

Financial statements and report of independent
certified public accountants

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

June 30, 2012 and 2011

Contents

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
STATEMENTS OF NET ASSETS	5
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	21



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the accompanying statement of net assets of the Oklahoma State University Center for Innovation and Economic Development, Inc., (“CIED”) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Entity’s management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of CIED as of and for the year ended June 30, 2011 were audited by other auditors. These auditors expressed an unqualified opinion on those financial statements in their report dated October 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CIED’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State University Center for Innovation and Economic Development, Inc., as of June 30, 2012, and the changes in financial position and cash flows thereof for the year 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 26, 2012 on our consideration of the Entity's internal control over financial reporting and on 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 effectiveness of the Entity's 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 considered in assessing the results of our audit.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 26, 2012

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

STATEMENTS OF NET ASSETS

June 30,

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,239,691	\$ 1,964,121
Accounts receivable, net	2,669,720	3,304,344
Investments	4,929,691	4,931,517
Total current assets	10,839,102	10,199,982
Noncurrent assets		
Capital assets, net of accumulated depreciation	499,701	736,178
Total noncurrent assets	499,701	736,178
TOTAL ASSETS	11,338,803	10,936,160
LIABILITIES		
Current liabilities		
Accounts payable	147,533	931,860
Due to Oklahoma State University	1,947,914	1,246,347
Deferred revenue	135	11,661
Deposits	8,072	8,072
Accrued compensated absences	572,956	664,450
Total current liabilities	2,676,610	2,862,390
TOTAL LIABILITIES	2,676,610	2,862,390
NET ASSETS		
Invested in capital assets, net of debt	499,701	736,178
Restricted for:		
Expendable		
Scholarships, research, instruction, and other	391,061	191,181
Capital Projects	27,932	4,932
Unrestricted	7,743,499	7,141,479
TOTAL NET ASSETS	\$ 8,662,193	\$ 8,073,770

The accompany notes are an integral part of these 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,

	2012	2011
Operating revenues:		
Federal grants and contracts	\$ 16,943,943	\$ 18,428,334
State and local grants and contracts	6,196	104,021
Nongovernmental grants and contracts	47,995	230,937
Auxiliary revenue	67,627	306,308
Other operating revenues	140,166	285,806
Total operating revenues	17,205,927	19,355,406
Operating expenses		
Compensation and employee benefits	12,417,297	13,172,657
Contractual services	1,752,761	1,810,100
Supplies and materials	108,678	349,773
Utilities	23,712	22,833
Communication	47,110	70,274
Other operating expenses	1,373,870	3,315,591
Depreciation expense	118,169	137,473
Total operating expenses	15,841,597	18,878,701
Operating income	1,364,330	476,705
Nonoperating (expense) revenues		
Investment (loss) gain	(23,530)	15,935
Equity in loss of investees	(634,069)	-
Net nonoperating (expense) revenues	(657,599)	15,935
Income before other revenues, expenses, gains and losses	706,731	492,640
Loss on disposal of capital assets	(118,308)	-
Other additions, net	-	98,525
Net increase in net assets	588,423	591,165
Net assets - beginning of year	8,073,770	7,482,605
Net assets - end of year	\$ 8,662,193	\$ 8,073,770

The accompanying notes are integral part of these financial statements.

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2012	2011
Cash flows from operating activities		
Grants and contracts	\$ 17,533,152	\$ 18,176,311
Other operating receipts	295,872	740,533
Payments to OSU employees for salaries and benefits	(12,498,034)	(13,040,831)
Payments to suppliers	(3,399,647)	(5,192,383)
Net cash provided by operating activities	1,931,343	683,630
Cash flows from investing activities		
Purchases of investments	(2,304,038)	(1,454,458)
Proceeds from sales of investments	1,645,897	98,878
Interest received on investments	2,368	(59,024)
Net cash used in investing activities	(655,773)	(1,414,604)
Cash flows from capital and related financing activities		
Cash paid for capital assets	-	(20,480)
Proceeds from sale of capital assets	-	-
Repayments of capital debt and leases	-	(98,525)
Other sources	-	98,525
Net cash provided (used) by capital and related financing activities	-	(20,480)
Net increase (decrease) in cash and cash equivalents	1,275,570	(751,454)
Cash and cash equivalents, beginning of year	1,964,121	2,715,575
Cash and cash equivalents, end of year	\$ 3,239,691	\$ 1,964,121

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,364,330	\$ 476,705
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	118,169	137,473
Changes in assets and liabilities		
Accounts receivable	634,624	(281,675)
Accounts payable	(784,327)	(57,919)
Due to Oklahoma State University	701,567	481,881
Deferred revenue	(11,526)	(156,887)
Accrued compensated absences	(91,494)	84,052
Net cash provided by operating activities	\$ 1,931,343	\$ 683,630

The accompanying notes are an integral part of this financial statement.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 2012 and 2011, there was no interest incurred.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

CIED is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code for activities which relate to its exempt purpose.

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.

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 reclassifications have been made to the 2011 financial statements to conform with 2012 presentation.

New Pronouncements

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 March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Pronouncements - continued

In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement requires defined benefit pension plans to present two financial statements-a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*. This Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

At June 30, 2012 and 2011, the carrying amount of CIED's cash and cash equivalents was \$3,239,691 and \$1,964,121, respectively. These amounts consisted of deposits with the State Treasurer (\$2,691,317 and \$1,418,659), U.S. financial institutions (\$547,465 and \$544,262) and petty cash and change funds (\$909 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

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, 2012 and 2011, CIED's investments in municipal and corporate bonds were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service.

	2012	2011
U.S. Government securities	\$ 4,929,691	\$ 3,260,522
Money funds	-	101
Equity securities	-	1,670,894
	\$ 4,929,691	\$ 4,931,517

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, 2012 is as follows:

Maturity year ending June 30	U.S. Government Securities	Total
2013	\$ 4,929,691	\$4,929,691
	\$ 4,929,691	\$4,929,691

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Federal, state and private grants and contracts	\$ 2,546,306	\$ 3,092,850
USDA and other loans to private companies	129,017	224,354
Travel advances	600	600
	<u>2,675,923</u>	<u>3,317,804</u>
Less allowance for doubtful accounts	6,203	13,460
	<u>\$ 2,669,720</u>	<u>\$ 3,304,344</u>

NOTE 4 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2012 and 2011:

	<u>2012</u>				Balance June 30, 2012
	Balance June 30, 2011	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>\$ 112,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,923</u>
Other capital assets					
Buildings	\$ 391,526	\$ -	\$ -	\$ -	\$ 391,526
Furniture, fixtures and equipment	1,236,786	-	(469,969)	-	766,817
Total other capital assets	1,628,312	-	(469,969)	-	1,158,343
Less accumulated depreciation for					
Buildings	(40,924)	(10,060)	-	-	(50,984)
Furniture, fixtures and equipment	(964,133)	(108,109)	351,661	-	(720,581)
Total accumulated depreciation	<u>(1,005,057)</u>	<u>(118,169)</u>	<u>351,661</u>	<u>-</u>	<u>(771,565)</u>
Other capital assets, net	<u>\$ 623,255</u>	<u>\$ (118,169)</u>	<u>\$ (118,308)</u>	<u>\$ -</u>	<u>\$ 386,778</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Other capital assets, at cost	1,628,312	-	(469,969)	-	1,158,343
Total cost of capital assets	1,741,235	-	(469,969)	-	1,271,266
Less accumulated depreciation	<u>(1,005,057)</u>	<u>(118,169)</u>	<u>351,661</u>	<u>-</u>	<u>(771,565)</u>
Capital assets, net	<u>\$ 736,178</u>	<u>\$ (118,169)</u>	<u>\$ (118,308)</u>	<u>\$ -</u>	<u>\$ 499,701</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 4 - CAPITAL ASSETS - CONTINUED

	2011				Balance June 30, 2011
	Balance June 30, 2010	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Construction in progress	32,594	-	-	(32,594)	-
Total capital assets not being depreciated	<u>\$ 145,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,594)</u>	<u>\$ 112,923</u>
Other capital assets					
Buildings	\$ 358,932	\$ -	\$ -	\$ 32,594	\$ 391,526
Furniture, fixtures and equipment	1,216,306	20,480	-	-	1,236,786
Total other capital assets	1,575,238	20,480	-	32,594	1,628,312
Less accumulated depreciation for					
Buildings	(31,407)	(9,517)	-	-	(40,924)
Furniture, fixtures and equipment	(836,177)	(127,956)	-	-	(964,133)
Total accumulated depreciation	<u>(867,584)</u>	<u>(137,473)</u>	<u>-</u>	<u>-</u>	<u>(1,005,057)</u>
Other capital assets, net	<u>\$ 707,654</u>	<u>\$ (116,993)</u>	<u>\$ -</u>	<u>\$ 32,594</u>	<u>\$ 623,255</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 145,517	\$ -	\$ -	\$ (32,594)	\$ 112,923
Other capital assets, at cost	1,575,238	20,480	-	32,594	1,628,312
Total cost of capital assets	1,720,755	20,480	-	-	1,741,235
Less accumulated depreciation	<u>(867,584)</u>	<u>(137,473)</u>	<u>-</u>	<u>-</u>	<u>(1,005,057)</u>
Capital assets, net	<u>\$ 853,171</u>	<u>\$ (116,993)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 736,178</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

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, 2012 and 2011 are as follows:

	2012	2011
<i>Working Funds:</i>		
Education	\$ 393,214	\$ 148,160
Engineering	260,006	114,882
Agriculture	24,162	22,693
Human Environmental Science	-	1,369
Business	866	2,685
Veterinary Medicine	27,007	23,823
Center for Health Sciences	18,438	14,087
Vice President for Research	34,104	26,721
Arts and Sciences	5,831	5,574
Environmental Institute	(10)	(10)
Various other departments	1,126,278	708,331
Total Working Funds	1,889,896	1,068,315
Other amounts due to Oklahoma State University	58,018	178,032
	\$ 1,947,914	\$ 1,246,347

NOTE 6 - DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	2012	2011
Grants and contracts	\$ 135	\$ 11,661
	\$ 135	\$ 11,661

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 7 - RISK MANAGEMENT

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

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

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

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

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, 2012.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 7 - RISK MANAGEMENT - CONTINUED

Self-Funded Programs - 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 8 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the years ended June 30, 2012 and 2011, 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, 2012 and 2011 totaled \$1,301,041 and \$1,302,686, respectively.

CIED allocated an additional \$250,000 to the University from the recovery of facilities and administrative costs during fiscal years 2012 and 2011.

Cowboy Technologies, LLC

Nature of Relationship - CIED is the sole member of Cowboy Technologies LLC (CT), an Oklahoma for-profit limited liability company that engages in the development, marketing, and commercialization of intellectual property. CT is taxed as a corporation and its financials are not reflected on CIED or OSU financial statements.

Description of Operations - CT is an investment interest of CIED. Though directed by the CIED Board, CT's day-to-day operations and fiscal decisions are under direction of a separate executive officer reporting to the CIED Board. The CIED Board has exclusive and complete authority and discretion to manage the operations and affairs of CT and to make any and all decisions regarding the business of CT. During the fiscal year ended June 30, 2012, CIED made investments in CT of \$634,069. Due to operating losses incurred by CT, at June 30, 2012 CIED's investment is \$0.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 9 - 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 2014. Rent expense under operating leases was \$155,405 and \$394,647 for the years ended June 30, 2012 and 2011, respectively.

The following is a schedule, by year, of future minimum lease payments under operating leases, together with the present value of the net minimum lease payments at June 30, 2012:

Fiscal year ending	
2013	\$ 78,189
2014	<u>21,000</u>
Total future lease payments	<u>\$ 99,189</u>

NOTE 10 - 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, 2012								
	Natural classification							Depreciation	Total
	Compensation and benefits	Contractual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses			
Instruction	\$ 4,994,562	\$ 311,419	\$ 25,594	\$ -	\$ 21,333	\$ 790,586	\$ -	\$ 6,143,494	
Research	6,516,215	990,122	44,227	-	3,945	156,305	-	7,710,814	
Academic support	895,203	446,866	37,615	10,934	21,832	420,642	-	1,833,092	
Auxiliary enterprises	11,317	4,354	1,242	12,778	-	6,337	-	36,028	
Depreciation	-	-	-	-	-	-	118,169	118,169	
Total expenses	<u>\$ 12,417,297</u>	<u>\$ 1,752,761</u>	<u>\$ 108,678</u>	<u>\$ 23,712</u>	<u>\$ 47,110</u>	<u>\$ 1,373,870</u>	<u>\$ 118,169</u>	<u>\$ 15,841,597</u>	

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE 10 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS - CONTINUED

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

NOTE 11 – SUBSEQUENT EVENTS

CIED has evaluated events or transactions that occurred subsequent to June 30, 2012 through October 26, 2012, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS**

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”) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. Management has omitted Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 audit procedures for the purpose of expressing an 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 express no such opinion.

A deficiency in internal control over financial reporting 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 a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in CIED’s internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 management, the Board of Directors, others within CIED, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 26, 2012