

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

**June 30, 2011**

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

June 30, 2011

AUDITED FINANCIAL STATEMENTS

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

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	17
---	----

REPORTS REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards.....	19
Schedule of Expenditures of Federal Awards.....	21
Notes to Schedule of Expenditures of Federal Awards.....	22
Schedule of Findings and Questioned Costs.....	24
Summary Schedule of Prior Audit Findings.....	26

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

June 30, 2011

AUDITED FINANCIAL STATEMENTS

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

## 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, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of OSU-UML's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSU-UML as of June 30, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of 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 14, 2011

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

**STATEMENTS OF NET ASSETS**

	June 30	
	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 350,870	\$ 58,435
Accounts receivable	3,776,501	2,612,618
Prepaid expenses	56,336	13,528
Total current assets	4,183,707	2,684,581
<b>NONCURRENT ASSETS</b>		
Capital assets, net of accumulated depreciation	2,549,098	1,731,604
Security deposits, net of accumulated amortization	48,188	39,637
Total noncurrent assets	2,597,286	1,771,241
<b>TOTAL ASSETS</b>	6,780,993	4,455,822
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	4,040,324	2,410,237
Deferred revenue	14,486	1,500
Total current liabilities	4,054,810	2,411,737
<b>TOTAL LIABILITIES</b>	4,054,810	2,411,737
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	2,549,098	1,731,604
Unrestricted net assets	177,085	312,481
<b>TOTAL NET ASSETS</b>	\$ 2,726,183	\$ 2,044,085

See notes to financial statements.

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

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

	Year Ended June 30	
	2011	2010
Operating revenues:		
Federal grants and contracts	\$ 30,101,419	\$ 12,056,110
State grants and contracts	650,610	197,363
Private source-PCDA	-	500,000
Other revenue: Community Engagement Program	47,015	42,500
Commercial grants and contracts	857,306	1,555,910
Total operating revenues	31,656,350	14,351,883
Operating expenses:		
Contract labor	16,831,883	9,690,976
Professional services	720,254	210,460
Contract travel expense	1,007,725	390,438
Contract materials expenses	6,326,456	1,303,281
Office supplies and equipment	1,748,264	163,124
Rent	565,638	468,560
Insurance	165,450	153,052
Repairs and maintenance	56,883	25,800
Telephone and utilities	176,165	133,017
Other operating expenses	3,296,251	744,580
Depreciation expense	158,337	103,229
Total operating expenses	31,053,306	13,386,517
Operating income	603,044	965,366
Nonoperating revenues (expenses)		
Rent income	75,206	42,101
Interest income	6,722	1,568
Other nonoperating revenues	25	238
Interest expense	(2,899)	(852)
Net nonoperating revenues	79,054	43,055
Net increase in net assets	682,098	1,008,421
NET ASSETS, beginning of year	2,044,085	1,035,664
NET ASSETS, end of year	\$ 2,726,183	\$ 2,044,085

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

	Year Ended June 30	
	2011	2010
Cash flows from operating activities		
Grants and contracts	\$ 30,461,749	\$ 12,654,217
Other operating receipts	42,204	55,109
Payments for labor	(17,310,350)	(8,796,343)
Payments to suppliers	(12,005,891)	(3,591,323)
Net cash provided by operating activities	1,187,712	321,660
Cash flows from noncapital financing activities		
Rent income	76,706	133,066
Net cash provided by noncapital financing activities	76,706	133,066
Cash flows from investing activities		
Purchase of investments	(250,000)	-
Proceeds from sale of investments	250,000	-
Interest received	6,722	1,568
Net cash provided by investing activities	6,722	1,568
Cash flows from capital and related financing activities		
Cash paid for capital assets	(975,831)	(450,560)
Interest paid	(2,899)	(852)
Other sources	25	238
Net cash used in capital and related financing activities	(978,705)	(451,174)
Net increase in cash and cash equivalents	292,435	5,120
Cash and cash equivalents, beginning of year	58,435	53,315
Cash and cash equivalents, end of year	\$ 350,870	\$ 58,435

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

**STATEMENTS OF CASH FLOWS--Continued**

	Year Ended June 30	
	2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 603,044	\$ 965,366
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	158,337	103,229
Changes in assets and liabilities		
Accounts receivable	(1,163,883)	(1,630,358)
Prepaid expenses	(42,808)	4,458
Security deposits	(8,551)	(3,469)
Accounts payable and accrued expenses	1,630,087	894,633
Deferred revenue	11,486	(12,199)
Net cash provided by operating activities	\$ 1,187,712	\$ 321,660

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

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

June 30, 2011 and 2010

#### 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, 2011 and 2010

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.

All accounts receivable are considered fully collectible. Therefore, no provision for doubtful accounts has been made.

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

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

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

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

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

Reclassifications: Certain amounts in the 2010 financial statements have been reclassified to conform to the current year presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2011 and 2010

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, 2011 and 2010, 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, 2011 and 2010, OSU-UML has no restricted, nonexpendable net assets.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2011 and 2010

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2011 and 2010

NOTE 2--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Due from government contracts	\$ 1,488,393	\$ 1,139,205
Other customers	<u>2,288,108</u>	<u>1,473,413</u>
	<u>\$ 3,776,501</u>	<u>\$ 2,612,618</u>

NOTE 3--SECURITY DEPOSITS

Security deposits consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Rent	\$ 40,227	\$ 29,423
Utility connection charge	14,587	14,587
Cell phones and other	<u>882</u>	<u>882</u>
	55,696	44,892
Less accumulated amortization	<u>7,508</u>	<u>5,255</u>
	<u>\$ 48,188</u>	<u>\$ 39,637</u>



NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2011 and 2010

NOTE 5--ACCOUNTS PAYABLE

Accounts payable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
TRITON Scientific, L.L.C.	\$ 1,814,514	\$ 1,408,430
Subcontractors	2,018,429	701,440
Others	<u>207,381</u>	<u>300,367</u>
	<u>\$ 4,040,324</u>	<u>\$ 2,410,237</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 2011 and 2010, TRITON paid \$7,006,169 and \$4,175,769, respectively, in operating expenses in accordance with the contract. As funds become available, it is the UML's intent to reimburse the contractor for those expenses from contractually available funds. However, those expenses do not become payable from OSU-UML resources until appropriate funds become available.

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

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

In accordance with the previous contractor's AMTI/SAIC operating agreement, which was assumed by TRITON, the contractor cannot obligate OSU-UML with debt, beyond available funding. Funds became available in fiscal year 2011 and OSU-UML repaid the principals of TRITON for the funds contributed in the course of settling the AMTI/SAIC contingent reimbursement.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2011 and 2010

### 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, were received in December 2006, December 2007, and October 2008. The final payment of \$500,000, which was contingent upon meeting annual employment goals, was received in October 2009.

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

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

### NOTE 9--RELATED PARTY TRANSACTIONS

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

#### *Oklahoma State University:*

Nature of relationship – The University is a component unit of the State of Oklahoma 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 of Oklahoma, 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, 2011 and 2010

NOTE 9--RELATED PARTY TRANSACTIONS--Continued

*Oklahoma State University Foundation:*

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

OSU Foundation is considered a component unit of the University.

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

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

NOTE 10--COMMITMENTS AND CONTINGENCIES

*Lease Commitments:*

ConocoPhillips 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. OSU-UML leases land, certain office space and equipment under non-cancellable operating leases expiring in various years through 2105. Total lease expense in 2011 and 2010 was approximately \$566,000 and \$469,000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2011 and 2010

NOTE 10--COMMITMENTS AND CONTINGENCIES--Continued

*Lease Commitments--Continued:*

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, 2011:

2012	\$	668,728
2013		643,019
2014		578,118
2015		468,351
2016		385,287
Thereafter		<u>89</u>
	\$	<u>2,743,592</u>

NOTE 11--SUBSEQUENT EVENTS

On August 4, 2011, the \$2,000,000 Oklahoma Development Finance Authority (ODFA), Oklahoma State System of Higher Education, Master Real Property Lease Revenue Bonds, Series 2011C (MRPL 2011C) were issued to the University. The proceeds of MRPL 2011C were used for the purpose of providing funds to finance the renovation of the OSU-UML facility in Ponca City, which is owned by the University. The bonds mature in varying amounts to May 15, 2031. The University and OSU-UML had previously entered into an agreement to establish a working relationship to facilitate the timely and efficient financing of purchases of certain equipment and renovation and construction of real property for the benefit of the University through the OSU-UML and to identify and define the revenue source for repayment for the debt service. Pursuant to this agreement dated March 10, 2011, as the debt service payments come due for the ODFA MRPL 2011C, the University will invoice the OSU-UML for repayment.

REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
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, 2011 and have issued our report thereon dated October 14, 2011. Our report was modified to include an explanatory paragraph stating that OSU-UML has not presented Management's Discussion and Analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered OSU-UML's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSU-UML's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OSU-UML's internal control over financial reporting

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of OSU-UML's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSU-UML's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors of the OSU-University Multispectral Laboratories, L.L.C., management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 14, 2011

REPORTS REQUIRED BY  
OMB CIRCULAR A-133

Independent Auditors' Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and  
on Internal Control Over Compliance in Accordance With OMB Circular  
A-133 and on 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 could have a direct and material effect on its major federal program for the year ended June 30, 2011. OSU-UML's major federal program is 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 program is 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

## Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, 2011, and have issued our report thereon dated October 14, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise OSU-UML's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 14, 2011

OSU UNIVERSITY MULTISPECTRAL LABORATORY, LLC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Agreement Number</u>	<u>Number</u>	<u>Expenditures</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>			
<b>National Science Foundation</b>			
ARRA-Trans NSF Recovery Act Research Support	NSF-MRI-R2	47.082	210,197
<b>Department of Defense</b>			
Space and Naval Warfare Systems	N65236-07-D-7878 DO0015	12.XXX	307,593
Space and Naval Warfare Systems	N65236-07-D-7878 DO0019	12.XXX	48,143
Space and Naval Warfare Systems	N65236-07-D-7878 DO0022	12.XXX	47,496
Space and Naval Warfare Systems	N65236-07-D-7878 DO0024	12.XXX	281,982
Space and Naval Warfare Systems	N65236-07-D-7878 DO0025	12.XXX	12,979
Space and Naval Warfare Systems	N65236-07-D-7878 DO0026	12.XXX	122,438
Space and Naval Warfare Systems	N65236-07-D-7878 DO0027	12.XXX	1,292,261
Space and Naval Warfare Systems	N65236-07-D-7878 DO0028	12.XXX	1,365,866
Space and Naval Warfare Systems	N65236-07-D-7878 DO0029	12.XXX	1,503,461
Space and Naval Warfare Systems	N65236-07-D-7878 DO0030	12.XXX	309,641
Space and Naval Warfare Systems	N65236-07-D-7878 DO0031	12.XXX	446,163
Space and Naval Warfare Systems	N65236-07-D-7878 DO0032	12.XXX	43,501
Space and Naval Warfare Systems	N65236-07-D-7878 DO0033	12.XXX	1,897,534
Space and Naval Warfare Systems	N65236-07-D-7878 DO0034	12.XXX	387,376
Space and Naval Warfare Systems	N65236-07-D-7878 DO0035	12.XXX	6,963
Space and Naval Warfare Systems	N65236-07-D-7878 DO0036	12.XXX	321,276
Space and Naval Warfare Systems	N65236-07-D-7878 DO0037	12.XXX	64,082
Space and Naval Warfare Systems	N65236-07-D-7878 DO0038	12.XXX	2,211,552
U.S. Special Operations Command	H92222-10-C-0021	12.XXX	397,391
U.S. Special Operations Command	H92222-10-C-0021	12.XXX	201,000
Virginia Contracting Authority	HHM402-10-C-0065	12.XXX	2,295,926
U.S. Homeland Security	HS HQDC-10-C-00219	12.XXX	265,266
Navy Material Support Office	N68786-10-D-1903 DO0001	12.XXX	133,971
Navy Material Support Office	N68786-10-D-1903 DO0002	12.XXX	11,024,827
Naval Air Warfare Center	N68335-10-C-0391	12.XXX	46,649
Naval Air Warfare Center	N68335-10-C-0391	12.XXX	186,602
Naval Air Warfare Center	N68335-10-C-0391	12.XXX	854,128
<b>Pass-Through Program From:</b>			
Honeywell FMT, LLC - Lab Services	DE-AC04-01AL66850 PO EP38364	12.XXX	7,000
Oklahoma Military Department	W912L6-10-D-0002 TO0001	12.XXX	124,376
Oklahoma Military Department	W912L6-10-D-0002 TO0002	12.XXX	257,291
Davis Defense Group	N00178-05-D-4231	12.XXX	28,073
Navmar Applied Science Corporation	PO CH001810 (RFTR II)	12.XXX	2,155,602
Premier Technology, Inc - Red Bud	PTI SubK #90342	12.XXX	37,768
Total Department of Defense			<u>28,686,177</u>
<b>Total Research and Development Cluster</b>			<u>28,896,374</u>
<b>OTHER PROGRAMS</b>			
<b>Department of Energy</b>			
<b>Pass-Through Program From:</b>			
Honeywell FMT, LLC - KCP Website	Kansas City Plant: EP26997	81.XXX	90,553
<b>Total Expenditures of Federal Awards</b>			<u>\$ 28,986,927</u>

See notes to schedule of expenditures of federal awards.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Year Ended June 30, 2011

### 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, 2011.

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, 2011, 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. For those programs that don't have a CFDA number the awarding agency's number has been listed.

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, 2011

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 \$17,234,514 in federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Year Ended June 30, 2011

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

*Financial statements*

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?      \_\_\_ yes       X  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?      \_\_\_ yes       X  no
- Significant deficiency(ies) identified?      \_\_\_ yes       X  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       X  no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Research and Development Cluster	12.XXX and 47.082

Dollar threshold used to distinguish between type A and type B programs:      \$869,608

Auditee qualified as low-risk auditee?       X  yes      \_\_\_ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

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

Year Ended June 30, 2011

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

None to report for the June 30, 2011 period.

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

None to report for the June 30, 2011 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

Year Ended June 30, 2011

No matters are reportable.