009 are as follows:

	2010	2009
<i>Working Funds:</i>		
Education	\$ (2,031)	\$ 1,502,435
Engineering	305,649	3,781,795
Agriculture	3,556	6,148
Human Environmental Science	24,064	7,600
Business	-	140,722
Okmulgee	-	4,299
Veterinary Medicine	-	53,940
Vice President for Research	13,264	372,859
Institute for Teaching and Learning Excellence	10	10
Arts and Sciences	-	79,305
International Studies	-	3,142
Various other departments	384,240	117,770
Total Working Funds	728,752	6,070,025
Other amounts due to Oklahoma State University	35,714	71,505
	\$ 764,466	\$ 6,141,530

NOTE 6 - DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	2010	2009
Grants and contracts	\$ 168,548	\$ 290
Prepaid Rent	-	16,144
	\$ 168,548	\$ 16,434

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 7 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Multiple advance note payable, collateralized by investments with UBS-Paine Webber, dated December 2002, line of credit cap of \$2,007,170, payable on demand, variable interest rate.	\$ <u> </u> -	\$ <u>1,299,813</u>
Total notes payable	\$ <u> </u> -	\$ <u>1,299,813</u>

NOTE 8 - LEASE OBLIGATIONS

Oklahoma Development Finance Authority Master Lease Program

Master Lease payable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
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	\$ 116,783

Maturity Information

Future minimum lease payments for lease obligations are as follows as of June 30, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total payments</u>
2011	\$18,958	\$3,474	\$22,432
2012	19,600	2,847	22,447
2013	19,658	2,178	21,836
2014	20,417	1,488	21,905
2015	<u>19,892</u>	<u>746</u>	<u>20,638</u>
Totals	<u>\$98,525</u>	<u>\$10,733</u>	<u>\$109,258</u>

Oklahoma State University
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 9 - 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 general liability, tort claim coverage, educator's legal liability and property and casualty programs 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 guidelines in 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, complete 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.
- General liability and tort claim coverages (including comprehensive general liability, auto liability, personal injury liability, aircraft liability, watercraft liability, leased vehicles and equipment) are purchased 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.

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, 2010.

Oklahoma State University
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 9 - RISK MANAGEMENT - CONTINUED

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 10 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the years ended June 30, 2010 and 2009, 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.

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, 2010 and 2009 totaled \$1,221,381 and \$1,129,410, respectively.

CIED allocated an additional \$312,500 and \$187,500 to the University from the recovery of facilities and administrative costs during fiscal years 2010 and 2009, respectively.

CIED has entered into sublease agreements with the University for building space. See additional information at Note 10.

Oklahoma State University
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 10 - RELATED PARTY TRANSACTIONS - CONTINUED

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 11 - 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 2016. Rent expense under operating leases was \$1,123,031 and \$1,107,563 for the years ended June 30, 2010 and 2009, respectively.

CIED leases space through three separate leases in a multi-tenant building owned by Oklahoma Technology & Research Park One, LLC ("OTRP One"). CIED leases approximately one half of the building under a ten-year lease agreement, beginning July 1, 2004 and expiring June 30, 2014, with several renewable options available. The lease calls for an annual base rent plus additional amounts as defined in the agreement. The annual rent is subject to adjustment as defined in the agreement. The schedule of future minimum lease payments does not include the effects, if any, of future adjustments. OTRP One secured financing for the building based upon the CIED lease and an additional agreement with CIED that will ensure the facility will have sufficient revenues to pay the debt service (the "Contingent Deficiency Funding Agreement"). Under the Contingent Deficiency Funding Agreement if OTRP One does not receive sufficient revenue to meet the required debt service ratio, CIED will be required to pay any monthly deficiency until OTRP One receives monthly rental payments that are sufficient to maintain the required debt service coverage ratio after expenses. Any payments required under the Contingent Deficiency Funding Agreement are to be reimbursed from future revenue from the multi-tenant building. No deficiency funding was required through June 30, 2010. CIED's estimated additional maximum exposure under the Contingent Deficiency Funding Agreement is \$439,998. This amount has not been included in the following table of future minimum lease payments due to uncertainties relating to OTRP One's ability to secure additional tenants. Effective January 1, 2006 and July 1, 2006 CIED signed two agreements to lease the remaining space owned by OTRP One for a period of ten years.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

Additionally, the University signed agreements with CIED to sublease the entire building space owned by OTRP One. The sublease agreements were for one year, with options to renew for additional years. Sublease rental income for CIED was approximately \$978,144 and \$965,716 for the years ended June 30, 2010 and 2009, respectively. The future minimum sublease rental income amounted to approximately \$4,753,862 at June 30, 2010. See Note 12 for additional discussion.

Future minimum payments under operating leases are as follows at June 30, 2010:

Fiscal year ending June 30	
2011	\$ 969,989
2012	969,989
2013	969,989
2014	969,989
2015	410,752
Thereafter	<u>463,154</u>
	<u>\$ 4,753,862</u>

NOTE 12 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Functional classification	Year ended June 30, 2010								
	Natural classification							Depreciation	Total
	Compen- sation and benefits	Contract- ual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses			
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	\$ 11,998,688	\$ 2,824,920	\$ 545,031	\$ 26,118	\$ 85,718	\$ 3,553,839	\$ 135,813	\$ 19,170,127	

Oklahoma State University
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE 12-NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS - CONTINUED

Year ended June 30, 2009								
Functional classification	Natural classification						Depreciation	Total
	Compen- sation and benefits	Contract- ual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses		
Instruction	\$ 3,818,511	\$ 479,553	\$ 63,765	\$ -	\$ 59,626	\$ 1,533,505	\$ -	\$ 5,954,960
Research	6,363,887	567,952	345,171	-	7,154	148,438	-	7,432,602
Academic support	1,211,685	400,504	68,680	13,527	21,896	849,231	-	2,565,523
Auxiliary enterprises	14,765	972,855	654	13,926	-	2,192	-	1,004,392
Depreciation	-	-	-	-	-	-	138,757	138,757
Total expenses	<u>\$ 11,408,848</u>	<u>\$ 2,420,864</u>	<u>\$ 478,270</u>	<u>\$ 27,453</u>	<u>\$ 88,676</u>	<u>\$ 2,533,366</u>	<u>\$ 138,757</u>	<u>\$ 17,096,234</u>

NOTE 13 – SUBSEQUENT EVENT

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.

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, 2010 and have issued our report thereon dated October 29, 2010. 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 29, 2010