

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

**June 30, 2007**

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

June 30, 2007

Audited Financial Statements

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Independent Auditors' Report

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, 2007, 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 CIED's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of CIED as of and for the year ended June 30, 2006 were audited by other auditors whose report dated October 11, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CIED as of June 30, 2007, and the changes in its net assets and cash flows 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 11, 2007, on our consideration of CIED's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



CIED has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 11, 2007

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

STATEMENTS OF NET ASSETS

June 30

	2007	2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,670,546	\$ 1,304,786
Accounts receivable, net	4,288,486	3,526,183
Investments	7,227,782	6,232,736
Interest receivable	12,118	19,869
Prepaid expenses	-	26,840
Total current assets	14,198,932	11,110,414
Noncurrent assets		
Capital assets, net of accumulated depreciation	3,875,258	3,183,159
Total noncurrent assets	3,875,258	3,183,159
TOTAL ASSETS	18,074,190	14,293,573
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	388,630	266,370
Due to Oklahoma State University	258,146	47,729
Deferred revenue	193,466	-
Accrued compensated absences	596,718	621,823
Current portion of notes payable	1,678,148	1,855,685
Total current liabilities	3,115,108	2,791,607
TOTAL LIABILITIES	3,115,108	2,791,607
<b>NET ASSETS</b>		
Invested in capital assets, net of debt	2,197,110	1,327,474
Restricted for:		
Nonexpendable	166,031	230,334
Expendable		
Scholarships, research, instruction, and other	404,090	126,120
Capital Projects	456,423	417,967
Unrestricted	11,735,428	9,400,071
TOTAL NET ASSETS	\$ 14,959,082	\$ 11,501,966

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years ended June 30	
	2007	2006
Operating revenues:		
Federal grants and contracts	\$ 20,826,463	\$ 20,616,204
State and local grants and contracts	280,278	375,000
Nongovernmental grants and contracts	534,403	459,124
Auxiliary revenue	1,046,530	765,900
Other operating revenues	50,138	246,749
Total operating revenues	22,737,812	22,462,977
Operating expenses		
Compensation and employee benefits	14,159,561	14,728,587
Contractual services	3,424,033	2,766,005
Supplies and materials	296,712	613,358
Utilities	27,022	17,773
Communication	184,518	184,657
Other operating expenses	1,663,202	2,232,199
Depreciation expense	300,865	292,872
Total operating expenses	20,055,913	20,835,451
Operating income	2,681,899	1,627,526
Nonoperating revenues (expenses)		
Investment income	877,326	409,254
Interest expense	(122,433)	(114,893)
Net nonoperating revenues	754,893	294,361
Income before other revenues, expenses, gains and losses	3,436,792	1,921,887
Loss on disposal of fixed assets	(55,901)	(8,405)
Other additions, net	76,225	(625,859)
Net increase in net assets	3,457,116	1,287,623
Net assets - beginning of year	11,501,966	10,214,343
Net assets - end of year	\$ 14,959,082	\$ 11,501,966

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2007	2006
Cash flows from operating activities		
Grants and contracts	\$ 21,471,392	\$ 21,354,722
Other operating receipts	697,583	810,322
Payments to OSU employees for salaries and benefits	(14,144,333)	(14,661,791)
Payments to suppliers	(5,276,303)	(5,691,690)
Net cash provided by operating activities	2,748,339	1,811,563
Cash flows from investing activities		
Purchases of investments	(1,766,000)	-
Proceeds from sales of investments	1,768,943	-
Interest received on investments	(112,912)	53,706
Net cash provided (used) by investing activities	(109,969)	53,706
Cash flows from capital and related financing activities		
Cash paid for fixed assets	(992,964)	(283,363)
Repayments of capital debt and leases	(177,537)	(189,816)
Interest paid on capital debt and leases	(122,433)	(114,893)
Other sources	20,324	(89,293)
Net cash used in capital and related financing activities	(1,272,610)	(677,365)
Net increase in cash and cash equivalents	1,365,760	1,187,904
Cash and cash equivalents, beginning of year	1,304,786	116,882
Cash and cash equivalents, end of year	\$ 2,670,546	\$ 1,304,786

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

STATEMENTS OF CASH FLOWS--CONTINUED

	Years ended June 30	
	<u>2007</u>	<u>2006</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 2,681,899	\$ 1,627,526
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	300,865	292,872
Changes in assets and liabilities		
Accounts receivable	(762,303)	(158,069)
Prepaid expenses	26,840	101,798
Accounts payable and accrued expenses	122,260	19,854
Due to Oklahoma State University	210,417	13,863
Deferred revenue	193,466	(139,864)
Compensated absences	<u>(25,105)</u>	<u>53,583</u>
Net cash provided by operating activities	<u>\$ 2,748,339</u>	<u>\$ 1,811,563</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</b>		
Cash and cash equivalents classified as current assets	<u>\$ 2,670,546</u>	<u>\$ 1,304,786</u>

See notes to financial statements.



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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Oklahoma State University Center for Innovation and Economic Development, Inc. ("CIED") is a nonprofit corporation founded in 1967, established to engage in research, extension and academic contractual arrangements for the benefit and advancement of Oklahoma State University (the "University"). CIED receives and administers funds from Federal and state organizations and from private sources for the purpose of carrying out the educational, research and economic development programs of the University.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of Oklahoma State University Center for Innovation and Economic Development, Inc. ("OSU CIED"), as the primary government, and the accounts of OSU-Enterprise Center, LLC ("OSU EC"), collectively referred to as "CIED". OSU EC is an Oklahoma not-for-profit corporation which was formed on June 12, 2006 exclusively to support the activities, affairs and programs of OSU CIED. Accordingly, OSU EC has been reported as a blended component unit in the financial statements.

CIED is governed by a board of directors comprised primarily of management of the University. In addition, University employees and facilities are used for virtually all activities of CIED. Accordingly, CIED is a component unit of the University and is included in the financial statements of the University.

Financial Statement Presentation: CIED is an integral component unit of the University and, as such, the financial activity of CIED is combined with other University activity and reported in the University's financial statements. Therefore, the financial statements of CIED have been presented consistent with the University's financial statements rather than in accordance with the provisions of the Financial Accounting Standards Board's ("FASB") Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

As a component unit of the State of Oklahoma, the University (which includes CIED) presents its financial statements in accordance with requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of CIED's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Basis of Accounting: For financial reporting purposes, CIED is considered a special-purpose government entity engaged only in business-type activities. Accordingly, CIED's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

**Oklahoma State University**  
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting – Continued: As a component unit of the University, CIED has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. CIED has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents: CIED considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments: CIED accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consist of amounts due from the Federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the University'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 2007 and 2006, total interest incurred was \$122,433 and \$114,893, respectively, none of which was capitalized.

Deferred Revenues: Deferred revenues include amounts received for certain auxiliary and endowment activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: The liability and expense incurred for employee vacation pay are recorded as accrued compensated absences in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: CIED's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents CIED's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

*Restricted net assets - nonexpendable:* Restricted nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, CIED's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

Income Taxes: CIED is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

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

**Oklahoma State University**  
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Classification of Revenues - Continued:

*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 2006 financial statements to conform with the 2007 presentation.

New Pronouncements: In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. GASB No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers. The provisions of the Statement are effective for fiscal periods beginning after December 15, 2006, with earlier application encouraged. Management has determined that this Statement has no material impact on CIED's financial condition or results of operations.

In 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB No. 48 establishes criteria to ascertain whether the proceeds received should be reported as revenue or as a liability when governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006. Management has not yet determined the effect this Statement will have on CIED's financial condition or results of operations.

In 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB No. 49 establishes standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement does not apply to landfill closure and postclosure care obligations within the scope of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning assets can be restated. Management has not yet determined the effect this Statement will have on CIED's financial condition or results of operations.

**Oklahoma State University**  
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Pronouncements - Continued:

In 2007, GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*. GASB No. 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB). The reporting changes required by this Statement amend applicable note disclosure and required supplementary information requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, with early implementation encouraged. Management has determined that this Statement has no impact on CIED's financial condition or results of operations.

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents: At June 30, 2007 and 2006, the carrying amount of CIED's cash and cash equivalents was \$2,670,546 and \$1,304,786, respectively. These amounts included deposits with financial institutions (\$841,106 and \$259,623) and petty cash and change funds (\$1,200 and \$1,200).

The State Treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation ("FDIC"), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. Government obligations. CIED's deposits with the State Treasurer are pooled with funds of other state agencies, and then in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

CIED requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in CIED's name.

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**Center for Innovation and Economic Development, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

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, 2007 and 2006, CIED's investments in municipal and corporate bonds were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service.

	<u>2007</u>	<u>2006</u>
U.S. Government securities	\$ 367,604	\$ 576,039
U.S. Treasury notes	597,125	1,049,298
Money funds	983,685	885,340
Municipal bonds	-	250,000
Corporate bonds and notes	24,599	507,570
Equity securities	<u>5,254,769</u>	<u>2,964,489</u>
	<u>\$7,227,782</u>	<u>\$6,232,736</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments - Continued:

*Interest Rate Risk.* CIED's investment policy does not specifically limit the investment portfolio to maturities of less than one year. CIED is responsible for determining the operating cash flow requirements and insure that adequate funds are available to service routine needs. In determining liquidity needs, the appropriate mix of short-term, intermediate and long-term investments will be evaluated. The University's Investment Committee and CIED's Board of Directors are responsible for evaluating investment performance. CIED's investments are categorized by maturity dates to reflect the fair values that are sensitive to changes in interest rates. CIED's investment schedule by maturity date as of June 30, 2007 is as follows:

Maturity year ending June 30	U.S. Government Securities	U.S Treasury Notes	Corporate Bonds & Notes	Total
2008	\$ 29,600	\$ 89,246	\$ -	\$ 118,846
2009	93,820	167,819	-	261,639
2010	54,797	63,450	24,599	142,846
2011	29,550	44,947	-	74,497
2012	30,272	-	-	30,272
2013-2017	121,002	231,663	-	352,665
2018-2022	-	-	-	-
2023-2027	8,563	-	-	8,563
	<u>\$ 367,604</u>	<u>\$ 597,125</u>	<u>\$ 24,599</u>	<u>\$ 989,328</u>

Investments not subject to maturity dates:

Equity securities	5,254,769
Money funds	<u>983,685</u>
Total Investments	<u>\$ 7,227,782</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2007	2006
Federal, state and private grants and contracts	\$ 3,886,066	\$ 3,522,848
USDA loans to private companies	400,000	-
Travel advances	2,420	3,335
	4,288,486	3,526,183
Less allowance for doubtful accounts	-	-
	<b>\$ 4,288,486</b>	<b>\$ 3,526,183</b>

NOTE 4 - CAPITAL ASSETS

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

	2007				
	Balance June 30, 2006	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 802,175	\$ 112,923	\$ -	\$ -	\$ 915,098
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	\$ 802,175	\$ 112,923	\$ -	\$ -	\$ 915,098
Other capital assets					
Buildings	\$ 2,172,978	\$ 573,432	\$ (55,901)	\$ (119,943)	\$ 2,570,566
Furniture, fixtures and equipment	1,323,898	373,344	-	-	1,697,242
Total other capital assets	3,496,876	946,776	(55,901)	(119,943)	4,267,808
Less accumulated depreciation for					
Buildings	(236,364)	(67,754)	-	-	(304,118)
Furniture, fixtures and equipment	(879,528)	(233,111)	-	109,109	(1,003,530)
Total accumulated depreciation	(1,115,892)	(300,865)	-	109,109	(1,307,648)
Other capital assets, net	\$ 2,380,984	\$ 645,911	\$ (55,901)	\$ (10,834)	\$ 2,960,160
Capital asset summary:					
Capital assets not being depreciated	\$ 802,175	\$ 112,923	\$ -	\$ -	\$ 915,098
Other capital assets, at cost	3,496,876	946,776	(55,901)	(119,943)	4,267,808
Total cost of capital assets	4,299,051	1,059,699	(55,901)	(119,943)	5,182,906
Less accumulated depreciation	(1,115,892)	(300,865)	-	109,109	(1,307,648)
Capital assets, net	\$ 3,183,159	\$ 758,834	\$ (55,901)	\$ (10,834)	\$ 3,875,258



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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 4 - CAPITAL ASSETS - CONTINUED

	2006				Balance June 30, 2006
	Balance June 30, 2005	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 802,175	\$ -	\$ -	\$ -	\$ 802,175
Construction in progress	37,542	267,068	-	(304,610)	-
Total capital assets not being depreciated	<u>\$ 839,717</u>	<u>\$ 267,068</u>	<u>\$ -</u>	<u>\$ (304,610)</u>	<u>\$ 802,175</u>
Other capital assets					
Buildings	\$ 3,114,059	\$ -	\$ -	\$ (941,081)	\$ 2,172,978
Furniture, fixtures and equipment	1,366,443	16,295	(58,840)	-	1,323,898
Total other capital assets	4,480,502	16,295	(58,840)	(941,081)	3,496,876
Less accumulated depreciation for					
Buildings	(888,531)	(56,958)	-	709,125	(236,364)
Furniture, fixtures and equipment	(694,049)	(235,914)	50,435	-	(879,528)
Total accumulated depreciation	<u>(1,582,580)</u>	<u>(292,872)</u>	<u>50,435</u>	<u>709,125</u>	<u>(1,115,892)</u>
Other capital assets, net	<u>\$ 2,897,922</u>	<u>\$ (276,577)</u>	<u>\$ (8,405)</u>	<u>\$ (231,956)</u>	<u>\$ 2,380,984</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 839,717	\$ 267,068	\$ -	\$ (304,610)	\$ 802,175
Other capital assets, at cost	4,480,502	16,295	(58,840)	(941,081)	3,496,876
Total cost of capital assets	5,320,219	283,363	(58,840)	(1,245,691)	4,299,051
Less accumulated depreciation	<u>(1,582,580)</u>	<u>(292,872)</u>	<u>50,435</u>	<u>709,125</u>	<u>(1,115,892)</u>
Capital assets, net	<u>\$ 3,737,639</u>	<u>\$ (9,509)</u>	<u>\$ (8,405)</u>	<u>\$ (536,566)</u>	<u>\$ 3,183,159</u>

NOTE 5 - DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	<u>2007</u>	<u>2006</u>
Grants and contracts	<u>\$ 193,466</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity is as follows for the years ended June 30:

	2007				
	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Notes payable	\$ 1,855,685	\$ -	\$ (177,537)	\$ 1,678,148	\$ 1,678,148
Other long-term obligations					
Accrued compensated absences	<u>621,823</u>	<u>679,280</u>	<u>(704,385)</u>	<u>596,718</u>	<u>596,718</u>
Total	<u>\$ 2,477,508</u>	<u>\$ 679,280</u>	<u>\$ (881,922)</u>	<u>\$ 2,274,866</u>	<u>\$ 2,274,866</u>
	2006				
	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Notes payable	\$ 2,045,501	\$ -	\$ (189,816)	\$ 1,855,685	\$ 1,855,685
Other long-term obligations					
Accrued compensated absences	<u>568,240</u>	<u>701,505</u>	<u>(647,922)</u>	<u>621,823</u>	<u>621,823</u>
Total	<u>\$ 2,613,741</u>	<u>\$ 701,505</u>	<u>\$ (837,738)</u>	<u>\$ 2,477,508</u>	<u>\$ 2,477,508</u>

Additional information regarding notes payable is included at Note 7.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 7 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Note payable, collateralized by vans, dated October 2004, payable on demand, interest rate of 5.25%	\$ 18,667	\$ 68,806
Multiple advance note payable, collateralized by investments with UBS-Paine Webber, dated December 2002, line of credit cap of \$2,007,170, payable on demand, variable interest rate (6.689% at June 30, 2007)	<u>1,659,481</u>	<u>1,786,879</u>
Total notes payable	<u>\$1,678,148</u>	<u>\$1,855,685</u>

*Maturity Information*

The scheduled maturities of the notes payable are as follows as of June 30, 2007:

	<u>Total Principal</u>	<u>Interest</u>	<u>Total payments</u>
2008	<u>\$1,678,148</u>	<u>\$111,522</u>	<u>\$1,789,670</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 8 - RISK MANAGEMENT

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

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

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

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

Self-Funded Programs

The University's life insurance program for the University and its constituent agencies including CIED, was self-funded through December 31, 2003. Effective January 1, 2004, life waivers for disabled employees and their dependents was all that remain 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, 2006 and 2005

NOTE 8 - 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 is now participating in the State of Oklahoma self-insurance program. The University believes that there is no exposure to pay run-off claims for the previous self-insured program at June 30, 2007.

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 9 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the years ended June 30, 2007 and 2006, 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% to 50% of the facilities and administrative costs recovered under these contracts. The amounts allocated during the years ended June 30, 2007 and 2006 totaled \$1,949,956 and \$1,664,197, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 9 - RELATED PARTY TRANSACTIONS - CONTINUED

CIED allocated an additional \$300,000 to the University from the recovery of facilities and administrative costs during fiscal years 2007 and 2006. CIED paid \$50,000 in expenses during fiscal years 2007 and 2006 on behalf of the University.

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

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

CIED participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes CIED has complied with grant requirements and that disallowances, if any, will not be material.

CIED utilizes certain office space and equipment under operating leases expiring in 2016. Rent expense under operating leases was approximately \$878,911 and \$536,000 for the years ended June 30, 2007 and 2006, respectively.

CIED leases space through three separate leases in a multi-tenant building owned by Oklahoma Technology & Research Park One, LLC ("OTRP One"). CIED leases approximately one half of the building under a ten-year lease agreement, beginning July 1, 2004 and expiring June 30, 2014, with several renewable options available. The lease calls for an annual base rent plus additional amounts as defined in the agreement. The annual rent is subject to adjustment as defined in the agreement. The schedule of future minimum lease payments does not include the effects, if any, of future adjustments. OTRP One secured financing for the building based upon the CIED lease and an additional agreement with CIED that will ensure the facility will have sufficient revenues to pay the debt service (the "Contingent Deficiency Funding Agreement"). Under the Contingent Deficiency Funding Agreement if OTRP One does not receive sufficient revenue to meet the required debt service ratio, CIED will be required to pay any monthly deficiency until OTRP One receives monthly rental payments that are sufficient to maintain the required debt service coverage ratio after expenses. Any payments required under the Contingent Deficiency Funding Agreement are to be reimbursed from future revenue from the multi-tenant building. No deficiency funding was required through June 30, 2007. CIED's estimated additional maximum exposure under the Contingent Deficiency Funding Agreement is \$853,524. This amount has not been included in the following table of future minimum lease payments due to uncertainties relating to OTRP One's ability to secure additional tenants. Effective January 1, 2006 and July 1, 2006 CIED signed two agreements to lease the remaining space owned by OTRP One for a period of ten years.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006 and 2005

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES -- CONTINUED

Additionally, the University signed agreements with CIED to sublease the entire building space owned by OTRP One. The sublease agreements were for one year, with options to renew for additional years. Sublease rental income for CIED was approximately \$753,970 and \$473,000 for the years ended June 30, 2007 and 2006, respectively. The future minimum sublease rental income amounted to approximately \$7,456,141 at June 30, 2007.

Future minimum payments under operating leases are as follows at June 30, 2007:

Fiscal year ending June 30	
2008	\$ 961,749
2009	961,749
2010	961,749
2011	961,749
2012	961,749
Thereafter	<u>2,647,396</u>
	<u>\$ 7,456,141</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 11 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

CIED's operating expenses by functional classification were as follows:

Year ended June 30, 2007								
Functional classification	Natural classification							Total
	Compen- sation and benefits	Contract- ual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses	Depreciation	
Instruction	\$ 6,795,747	\$ 1,117,774	\$ 179,116	\$ 7,624	\$ 152,011	\$ 926,367	\$ -	\$ 9,178,639
Research	6,375,388	1,131,560	58,114	-	17,775	77,947	-	7,660,784
Academic support	988,426	420,729	59,482	19,398	13,657	658,888	-	2,160,580
Auxiliary enterprises	-	753,970	-	-	1,075	-	-	755,045
Depreciation	-	-	-	-	-	-	300,865	300,865
<b>Total expenses</b>	<b>\$ 14,159,561</b>	<b>\$ 3,424,033</b>	<b>\$ 296,712</b>	<b>\$ 27,022</b>	<b>\$ 184,518</b>	<b>\$ 1,663,202</b>	<b>\$ 300,865</b>	<b>\$ 20,055,913</b>

Year ended June 30, 2006								
Functional classification	Natural classification							Total
	Compen- sation and benefits	Contract- ual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses	Depreciation	
Instruction	\$ 7,277,677	\$ 1,092,847	\$ 449,424	\$ 13,755	\$ 153,266	\$ 1,513,852	\$ -	\$ 10,500,821
Research	6,073,555	807,294	52,465	-	8,024	499,688	-	7,441,026
Academic support	1,377,355	392,524	111,469	4,018	22,608	215,568	-	2,123,542
Auxiliary enterprises	-	473,340	-	-	759	3,091	-	477,190
Depreciation	-	-	-	-	-	-	292,872	292,872
<b>Total expenses</b>	<b>\$ 14,728,587</b>	<b>\$ 2,766,005</b>	<b>\$ 613,358</b>	<b>\$ 17,773</b>	<b>\$ 184,657</b>	<b>\$ 2,232,199</b>	<b>\$ 292,872</b>	<b>\$ 20,835,451</b>



Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance With Government Auditing Standards

Board of Regents  
Oklahoma Agricultural and Mechanical Colleges

We have audited the financial statements of the Oklahoma State University Center for Innovation and Economic Development, Inc. ("CIED") as of and for the year ended June 30, 2007 and have issued our report thereon dated October 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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



Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 11, 2007