

Financial statements and report of independent
certified public accountants

**Oklahoma State University Research Foundation,
Inc.**

June 30, 2015 and 2014

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OSU Research Foundation Management's Discussion and Analysis (unaudited)

Overview of Financial Statements and Financial Analysis

OSU Research Foundation (OSURF) proudly presents its financial statements for fiscal year 2015, with comparative data presented for fiscal year 2014. 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 OSURF 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 OSURF. 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 Research Foundation Management's Discussion and Analysis (unaudited)

Statements of Net Position (continued)

Statements of Net Position

	2013	2014	2015
Assets:			
Current assets	\$ 16,465,321	\$ 12,992,842	\$ 8,575,646
Capital assets, net of accm. depr.	480,840	447,874	437,815
Total Assets	16,946,161	13,440,716	9,013,461
Total Liabilities	7,919,606	7,749,609	2,974,689
Net Position			
Invested in capital assets, net of debt	480,840	447,874	437,815
Restricted for:			
Expendable			
Scholarships, research, instruction	644,899	185	-
Capital projects	4,932	4,932	4,932
Unrestricted	7,895,884	5,238,116	5,596,025
Total Net Position	\$ 9,026,555	\$ 5,691,107	\$ 6,038,772

In fiscal year 2015, total assets of the organization decreased by \$(4,427,255) or (32.94)% over fiscal year 2014. A review of the Statements of Net Position will reveal that there are many offsetting variances, but the decrease was due to decreases in cash and cash equivalents of \$(1,306,700), accounts receivable of \$(464,349), and investments of \$(3,840,343). This was offset by increases in interest receivable of \$194,196 and loan receivable from UML of \$1,000,000.

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 2015, total liabilities for the year decreased by \$(4,774,920) or (61.61)%. The most significant change was a decrease in notes payable of \$(4,673,064). The combination of the decrease in total assets and the decrease in total liabilities nets to an increase in total net position of \$347,665 or 6.11%.

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)%.

OSU Research Foundation

Management's Discussion and Analysis (unaudited)

Statements of Revenues, Expenses, and Changes in Net Position

While the 2014-2015 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 expenses.

Statements of Revenues, Expenses, and Changes in Net Position

	2013	2014	2015
Operating revenues	\$ 9,799,451	\$ 6,423,746	\$ 5,205,950
Operating expenses	9,508,078	6,654,220	4,786,329
Operating income/(loss)	291,373	(230,474)	419,621
Nonoperating revenues(expenses)	111,183	(3,082,068)	(71,956)
Income (loss) before other revenues, expenses, gains and losses	402,556	(3,312,542)	347,665
Loss on disposal of capital assets	(38,194)	(22,906)	-
Net increase/(decrease) in net position	\$ 364,362	\$ (3,335,448)	\$ 347,665

Operating revenues of \$5,205,950 in 2015 decreased \$(1,217,796) or (18.96)% when compared to fiscal year 2014. The decrease is due to decreases in federal grants and contracts revenue of \$(1,560,421) and other operating revenues \$(212,187). This was offset by an increase in auxiliary revenues of \$554,812.

Operating revenues of \$6,423,746 in fiscal year 2014 decreased \$(3,375,705) or (34.45)% when compared to fiscal year 2013. The decrease came from 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.

OSU Research Foundation Management's Discussion and Analysis (unaudited)

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

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

Operating Revenues

	2013	2014	2015
Federal grants and contracts	\$ 9,538,920	\$ 6,028,458	\$ 4,468,037
State and local grants and contracts	42,357	-	-
Nongovernmental grants and contracts	6,047	-	-
Auxiliary revenues	63,377	72,180	626,992
Other operating revenues	148,750	323,108	110,921
Total Operating Revenues	\$ 9,799,451	\$ 6,423,746	\$ 5,205,950

Operating expenses of \$4,786,329 in fiscal year 2015 decreased \$(1,867,891) or (28.07)% when compared to fiscal year 2014. The decreases came from decreases in compensation and employee benefits of \$(1,517,624), other operating expenses of \$(314,747), contractual services of \$(111,824) and communications of \$(9,247). These were offset by increases in supplies and materials of \$60,586 and utilities of \$24,965.

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).

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

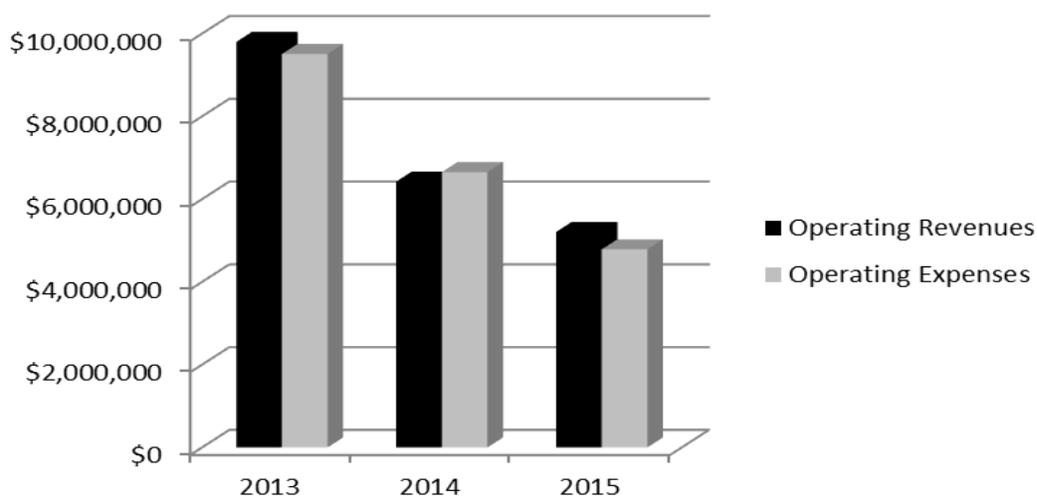
Operating Expenses

	2013	2014	2015
Compensation and employee benefits	\$ 6,835,269	\$ 4,474,818	\$ 2,957,194
Contractual services	969,140	730,181	618,357
Supplies and materials	135,209	265,719	326,305
Utilities	24,341	20,567	45,532
Communication	30,443	22,914	13,667
Other operating expenses	1,493,163	1,129,961	815,214
Depreciation expense	20,513	10,060	10,060
Total Operating Expenses	\$ 9,508,078	\$ 6,654,220	\$ 4,786,329

It is important to understand the relationship of grants & contracts to the operating revenue and expenses of OSURF. Since 2013 Grant and Contract revenue has accounted for 93.50% of the total operating revenue of OSURF. 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 OSURF. Since fiscal year 2013 OSURF has seen a sharp (53.16)% decrease in their Grants & Contracts Revenue and consequently operating expenses have decreased (49.66)% during this same period.

OSU Research Foundation Management's Discussion and Analysis (unaudited)

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



Non-operating revenues/(expenses) of \$(71,956) in fiscal year 2015 increased \$3,010,112 or 97.67% when compared to fiscal year 2014. Non-operating revenues/(expenses) of \$(3,082,068) in fiscal year 2014 decreased \$(3,193,251) or (2,872.07)% when compared to fiscal year 2013.

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

Nonoperating Revenue/(Expenses)

	2013	2014	2015
Investment income	\$ 33,684	\$ 66,128	\$ 261,758
Equity in gain/(loss) of investees	136,524	56,348	(333,714)
Bad debt expense	-	(3,100,000)	-
Interest expense	(59,025)	(104,544)	-
Net Nonoperating Rev/(Exp)	\$ 111,183	\$ (3,082,068)	\$ (71,956)

Statements of Cash Flows

The final statement presented by OSURF 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.

The first section deals with operating cash flows and shows the net cash used by the operating activities of OSURF. 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

OSU Research Foundation Management's Discussion and Analysis (unaudited)

Statements of Cash Flows (continued)

income or loss reflected on the Statements of Revenues, Expenses and Changes in Net Position.

Cash Flows

	2013	2014	2015
Cash provided (used) by:			
Operating activities	\$ 1,209,174	\$ 747,846	\$ 792,174
Investing activities	(2,776,412)	91,056	3,574,190
Capital and related financing activities	(98,871)	(431,480)	(5,673,064)
Net change in cash	(1,666,109)	407,422	(1,306,700)
Cash, beginning of year	3,239,691	1,573,582	1,981,004
Cash, end of year	<u>\$ 1,573,582</u>	<u>\$ 1,981,004</u>	<u>\$ 674,304</u>

In fiscal year 2015 the cash and cash equivalents, end of year decreased by \$(1,306,700) or (65.96)% which represents a difference in net (decrease) increase in cash and cash equivalents from fiscal years 2014 to 2015 of \$(1,714,122). The net increase was generated by an increase in net cash provided by operating activities of \$44,328, an increase in net cash used by investing activities of \$3,483,184 and a decrease in net cash used by capital and related financing activities of \$(5,241,584).

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).

OSU Research Foundation Management's Discussion and Analysis (unaudited)

Economic Outlook

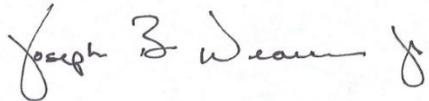
OSURF is an integral component unit of Oklahoma State University and is reported as a blended component unit in the Oklahoma State University financial statements. OSURF receives and administers funds from Federal, State and Private sources for the purpose of carrying out the educational, research and outreach programs of the General University. In fiscal year 2015, OSURF experienced a (25.88)% decrease in the total grant and contract revenue from fiscal year 2014, primarily from the completion a federal contract. This decrease in grant and contract revenue was offset by a (28.07)% decrease in operating expenses. Overall OSURF experienced an increase in net position of \$347,665 for fiscal year 2015 increasing the organization's total net position to \$6,038,772.

Recent trends in federal funding have limited the availability of most directed appropriation to OSURF as well as slowed their access to general federal awards for research and development. Though OSURF 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 OSURF's Federal grant revenue in fiscal year 2015.

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 OSURF as well as serve the advancement of Oklahoma State University. OSURF continues to serve a special need within the University's sponsored program initiatives with the ability to manage contracts which are typically not available to the University extramural initiatives. The ability of OSURF 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 Directors
Oklahoma State University Research Foundation, Inc.

Report on the financial statements

We have audited the accompanying financial statements of Oklahoma State University Research Foundation, Inc., (“OSURF”), which comprise the statements of net position as of June 30, 2015 and 2014, 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 opinions on these financial statements based on our audit. 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 \$1,279,158 and \$411,303 as of June 30, 2015 and 2014, respectively, and the equity in its net (loss)/income was \$(333,714) and \$56,348 for the years then ended, respectively. 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 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 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 OSURF'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 OSURF'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 opinions.

Opinions

In our opinion based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oklahoma State University Research Foundation, Inc. as of June 30, 2015 and 2014, 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 30, 2015, on our consideration of OSURF'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 OSURF's internal control over financial reporting and compliance.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 30, 2015

**Oklahoma State University
OSU Research Foundation**

STATEMENTS OF NET POSITION

June 30,

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 674,304	\$ 1,981,004
Accounts receivable, net	627,168	1,091,517
Interest receivable	485,620	291,424
Loan receivable, net	2,900,000	1,900,000
Investments	3,888,554	7,728,897
Total current assets	8,575,646	12,992,842
Noncurrent assets		
Capital assets, net of accumulated depreciation	437,815	447,874
Total noncurrent assets	437,815	447,874
TOTAL ASSETS	9,013,461	13,440,716
LIABILITIES		
Current liabilities		
Accounts payable	130,609	145,181
Due to Oklahoma State University	2,712,525	2,746,714
Unearned revenue	-	5,898
Deposits	2,222	-
Accrued compensated absences	129,333	178,752
Note payable	-	4,673,064
Total current liabilities	2,974,689	7,749,609
TOTAL LIABILITIES	2,974,689	7,749,609
NET POSITION		
Invested in capital assets, net of debt	437,815	447,874
Restricted for:		
Expendable		
Scholarships, research, instruction and other	-	185
Capital projects	4,932	4,932
Unrestricted	5,596,025	5,238,116
TOTAL NET POSITION	\$ 6,038,772	\$ 5,691,107

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

Oklahoma State University
OSU Research Foundation

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended June 30,

	2015	2014
Operating revenues		
Federal grants and contracts	\$ 4,468,037	\$ 6,028,458
Auxiliary revenue		
Mike Morgan Building	308,197	-
OSU Research Park	246,488	-
Eastgate Property	72,307	72,180
Other operating revenues	110,921	323,108
Total operating revenues	5,205,950	6,423,746
Operating expenses		
Compensation and employee benefits	2,957,194	4,474,818
Contractual services	618,357	730,181
Supplies and materials	326,305	265,719
Utilities	45,532	20,567
Communication	13,667	22,914
Other operating expenses	815,214	1,129,961
Depreciation expense	10,060	10,060
Total operating expenses	4,786,329	6,654,220
Operating income (loss)	419,621	(230,474)
Nonoperating revenues (expenses)		
Investment income	261,758	66,128
Equity in (loss) income of investees	(333,714)	56,348
Bad debt expense	-	(3,100,000)
Interest expense	-	(104,544)
Net nonoperating (expenses) revenues	(71,956)	(3,082,068)
Income (Loss) before other revenues, expenses, gains and losses	347,665	(3,312,542)
Loss on disposal of capital assets	-	(22,906)
Net increase (decrease) in net position	347,665	(3,335,448)
Net position - beginning of year	5,691,107	9,026,555
Net position - end of year	\$ 6,038,772	\$ 5,691,107

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

**Oklahoma State University
OSU Research Foundation**

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2015	2014
Cash flows from operating activities		
Grants and contracts	\$ 4,857,851	\$ 6,788,732
Other operating receipts	808,772	438,296
Payments to OSU employees for salaries and benefits	(3,010,793)	(4,525,994)
Payments to suppliers	(1,863,656)	(1,953,188)
Net cash provided by operating activities	792,174	747,846
Cash flows from investing activities		
Purchases of investments	(3,465,556)	-
Proceeds from sales of investments	7,335,016	43,550
Investment (gains) losses	(295,270)	47,506
Net cash used in investing activities	3,574,190	91,056
Cash flows from capital and related financing activities		
Repayments for note payable	(4,673,064)	(326,936)
Payments for loan receivable	(1,000,000)	-
Interest paid on capital debt and leases	-	(104,544)
Net cash used in capital and related financing activities	(5,673,064)	(431,480)
Net (decrease) increase in cash and cash equivalents	(1,306,700)	407,422
Cash and cash equivalents, beginning of year	1,981,004	1,573,582
Cash and cash equivalents, end of year	\$ 674,304	\$ 1,981,004

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ 419,621	\$ (230,474)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	10,060	10,060
Changes in assets and liabilities		
Accounts receivable	464,349	811,321
Accounts payable	(14,572)	(39,909)
Due to Oklahoma State University	(34,189)	273,071
Unearned revenue	(5,898)	(8,039)
Deposits	2,222	-
Compensated absences	(49,419)	(68,184)
Net cash provided by operating activities	\$ 792,174	\$ 747,846

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

Oklahoma State University Research Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Oklahoma State University Research Foundation, Inc. (“OSURF”), formerly Oklahoma State University Center for Innovation and Economic Development, Inc. through June 18, 2015, 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”). OSURF 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 and 61, 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 Research Foundation, Inc. (“OSURF”), as the primary government, and the accounts of OSU-Enterprise Center, LLC (“OSU EC”), collectively referred to as “OSURF”. 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 OSURF. Accordingly, OSU EC has been reported as a blended component unit in the financial statements.

OSURF 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 OSURF. Accordingly, OSURF is a component unit of the University and is included in the financial statements of the University.

Financial Statement Presentation

OSURF is an integral component unit of the University and, as such, the financial activity of OSURF is combined with other University activity and reported in the University’s financial statements. Therefore, the financial statements of OSURF 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 OSURF) 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 OSURF’s assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

Oklahoma State University Research Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting

For financial reporting purposes, OSURF is considered a special-purpose government entity engaged only in business-type activities. Accordingly, OSURF'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.

Cash Equivalents

OSURF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

OSURF 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.

OSURF 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 OSURF's grants and contracts. 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, OSURF'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.

Oklahoma State University Research Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

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. OSURF capitalizes interest as a component of capital assets constructed for its own use. In 2015 and 2014, 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

OSURF's net position is classified as follows:

Invested in capital assets, net of related debt: This represents OSURF'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 OSURF 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 OSURF, 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, OSURF'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
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

OSURF 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 2015 or 2014. OSURF 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, OSURF is no longer subject to income tax examination by federal, state or local tax authorities for years prior to fiscal year ended in 2012.

Classification of Revenues

OSURF 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 February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value and takes into account the highest and best use for a nonfinancial asset. This Statement is effective for periods beginning after June 15, 2015. Earlier application is encouraged.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of the Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statements 68 should not be considered pension plan assets. This Statement is effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective is to improve the usefulness of information about postemployment benefits other than pensions. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and the objective is to improve financial reporting. This Statement is effective for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is encouraged.

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

At June 30, 2015 and 2014, the carrying amount of OSURF's cash and cash equivalents was \$674,304 and \$1,981,004, respectively. These amounts consisted of deposits with the State Treasurer (\$499,910 and \$1,429,109), and U.S. financial institutions (\$174,394 and \$551,895).

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. OSURF'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.

OSURF 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 OSURF's name.

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

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 OSURF'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, 2015 and 2014, OSURF's investments in municipal and corporate bonds were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service. In fiscal year 2015, the OSURF board authorized a change to the investment policy to allow investment in equities.

At June 30, the fair value of the OSURF's investments consisted of the following:

	2015	2014
U.S. Government securities	\$447,385	\$6,635,592
Corporate bonds and notes	198,272	-
Money funds	60,719	682,002
Equity securities	1,903,020	-
Equity in Cowboy Technologies, LLC (Note 10)	1,279,158	411,303
	\$3,888,554	\$7,728,897

Interest Rate Risk. OSURF's investment policy does not specifically limit the investment portfolio to maturities of less than one year. OSURF 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 OSURF's Board of Directors are responsible for evaluating investment performance. OSURF's investments are categorized by maturity dates to reflect the fair values that are sensitive to changes in interest rates.

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments - Continued

OSURF's investment schedule by maturity date as of June 30, 2015 is as follows:

Maturity Year <u>Ending June 30</u>	U.S. Government <u>Securities</u>	Corporate Bonds and <u>Notes</u>	<u>Total</u>
2016	\$ 119,013	\$ 20,553	\$ 139,566
2017	81,734	6,376	88,110
2018	55,445	43,981	99,426
2019	33,585	18,809	52,394
2020	9,205	25,614	34,819
2021-2025	<u>148,403</u>	<u>82,939</u>	<u>231,342</u>
	<u>\$ 447,385</u>	<u>\$ 198,272</u>	\$ 645,657

Investments not subject to maturity dates:

Money funds	60,719
Equity securities	1,903,020
Equity in Cowboy Technologies, LLC	<u>1,279,158</u>

Total Investments \$ 3,888,554

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Federal, state and private grants and contracts	\$ 609,841	\$ 1,005,553
Cowboy Technologies, LLC	-	40,314
Private companies	20,203	47,926
Travel advances	-	600
	<u>630,044</u>	<u>1,094,393</u>
Less allowance for doubtful accounts	2,876	2,876
	<u>\$ 627,168</u>	<u>\$ 1,091,517</u>

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 4 – LOAN RECEIVABLE

Loan receivable consists of advances made 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 “30-day LIBOR” on the outstanding principal balance and is accrued monthly.

Following is a summary of the loan receivable at June 30:

	2015	2014
Outstanding advances	\$ 6,000,000	\$ 5,000,000
Allowance for loan losses	(3,100,000)	(3,100,000)
	\$ 2,900,000	\$ 1,900,000

NOTE 5 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2015 and 2014:

	2015				Balance June 30, 2015
	Balance June 30, 2014	Additions	Retirements	Transfers	
Capital assets not being depreciated					
Land	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Total capital assets not being depreciated	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Other capital assets					
Buildings	\$ 391,526	\$ -	\$ -	\$ -	\$ 391,526
Furniture, fixtures and equipment	614,461	-	-	(185,863)	428,598
Total other capital assets	1,005,987	-	-	(185,863)	820,124
Less accumulated depreciation for					
Buildings	(71,103)	(10,060)	-	-	(81,163)
Furniture, fixtures and equipment	(599,932)	-	-	185,863	(414,069)
Total accumulated depreciation	(671,035)	(10,060)	-	185,863	(495,232)
Other capital assets, net	\$ 334,952	\$ (10,060)	\$ -	\$ -	\$ 324,892
Capital asset summary:					
Capital assets not being depreciated	\$ 112,923	\$ -	\$ -	\$ -	\$ 112,923
Other capital assets, at cost	1,005,987	-	-	(185,863)	820,124
Total cost of capital assets	1,118,910	-	-	(185,863)	933,047
Less accumulated depreciation	(671,035)	(10,060)	-	185,863	(495,232)
Capital assets, net	\$ 447,875	\$ (10,060)	\$ -	\$ -	\$ 437,815

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 5- CAPITAL ASSETS - CONTINUED

	2014				Balance June 30, 2014
	Balance June 30, 2013	Additions	Retirements	Transfers	
	<u>2013</u>	<u> </u>	<u> </u>	<u> </u>	
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
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

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 OSURF 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, 2015 and 2014 are as follows:

	2015	2014
<i>Working Funds:</i>		
Education	\$ 842,079	\$ 911,203
Engineering	48,720	55,131
Agriculture	24,162	24,162
Veterinary Medicine	27,007	27,007
Center for Health Sciences	4,140	4,140
Vice President for Research	120,642	51,254
Arts and Sciences	5,831	5,831
Various other departments	1,570,211	1,570,323
Total Working Funds	2,642,792	2,649,051
Other amounts due to Oklahoma State University	69,733	97,663
	\$ 2,712,525	\$ 2,746,714

NOTE 7 - UNEARNED REVENUE

Unearned revenue consists of the following at June 30:

	2015	2014
Grants and contracts	\$ -	\$ (128)
Other	-	6,026
	\$ -	\$ 5,898

Oklahoma State University Research Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 8 – NOTES PAYABLE

The variable credit line that was secured in December 2012 with UBS Financial Services Inc. was paid in July 2014. The credit line was collateralized by the investments held at UBS Financial Services, Inc. and was payable on demand. The interest rate on the outstanding balance was 2% plus “30-day LIBOR” and was accrued monthly. The balance of the note at June 30, 2015 and 2014 was \$0 and \$4,673,064, respectively.

NOTE 9 - RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies including OSURF, 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 through an insurance broker 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 OSURF, 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 Research Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

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. Beginning January 1, 2015, the University's health care program continued as a self-funded program. BlueCross BlueShield is the third party administrator. The University has employed Lockton Company as a consultant to assist with premium setting, development of plan features, reserve funding, and use of third party stop loss coverage insurance.

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, 2015 and 2014, including a description of the relationship and operations are as follows:

Oklahoma State University

Nature of Relationship - OSURF engages in research, extension and academic contractual arrangements for the benefit and advancement of the University. OSURF 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 - OSURF 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 OSURF in the administration of the contracts. In return, OSURF 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, 2015 and 2014 totaled \$299,105 and \$488,659, respectively.

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 10 - RELATED PARTY TRANSACTIONS - CONTINUED

Cowboy Technologies, LLC

Nature of Relationship – OSURF 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 OSURF or the University’s financial statements.

Description of Operations – CT is an investment interest of OSURF. Though directed by the OSURF Board, CT’s day-to-day operations and fiscal decisions are under direction of a separate executive officer reporting to the OSURF Board. The OSURF 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. CT has investments in Unmanned Cowboys, LLC and OSURF collected rent from Unmanned Cowboys, LLC in the amount of \$3,300 in fiscal year 2015 for space leased in the Mike Morgan Building. During the fiscal year ended June 30, 2015 and 2014, OSURF made investments in CT of \$1,201,569 and \$645,000, respectively. At June 30, 2015 and 2014 OSURF’s investment in CT is valued at \$1,279,158 and \$411,303, 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, OSURF 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 “30-day 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. In fiscal year 2015, OSURF loaned additional funds in the amount of \$1,000,000 to OSU-UML. OSURF collected rent from OSU-UML in the amount of \$45,029 in fiscal year 2015 for space leased in the Mike Morgan Building.

OSU - Technology Development Center

Nature of Relationship – The Technology Development Center (TDC) at Oklahoma State University was created to foster the creation of innovative technologies and to manage those technologies and other intellectual property for the benefit of the University and the public. TDC has been restructured to report to OSURF.

Description of Operations – The TDC assists faculty and staff, administrators, and students with intellectual property issues resulting from their scholarly and creative activities. OSURF collected rent from TDC in the amount of \$15,961 in fiscal year 2015.

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

OSURF 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 OSURF has complied with grant requirements and that disallowances, if any, will not be material.

OSURF utilized certain office space and equipment under operating leases which expired in 2014. Rent expense under operating leases was \$34,950 for the year ended June 30, 2014. This expense is included in contractual services on the OSURF Statements of Revenue, Expenses and Changes in Net Position.

NOTE 12 – AUXILIARY REVENUE

OSURF entered into a Management and Fiscal Agent Agreement with the University for the fiscal and operational management of the property and grounds of the OSU Research Park effective July 1, 2014. In exchange for providing management services, OSURF occupies its office space at no charge. OSURF has sole authority to operate the grounds and facilities and enter into lease agreements required to perform its management duties. OSURF retains lease revenues and operates the facility as an at-risk manager. OSURF collected rent income in the amount of \$308,197 and \$72,307 for the Mike Morgan Building and Eastgate Property, respectively, during fiscal year 2015. In addition the University transferred funds previously held by the Board in the amount of \$246,488 to OSURF for the purposes of the operation of the Mike Morgan Building and the OSU Research Park.

**Oklahoma State University
Research Foundation, Inc.**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 13 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Year ended June 30, 2015								
Natural classification								
Functional classification	Compensation and employee benefits	Contractual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses	Depreciation expense	Total
Instruction	\$ 2,701,393	\$ 152,169	\$ 285,857	\$ -	\$ 2,043	\$ 630,731	\$ -	\$ 3,772,193
Research	19	-	162	-	-	-	-	181
Academic support	250,496	211,255	27,632	4,804	9,528	175,022	-	678,737
Auxiliary enterprises	5,286	254,933	12,654	40,728	2,096	9,461	-	325,158
Depreciation	-	-	-	-	-	-	10,060	10,060
Total expenses	<u>\$ 2,957,194</u>	<u>\$ 618,357</u>	<u>\$ 326,305</u>	<u>\$ 45,532</u>	<u>\$ 13,667</u>	<u>\$ 815,214</u>	<u>\$ 10,060</u>	<u>\$ 4,786,329</u>

Year ended June 30, 2014								
Natural classification								
Functional classification	Compensation and employee benefits	Contractual services	Supplies and materials	Utilities	Commun- ication	Other operating expenses	Depreciation expense	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>

NOTE 14 – MANAGEMENT PLAN

OSURF 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 OSURF has made proportional adjustments to operating expenses and carries no long term debt, the downturn of federal program revenue streams creates an uncertainty about OSURF's long term viability. Management continues to seek sponsored program opportunities. OSURF entered into an agreement to manage properties within the OSU Research Park in fiscal year 2015 and is focusing on commercialization endeavors.

NOTE 15 – SUBSEQUENT EVENTS

OSURF has evaluated events or transactions that occurred subsequent to June 30, 2015 through October 30, 2015, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

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 Directors
Oklahoma State University Research Foundation, Inc.

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 of the Oklahoma State University Research Foundation, Inc. (“OSURF”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise OSURF’s basic financial statements, and have issued our report thereon dated October 30, 2015.

Our report includes a reference to other auditors who audited the financial statements of Cowboy Technologies, LLC, as described in our report on OSURF’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 OSURF’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 OSURF’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 OSURF’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 OSURF'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 OSURF'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 OSURF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSURF's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 30, 2015