

Financial statements and report of independent  
certified public accountants

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

June 30, 2014 and 2013

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# OSU Center for Innovation & Economic Development, Inc. Management's Discussion & Analysis (unaudited)

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## *Overview of Financial Statements and Financial Analysis*

OSU Center for Innovation & Economic Development, Inc. (CIED) proudly presents its financial statements for fiscal year 2014, with comparative data presented for fiscal year 2013. The emphasis of discussions concerning these statements will be for the current year. There are three financial statements presented: the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and, the Statements of Cash Flows. This discussion and analysis of CIED provides an overview of its financial activities for the year.

## *Statements of Net Position*

The Statements of Net Position presents the assets (current and non-current), liabilities (current and non-current), and net position (assets minus liabilities) as of the end of the fiscal year. The purpose of the Statements of Net Position is to present to the readers of the financial statements a fiscal snapshot of CIED. The difference between current and non-current assets is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of the organization. They are also able to determine how much the organization owes vendors, investors and lending organizations. Finally, the Statements of Net Position provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the organization.

Net positions are divided into three major categories. The first category, invested in capital assets, net of debt, provides the organization's equity in property, plant and equipment owned by the organization. The next category is restricted net assets. Expendable restricted net assets are available for expenditure by the organization, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available for any lawful purpose of the organization. The chart on the following page is a summary of the Statement of Net Position over the last three years:

**OSU Center for Innovation & Economic Development, Inc.  
Management's Discussion & Analysis (unaudited)**

***Statements of Net Position (continued)***

	2012	2013	2014
<b>ASSETS</b>			
Total current assets	\$ 10,839,102	\$ 16,465,321	\$ 12,992,842
Capital assets, net of accumulated depreciation	499,701	480,840	447,874
<b>TOTAL ASSETS</b>	<u>11,338,803</u>	<u>16,946,161</u>	<u>13,440,716</u>
<b>TOTAL LIABILITIES</b>			
	<u>2,676,610</u>	<u>7,919,606</u>	<u>7,749,609</u>
<b>NET POSITION</b>			
Invested in capital assets, net of debt	499,701	480,840	447,874
Restricted for:			
Expendable			
Scholarships, research, instruction and other	391,061	644,899	185
Capital projects	27,932	4,932	4,932
Unrestricted	<u>7,743,499</u>	<u>7,895,884</u>	<u>5,238,116</u>
<b>TOTAL NET POSITION</b>	<u>\$ 8,662,193</u>	<u>\$ 9,026,555</u>	<u>\$ 5,691,107</u>

In fiscal year 2014, total assets of the organization decreased by \$(3,505,445) or (20.68)% over fiscal year 2013. A review of the Statements of Net Position will reveal that there are many offsetting variances, but the decrease was due to decreases in accounts receivables of \$(811,321), loan receivable from UML of \$(3,100,000) and investments of \$(140,588). This was offset by increases in cash and cash equivalents of \$407,422 and interest receivable of \$172,008.

In fiscal year 2013, total assets of CIED increased by \$5,607,358 or 49.45% over fiscal year 2012. This increase was due to decreases in cash and cash equivalents of \$(1,666,109) and in accounts receivable of \$(766,882). This was offset by increases in interest receivable of \$119,416, loan receivable from UML of \$5,000,000 and investments of \$2,939,794.

In fiscal year 2014, total liabilities for the year decreased by \$(169,997) or (2.15)%. The most significant change was a decrease in notes payable of \$(326,936). The combination of the decrease in total assets and the decrease in total liabilities nets to a decrease in total net position of \$(3,335,448) or (36.95)%.

In fiscal year 2013, total liabilities for the year increased by \$5,242,996 or 195.88% over fiscal year 2012. The combination of the increase in total assets and the increase in total liabilities netted to an increase in total net position of \$364,362 or 4.21%.

# OSU Center for Innovation & Economic Development, Inc.

## Management's Discussion & Analysis (unaudited)

### *Statements of Revenues, Expenses, and Changes in Net Position*

While the 2013-2014 comparisons are important indicators of activity during the year under audit, it is also important to look at some of the operating and non-operating categories over time. One of the important measures of an organization's fiscal stability is how operating revenues compare to operating expense.

	2012	2013	2014
Total operating revenues	\$ 17,205,927	\$ 9,799,451	\$ 6,423,746
Total operating expenses	<u>15,841,597</u>	<u>9,508,078</u>	<u>6,654,220</u>
Operating income	<u>1,364,330</u>	<u>291,373</u>	<u>(230,474)</u>
Non-operating Rev/(Exp)	\$ (657,599)	\$ 111,183	\$ (3,082,068)
Income before other revenues, expenses, gains and losses	706,731	402,556	(3,312,542)
Loss on disposal of capital assets	<u>(118,308)</u>	<u>(38,194)</u>	<u>(22,906)</u>
Net increase in net position	<u>\$ 588,423</u>	<u>\$ 364,362</u>	<u>\$ (3,335,448)</u>

Operating revenues of \$6,423,746 in 2014 decreased \$(3,375,705) or (34.45)% when compared to fiscal year 2013. The decrease is due to a decrease in federal grants and contracts revenue of \$(3,510,462). This was offset by an increase in other operating revenue of \$174,358.

Operating revenues of \$9,799,451 in fiscal year 2013 decreased \$(7,406,476) or (43.05)% when compared to fiscal year 2012. The decrease came from a decrease in federal grants and contracts revenue of \$(7,405,023).

## OSU Center for Innovation & Economic Development, Inc. Management's Discussion & Analysis (unaudited)

### *Statements of Revenues, Expenses, and Changes in Net Position (continued)*

The following table summarizes the operating revenues of CIED for the last three years:

	2012	2013	2014
Operating revenues			
Federal grants and contracts	\$ 16,943,943	\$ 9,538,920	\$ 6,028,458
State and local grants and contracts	6,196	42,357	-
Nongovernmental grants and contracts	47,995	6,047	-
Auxiliary revenue	67,627	63,377	72,180
Other operating revenues	140,166	148,750	323,108
Total operating revenues	<u>\$ 17,205,927</u>	<u>\$ 9,799,451</u>	<u>\$ 6,423,746</u>

Operating expenses of \$6,654,220 in fiscal year 2014 decreased \$(2,853,858) or (30.02)% when compared to fiscal year 2013. The decreases came from decreases in compensation and employee benefits of \$(2,360,451) and other operating expenses of \$(363,202).

Operating expenses of \$9,508,078 in fiscal year 2013 decreased \$(6,333,519) or (39.98)% when compared to fiscal year 2012. The decreases came from decreases in compensation and employee benefits of \$(5,582,028) and decrease in contractual services of \$(783,621).

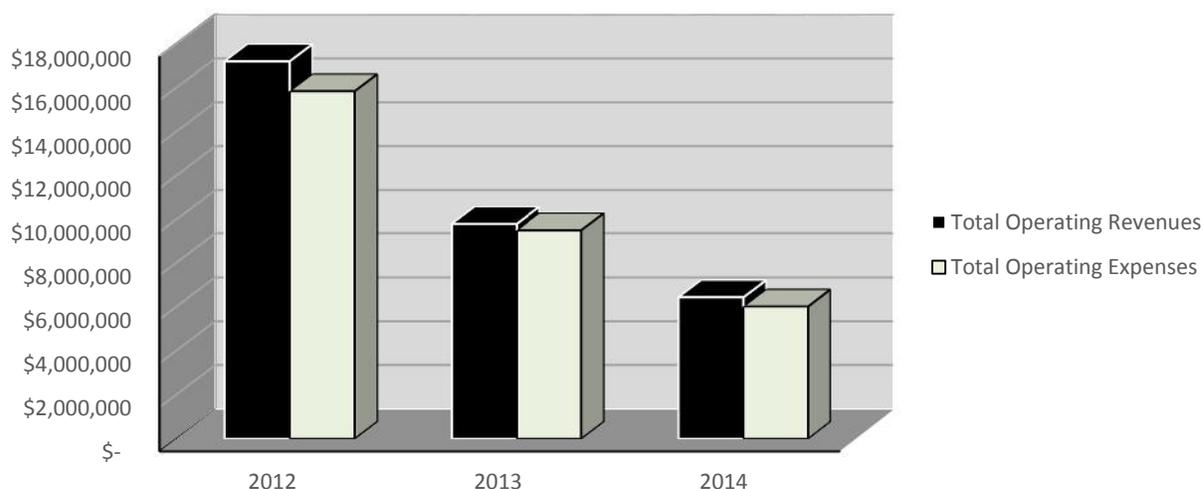
The following table summarizes the operating expenses of CIED for the last three years:

	2012	2013	2014
Operating expenses			
Compensation and employee benefits	\$ 12,417,297	\$ 6,835,269	\$ 4,474,818
Contractual services	1,752,761	969,140	730,181
Supplies and materials	108,678	135,209	265,719
Utilities	23,712	24,341	20,567
Communication	47,110	30,443	22,914
Other operating expenses	1,373,870	1,493,163	1,129,961
Depreciation expense	118,169	20,513	10,060
Total operating expenses	<u>\$ 15,841,597</u>	<u>\$ 9,508,078</u>	<u>\$ 6,654,220</u>

It is important to understand the relationship of grants & contracts to the operating revenue and expenses of CIED. Since 2012 Grant and Contract revenue has accounted for 97.56% of the total operating revenue of CIED. Many of the operating expenses are also a result of these externally-funded projects. When revenues from these agreements decrease it is logical to see a correlating decrease in the operating expenses of CIED. Since fiscal year 2012 CIED has seen a sharp (64.53)% decrease in their Grants & Contracts Revenue and consequently operating expenses have decreased (58.00)% during this same period.

# OSU Center for Innovation & Economic Development, Inc. Management's Discussion & Analysis (unaudited)

## *Statements of Revenues, Expenses, and Changes in Net Position (continued)*



Non-operating revenues/(expenses) of \$(3,082,068) in fiscal year 2014 decreased \$(3,193,251) or (2872.07)% when compared to fiscal year 2013. Non-operating revenues/(expenses) of \$111,183 in fiscal year 2013 increased \$768,782 or 116.91% when compared to fiscal year 2012.

The following table summarizes the nonoperating revenues and expenses for CIED for the last three years:

Nonoperating revenues (expenses)	2012	2013	2014
Investment income (loss)	\$ (23,530)	\$ 33,684	\$ 66,128
Equity in gain (loss) of investees	(634,069)	136,524	56,348
Bad debt expense	-	-	(3,100,000)
Interest expense	-	(59,025)	(104,544)
Non-operating revenues/(expenses)	<u>\$ (657,599)</u>	<u>\$ 111,183</u>	<u>\$ (3,082,068)</u>

## ***Statements of Cash Flows***

The final statement presented by CIED is the Statements of Cash Flows. The Statements of Cash Flows presents detailed information about the cash activity of the organization during the year. The statement is divided into four sections.

# OSU Center for Innovation & Economic Development, Inc.

## Management's Discussion & Analysis (unaudited)

### *Statements of Cash Flows (continued)*

The first section deals with operating cash flows and shows the net cash used by the operating activities of CIED. The second section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The third section deals with the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reconciles the net cash used to the operating income or loss reflected on the Statements of Revenues, Expenses and Changes in Net Position.

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net cash provided by operating activities	\$ 1,931,343	\$ 1,209,174	\$ 747,846
Net cash used in investing activities	(655,773)	(2,776,412)	91,056
Net cash used in capital and related financing activities	<u>-</u>	<u>(98,871)</u>	<u>(431,480)</u>
Net (decrease) increase in cash and cash equivalents	1,275,570	(1,666,109)	407,422
Cash and cash equivalents, beginning of year	<u>1,964,121</u>	<u>3,239,691</u>	<u>1,573,582</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,239,691</u></u>	<u><u>\$ 1,573,582</u></u>	<u><u>\$ 1,981,004</u></u>

In fiscal year 2014 the cash and cash equivalents, end of year increased by \$407,422 or 25.89% which represents a difference in net (decrease) increase in cash and cash equivalents from fiscal years 2013 to 2014 of \$2,073,531. The net increase was generated by a decrease in net cash provided by operating activities of \$(461,328), a decrease in net cash used by investing activities of \$2,867,468 and an increase in net cash used by capital and related financing activities of \$(332,609).

In fiscal year 2013 the cash and cash equivalents, end of year decreased by \$(1,666,109) or (51.43)% which represents a difference in net (decrease) increase in cash and cash equivalents from fiscal years 2012 to 2013 of \$(2,941,679). The net decrease was generated by a decrease in net cash provided by operating activities of \$(722,169), a decrease in net cash used by investing activities of \$(2,120,639) and a decrease in net cash used by capital and related financing activities of \$(98,871).

# OSU Center for Innovation & Economic Development, Inc. Management's Discussion & Analysis (unaudited)

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## *Economic Outlook*

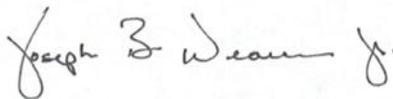
CIED is an integral component unit of Oklahoma State University and is reported as a blended component unit in the Oklahoma State University financial statements. CIED receives and administers funds from Federal, State and Private sources for the purpose of carrying out the educational, research and outreach programs of the General University. In fiscal year 2014, CIED experienced a (37.12)% decrease in the total grant and contract revenue from fiscal year 2013, primarily from the completion a federal contract. This decrease in grant and contract revenue was offset by a (30.02)% decrease in operating expenses. Overall CIED experienced a decrease in net position of \$(3,335,448) for fiscal year 2014 decreasing the organization's total net position to \$5,691,107.

Recent trends in federal funding have limited the availability of most directed appropriation to CIED as well as slowed their access to general federal awards for research and development. Though CIED has shifted some of its focus to economic development and technology transfer to recent years in order to expand revenue-producing opportunities, federally-sponsored projects continue to be the major source of revenue for the organization. To this point, NASA projects generated 93.56% of CIED's Federal grant revenue in fiscal year 2014.

The organization's leadership continues to review and explore new funding opportunities that will increase the organization's revenue while continuing to meet the mission of CIED as well as serve the advancement of Oklahoma State University. CIED continues to serve a special need within the University's sponsored program initiatives. With the organization's ability to manage classified governmental contracts, accept programs only available to 501(c)3 organizations, and its capacity to support "time and material" contracts, all of which are typically not available to the University extramural initiatives. The ability of CIED to aggressively pursue these types of contracts will be significant to the long term viability of the organization.



David Waits  
President



Joseph B. Weaver, Jr.  
Secretary/Treasurer



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Regents  
Oklahoma Agricultural and Mechanical Colleges

### Report on the financial statements

We have audited the accompanying financial statements of Oklahoma State University Center for Innovation and Economic Development, Inc., (“CIED”), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cowboy Technologies, LLC, an investment which is accounted for by the equity method of accounting. The investment in Cowboy Technologies, LLC, was \$411,303 as of June 30, 2014 and the equity in its net income was \$56,348 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the investment in Cowboy Technologies, LLC is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CIED's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CIED's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State University Center for Innovation and Economic Development, Inc. as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other matters

##### *Required supplementary information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i to vii, be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 31, 2014, on our consideration of CIED'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CIED's internal control over financial reporting and compliance.

Grant Thornton LLP

Oklahoma City, Oklahoma  
October 31, 2014

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

STATEMENTS OF NET POSITION

June 30,

	2014	2013
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,981,004	\$ 1,573,582
Accounts receivable, net	1,091,517	1,902,838
Interest receivable	291,424	119,416
Loan receivable, net	1,900,000	5,000,000
Investments	7,728,897	7,869,485
Total current assets	12,992,842	16,465,321
Noncurrent assets		
Capital assets, net of accumulated depreciation	447,874	480,840
Total noncurrent assets	447,874	480,840
<b>TOTAL ASSETS</b>	<b>13,440,716</b>	<b>16,946,161</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	145,181	185,090
Due to Oklahoma State University	2,746,714	2,473,643
Unearned revenue	5,898	13,937
Accrued compensated absences	178,752	246,936
Note payable	4,673,064	5,000,000
Total current liabilities	7,749,609	7,919,606
<b>TOTAL LIABILITIES</b>	<b>7,749,609</b>	<b>7,919,606</b>
<b>NET POSITION</b>		
Invested in capital assets, net of debt	447,874	480,840
Restricted for:		
Expendable		
Scholarships, research, instruction and other	185	644,899
Capital projects	4,932	4,932
Unrestricted	5,238,116	7,895,884
<b>TOTAL NET POSITION</b>	<b>\$ 5,691,107</b>	<b>\$ 9,026,555</b>

The accompanying 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 POSITION  
Year ended June 30,

	2014	2013
Operating revenues		
Federal grants and contracts	\$ 6,028,458	\$ 9,538,920
State and local grants and contracts	-	42,357
Nongovernmental grants and contracts	-	6,047
Auxiliary revenue	72,180	63,377
Other operating revenues	323,108	148,750
Total operating revenues	6,423,746	9,799,451
Operating expenses		
Compensation and employee benefits	4,474,818	6,835,269
Contractual services	730,181	969,140
Supplies and materials	265,719	135,209
Utilities	20,567	24,341
Communication	22,914	30,443
Other operating expenses	1,129,961	1,493,163
Depreciation expense	10,060	20,513
Total operating expenses	6,654,220	9,508,078
Operating (loss) income	(230,474)	291,373
Nonoperating revenues (expenses)		
Investment income	66,128	33,684
Equity in income of investees	56,348	136,524
Bad debt expense	(3,100,000)	-
Interest expense	(104,544)	(59,025)
Net nonoperating (expenses) revenues	(3,082,068)	111,183
(Loss) income before other revenues, expenses, gains and losses	(3,312,542)	402,556
Loss on disposal of capital assets	(22,906)	(38,194)
Net (decrease) increase in net position	(3,335,448)	364,362
Net position - beginning of year	9,026,555	8,662,193
Net position - end of year	\$ 5,691,107	\$ 9,026,555

The accompanying notes are an integral part of these financial statements.

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2014	2013
Cash flows from operating activities		
Grants and contracts	\$ 6,788,732	\$ 10,373,566
Other operating receipts	438,296	85,907
Payments to OSU employees for salaries and benefits	(4,525,994)	(7,208,309)
Payments to suppliers	(1,953,188)	(2,041,990)
Net cash provided by operating activities	747,846	1,209,174
Cash flows from investing activities		
Purchases of investments	-	(7,837,147)
Proceeds from sales of investments	43,550	5,088,428
Investment (gains) losses	47,506	(27,693)
Net cash provided by (used in) investing activities	91,056	(2,776,412)
Cash flows from capital and related financing activities		
Cash paid for capital assets	-	(39,846)
Proceeds from note payable	-	5,000,000
Repayments for note payable	(326,936)	-
Payments for loan receivable	-	(5,000,000)
Interest paid on capital debt and leases	(104,544)	(59,025)
Net cash used in capital and related financing activities	(431,480)	(98,871)
Net increase (decrease) in cash and cash equivalents	407,422	(1,666,109)
Cash and cash equivalents, beginning of year	1,573,582	3,239,691
Cash and cash equivalents, end of year	\$ 1,981,004	\$ 1,573,582
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss) income	\$ (230,474)	\$ 291,373
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	10,060	20,513
Changes in assets and liabilities		
Accounts receivable	811,321	654,292
Accounts payable	(39,909)	37,557
Due to Oklahoma State University	273,071	525,729
Unearned revenue	(8,039)	13,802
Deposits	-	(8,072)
Compensated absences	(68,184)	(326,020)
Net cash provided by operating activities	\$ 747,846	\$ 1,209,174

The accompanying notes are an integral part of these financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 position, revenues, expenses, changes in net position and cash flows.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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 position.

CIED accounts for its investment in Cowboy Technologies, LLC, a related party, in accordance with GASB Statement No. 39, *Determining whether Certain Organization Are Component Units*. This investment is valued using the equity method and changes in the equity valuation are reported as equity in income (loss) of investees in the statements of revenues, expenses, and changes in net position.

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

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 2014 and 2013, there was no interest incurred for capital projects.

Unearned Revenues

Unearned 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. Unearned 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 position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

Net Position

CIED's net position is 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 position - expendable:* Restricted expendable net position includes resources in which CIED is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted net position:* Unrestricted net position represents 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, 2014 and 2013

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. There were no unrelated business income taxes incurred in either 2014 or 2013. CIED believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. Generally, CIED is no longer subject to income tax examination by federal, state or local tax authorities for years prior to fiscal year ended in 2011.

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.

New Pronouncements

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.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This Statement addresses an issue regarding application of the transition provision of Statement No. 68 related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan. This Statement amends Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

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, 2014 and 2013, the carrying amount of CIED's cash and cash equivalents was \$1,981,004 and \$1,573,582, respectively. These amounts consisted of deposits with the State Treasurer (\$1,429,109 and \$1,023,439), and U.S. financial institutions (\$551,895 and \$550,143).

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, 2014 and 2013

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, 2014 and 2013, CIED's investments in municipal and corporate bonds were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service.

	2014	2013
U.S. Government securities	\$6,635,592	\$6,623,840
Money funds	682,002	664,236
Equity securities (Note 10)	411,303	581,409
	\$7,728,897	\$7,869,485

*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, 2014 is as follows:

Maturity Year Ending June 30	U.S. Government Securities	Total
2015	\$ 377,471	\$ 377,471
2016	4,704,495	4,704,495
2017	564,243	564,243
2018	15,222	15,222
2019	152,084	152,084
2020-2024	266,645	266,645
2025-2029	108,802	108,802
2030-2034	-	-
2035-2039	190,463	190,463
2040-2044	256,167	256,167
	\$ 6,635,592	\$ 6,635,592
Investments not subject to maturity dates:		
Money funds		682,002
Equity securities		411,303
Total investments		\$ 7,728,897

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Federal, state and private grants and contracts	\$ 1,005,553	\$ 1,773,866
Cowboy Technologies, LLC	40,314	56,478
Private companies	47,926	76,483
Travel advances	<u>600</u>	<u>600</u>
	1,094,393	1,907,427
Less allowance for doubtful accounts	<u>2,876</u>	<u>4,589</u>
	<u>\$ 1,091,517</u>	<u>\$ 1,902,838</u>

NOTE 4 – LOAN RECEIVABLE

In December 2012, CIED loaned funds in the amount of \$5,000,000 to OSU – University Multispectral Laboratories, L.L.C. (“OSU-UML”) to fund operations and satisfy outstanding obligations. The loan is uncollateralized and payable on demand. The interest rate is 4% plus LIBOR on the outstanding principal balance and is accrued monthly. In fiscal year 2014, an allowance for loan losses related to this loan of \$3,100,000 was recorded due to a legal settlement which reduced available funds.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 5 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2014 and 2013:

	2014				Balance June 30, 2014
	Balance June 30, 2013	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	640,335	-	(25,874)	-	614,461
Total other capital assets	1,031,861	-	(25,874)	-	1,005,987
Less accumulated depreciation for					
Buildings	(61,044)	(10,060)	-	-	(71,104)
Furniture, fixtures and equipment	(602,900)	-	2,968	-	(599,932)
Total accumulated depreciation	<u>(663,944)</u>	<u>(10,060)</u>	<u>2,968</u>	<u>-</u>	<u>(671,036)</u>
Other capital assets, net	<u>\$ 367,917</u>	<u>\$ (10,060)</u>	<u>\$ (22,906)</u>	<u>\$ -</u>	<u>\$ 334,951</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Other capital assets, at cost	1,031,861	-	(25,874)	-	1,005,987
Total cost of capital assets	1,144,784	-	(25,874)	-	1,118,910
Less accumulated depreciation	<u>(663,944)</u>	<u>(10,060)</u>	<u>2,968</u>	<u>-</u>	<u>(671,036)</u>
Capital assets, net	<u>\$ 480,840</u>	<u>\$ (10,060)</u>	<u>\$ (22,906)</u>	<u>\$ -</u>	<u>\$ 447,874</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 5- CAPITAL ASSETS - CONTINUED

	2013				
	Balance				Balance
	June 30,				June 30,
	2012	Additions	Retirements	Transfers	2013
	-----	-----	-----	-----	-----
Capital assets not being depreciated					
Land	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Construction in progress	-	23,393	(23,393)	-	-
Total capital assets not being depreciated	<u>\$ 112,923</u>	<u>\$ 23,393</u>	<u>\$ (23,393)</u>	<u>\$ -</u>	<u>\$ 112,923</u>
Other capital assets					
Buildings	\$ 391,526	\$ -	\$ -	\$ -	\$ 391,526
Furniture, fixtures and equipment	766,817	16,453	(142,935)	-	640,335
Total other capital assets	1,158,343	16,453	(142,935)	-	1,031,861
Less accumulated depreciation for					
Buildings	(50,984)	(10,060)	-	-	(61,044)
Furniture, fixtures and equipment	(720,581)	(10,453)	128,134	-	(602,900)
Total accumulated depreciation	<u>(771,565)</u>	<u>(20,513)</u>	<u>128,134</u>	<u>-</u>	<u>(663,944)</u>
Other capital assets, net	<u>\$ 386,778</u>	<u>\$ (4,060)</u>	<u>\$ (14,801)</u>	<u>\$ -</u>	<u>\$ 367,917</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 112,923	\$ 23,393	\$ (23,393)	\$ -	\$ 112,923
Other capital assets, at cost	1,158,343	16,453	(142,935)	-	1,031,861
Total cost of capital assets	1,271,266	39,846	(166,328)	-	1,144,784
Less accumulated depreciation	<u>(771,565)</u>	<u>(20,513)</u>	<u>128,134</u>	<u>-</u>	<u>(663,944)</u>
Capital assets, net	<u>\$ 499,701</u>	<u>\$ 19,333</u>	<u>\$ (38,194)</u>	<u>\$ -</u>	<u>\$ 480,840</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 6 - 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, 2014 and 2013 are as follows:

	2014	2013
<i>Working Funds:</i>		
Education	\$ 911,203	\$ 656,962
Engineering	55,131	55,491
Agriculture	24,162	24,162
Veterinary Medicine	27,007	27,007
Center for Health Sciences	4,140	3,525
Vice President for Research	51,254	75,536
Arts and Sciences	5,831	5,831
Environmental Institute	-	(10)
Various other departments	1,570,323	1,469,757
Total Working Funds	2,649,051	2,318,261
Other amounts due to Oklahoma State University	97,663	155,382
	\$ 2,746,714	\$ 2,473,643

NOTE 7 - UNEARNED REVENUE

Unearned revenue consists of the following at June 30:

	2014	2013
Grants and contracts	\$ (128)	\$ 13,937
Other	6,026	-
	\$ 5,898	\$ 13,937

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 8 – NOTES PAYABLE

A variable credit line was secured in December 2012 with UBS Financial Services Inc. The credit line is collateralized by the investments held at UBS Financial Services, Inc. and is payable on demand. The interest rate on the outstanding balance is 2% plus LIBOR and is accrued monthly. The balance of the note at June 30, 2014 and 2013 was \$4,673,064 and \$5,000,000, respectively.

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 tort, educator's legal liability, property and casualty programs, and fidelity bonding provided by the Risk Management Division of the Office of Management and Enterprise Services (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, educator's legal liability including employment practices, 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 9 - RISK MANAGEMENT - CONTINUED

Self-Funded Programs - Continued

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, 2014.

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, 2014 and 2013, 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, 2014 and 2013 totaled \$488,659 and \$818,968, respectively.

CIED allocated an additional \$250,000 to the University from the recovery of facilities and administrative costs during fiscal year 2013. There were no additional allocations in fiscal year 2014.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 10 - RELATED PARTY TRANSACTIONS - CONTINUED

*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 the University’s 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, 2014 and 2013, CIED made investments in CT of \$645,000 and \$444,885, respectively. At June 30, 2014 and 2013 CIED’s investment in CT is valued at \$411,303 and \$581,409, respectively.

*OSU – University Multispectral Laboratories, L.L.C.*

Nature of Relationship – OSU-UML is a nonprofit limited liability company founded for the purposes of research, development, testing, evaluation, validation, and verification of sensors and other technologies in support of the global war on terrorism, homeland security, and other related national security requirements for the benefit of the University.

Description of Operations – OSU-UML receives and administers funds from Federal and State organizations and from private sources for the purpose of carrying out certain research programs of the University. In December 2012, CIED loaned funds in the amount of \$5,000,000 to OSU-UML to fund operations and satisfy outstanding obligations. The loan is uncollateralized and payable on demand. The interest rate is 4% plus LIBOR on the outstanding principal balance and is accrued monthly. In fiscal year 2014, an allowance for loan losses related to this loan of \$3,100,000 was recorded due to a legal settlement which reduced available funds.

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 which expired in 2014. Rent expense under operating leases was \$34,950 and \$53,786 for the years ended June 30, 2014 and 2013, respectively. This expense is included in contractual services on the CIED Statements of Revenue, Expenses and Changes in Net Position.

CIED entered into a Management and Fiscal Agent Agreement with the University for the fiscal and operational management of the property and grounds of the Oklahoma Technology and Research Park effective July 1, 2014. In exchange for providing management services, CIED will occupy office space at no charge.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 12 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Year ended June 30, 2014								
Natural classification								
Functional classification	Compensation and benefits	Contractual services	Supplies and materials	Utilities	Communi- cation	Other operating expenses	Depreciation	Total
Instruction	\$ 3,471,636	\$ 246,630	\$ 234,051	\$ -	\$ 6,490	\$ 721,349	\$ -	\$ 4,680,156
Research	179,542	144,933	235	-	958	-	-	325,668
Academic support	818,415	333,463	30,407	8,073	15,466	399,136	-	1,604,960
Auxiliary enterprises	5,225	5,155	1,026	12,494	-	9,476	-	33,376
Depreciation	-	-	-	-	-	-	10,060	10,060
Total expenses	<u>\$ 4,474,818</u>	<u>\$ 730,181</u>	<u>\$ 265,719</u>	<u>\$ 20,567</u>	<u>\$ 22,914</u>	<u>\$ 1,129,961</u>	<u>\$ 10,060</u>	<u>\$ 6,654,220</u>

Year ended June 30, 2013								
Natural classification								
Functional classification	Compensation and benefits	Contractual services	Supplies and materials	Utilities	Communi- cation	Other operating expenses	Depreciation	Total
Instruction	\$ 4,541,133	\$ 212,037	\$ 88,123	\$ -	\$ 8,190	\$ 367,941	\$ -	\$ 5,217,424
Research	1,594,744	469,342	3,192	-	3,360	174,452	-	2,245,090
Academic support	692,834	275,254	43,029	11,292	18,893	949,287	-	1,990,589
Auxiliary enterprises	6,558	12,507	865	13,049	-	1,483	-	34,462
Depreciation	-	-	-	-	-	-	20,513	20,513
Total expenses	<u>\$ 6,835,269</u>	<u>\$ 969,140</u>	<u>\$ 135,209</u>	<u>\$ 24,341</u>	<u>\$ 30,443</u>	<u>\$ 1,493,163</u>	<u>\$ 20,513</u>	<u>\$ 9,508,078</u>

NOTE 13 – MANAGEMENT PLAN

CIED revenues have relied primarily upon sponsored activities from federal grants, contracts, and cooperative agreements. The number and size of these agreements have declined in recent years. Though CIED has made proportional adjustments to operating expenses and carries no long term debt, the downturn of federal program revenue streams creates an uncertainty about CIED's long term viability. Management continues to seek sponsored program opportunities and has recently entered into an agreement to manage properties within the Oklahoma Technology and Research Park and is focusing on commercialization endeavors.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE 14 – SUBSEQUENT EVENTS

CIED has evaluated events or transactions that occurred subsequent to June 30, 2014 through October 31, 2014, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

On July 1, 2014, the balance of the variable credit line with UBS Financial Services Inc. in the amount of \$4,673,064 was paid off with the liquidation of certain investments held with UBS.



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT  
AUDITING STANDARDS**

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Board of Regents  
Oklahoma Agricultural and mechanical Colleges

We have audited, 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, the financial statements the Oklahoma State University Center for Innovation and Economic Development, Inc. (“CIED”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise CIED’s basic financial statements, and have issued our report thereon dated October 31, 2014.

Our report includes a reference to other auditors who audited the financial statements of Cowboy Technologies, LLC, as described in our report on CIED’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal control over financial reporting**

In planning and performing our audit of the financial statements, we considered CIED’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of CIED’s internal control.

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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in CIED's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and other matters

As part of obtaining reasonable assurance about whether CIED's financial statements are free from 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*.

#### Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CIED's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CIED's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Oklahoma City, Oklahoma  
October 31, 2014