Financial statements and report of independent certified public accountants

Oklahoma State University Research Foundation, Inc.

June 30, 2016 and 2015

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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 2016, with comparative data presented for fiscal year 2015. 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:

Statements of Net Position (continued)

Statements of Net Position

		2014		2015		2016
Assets:						
Current assets	$	12,992,842	$	8,575,646	$	7,215,861
Capital assets, net of accm. depr.		447,874		437,815		427,755
Total Assets		13,440,716		9,013,461		7,643,616
Total Liabilities		7,749,609		2,974,689		2,602,357
Net Position						
Invested in capital assets, net of debt		447,874		437,815		427,755
Restricted for:						
Expendable						
Scholarships, research, instruction		185		-		1,248
Capital projects		4,932		4,932		4,932
Unrestricted		5,238,116		5,596,025		4,607,324
Total Net Position	$	5,691,107	$	6,038,772	$	5,041,259

In fiscal year 2016, total assets of the organization decreased by $(1,369,845) or (15.20)% over fiscal year 2015. A review of the Statements of Net Position will reveal that there are many offsetting variances, but the decrease was due to reserves against a loan receivable of $(2,900,000), a decrease in cash and cash equivalents of $(499,331) and investments of $(521,481). This was offset by increases in accounts receivable of $2,305,256 and interest receivable of $255,771.

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 2016, total liabilities for the year decreased by $(372,332) or (12.52)%. The decrease was in amounts due to OSU of $(442,059). There were increases in accounts payable of $43,328 and in accrued compensated benefits of $26,399. The combination of the increase in total assets and the decrease in total liabilities nets to an decrease in total net position of $(997,513) or (16.52)%.

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%.

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

Statements of Revenues, Expenses, and Changes in Net Position

While the 2015-2016 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

		2014		2015		2016
Operating revenues	$	6,423,746	$	5,205,950	$	9,207,340
Operating expenses		6,654,220		4,786,329		5,056,117
Operating income/(loss)		(230,474)		419,621		4,151,223
Nonoperating revenues(expenses)		(3,082,068)		(71,956)		(6,922,627)
Income (loss) before other revenues, expenses, gains and losses		(3,312,542)		347,665		(2,771,404)
Loss on disposal of capital assets		(22,906)		-		-
Capital provided by affiliates		-		-		1,773,891
Net increase/(decrease) in net position	$	(3,335,448)	$	347,665	$	(997,513)

Operating revenues of $9,207,340 in fiscal year 2016 increased $4,001,390 or 76.86% when compared to fiscal year 2015. The increase is due to the Service Agreement between OSU and OSURF which contributed $4,550,000. This was offset by a decrease in federal grants and contracts of $(225,764), in Auxiliary revenues of $(266,020) and Other operating revenues of $(56,826).

Operating revenues of $5,205,950 in fiscal year 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.

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

Operating Revenues

		2014		2015		2016
Federal grants and contracts	$	6,028,458	$	4,468,037	$	4,242,273
Auxiliary revenues		72,180		626,992		360,972
Service Agreement		-		-		4,550,000
Other operating revenues		323,108		110,921		54,095
Total Operating Revenues	$	6,423,746	$	5,205,950	$	9,207,340

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

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

Operating expenses of $5,056,117 in fiscal year 2016 increased $269,788 or 5.64% when compared to fiscal year 2015. The increases came from increases in compensation and employee benefits of $135,337, other operating expenses of $321,891 and utilities of $5,586. These were offset by decreases in contractual services of $(77,615), supplies and materials of $(111,903) and communications of $(3,508).

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.

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

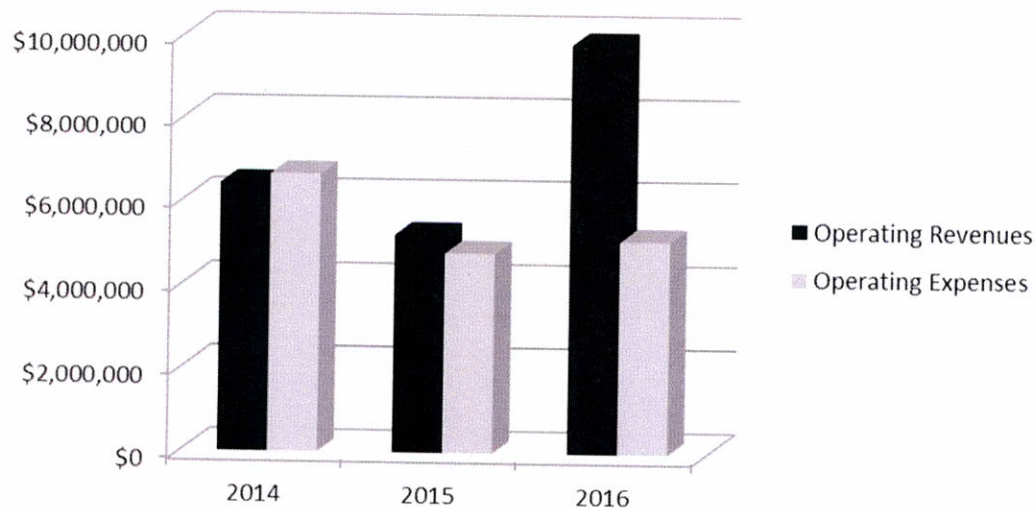
Operating Expenses

	2014	2015	2016
Compensation and employee benefits	$ 4,474,818	$ 2,957,194	$ 3,092,531
Contractual services	730,181	618,357	540,742
Supplies and materials	265,719	326,305	214,402
Utilities	20,567	45,532	51,118
Communication	22,914	13,667	10,159
Other operating expenses	1,129,961	815,214	1,137,105
Depreciation expense	10,060	10,060	10,060
Total Operating Expenses	$ 6,654,220	$ 4,786,329	$ 5,056,117

It is important to understand the relationship of grants & contracts to the operating revenue and expenses of OSURF. Since fiscal year 2014 Grant and Contract revenue has accounted for 70.73% 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 2014 OSURF has seen a (29.63) % decrease in their Grants & Contracts Revenue and consequently operating expenses have decreased (24.02) % during this same period. The primary reasons for the overall decrease in operating expenses is a decrease in compensation and employee benefits of $(1,382,287) and a decrease in contractual services of $(189,439).

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

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



Non-operating revenues/(expenses) of $(6,922,627) in fiscal year 2016 increased $(6,850,671) when compared to fiscal year 2015. The majority of this increase in expenses is due to the Reserve for bad debts related to the OSU-UML loan receivable of $(6,450,000). Additionally, Investment income decreased by $(10,594) and a loss in Equity of an investee was $(390,077).

Non-operating revenues/(expenses) of $(71,956) in fiscal year 2015 decreased $3,010,112 or 97.67% when compared to fiscal year 2014.

The following table summarizes the non-operating revenues and expenses for OSURF for the last three years:

Nonoperating Revenue/(Expenses)

	2014	2015	2016
Investment income	$ 66,128	$ 261,758	$ 251,164
Equity in gain/(loss) of investees	56,348	(333,714)	(723,791)
Bad debt expense	(3,100,000)	-	(6,450,000)
Interest expense	(104,544)	-	-
Net Nonoperating Rev/(Exp)	$ (3,082,068)	$ (71,956)	$ (6,922,627)

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

Cash Flows

	2014	2015	2016
Cash provided (used) by:			
Operating activities	$ 747,846	$ 792,174	$ 1,483,695
Investing activities	91,056	3,574,190	(206,917)
Capital and related financing activities	(431,480)	(5,673,064)	(1,776,109)
Net change in cash	407,422	(1,306,700)	(499,331)
Cash, beginning of year	1,573,582	1,981,004	674,304
Cash, end of year	$ 1,981,004	$ 674,304	$ 174,973

In fiscal year 2016 the cash and cash equivalents, end of year decreased by $(499,331) or (74.05)% which represents a difference in net (decrease) increase in cash and cash equivalents from fiscal years 2015 to 2016 of $807,369. The net increase was generated by an increase in net cash provided by operating activities of $691,521, a decrease in net cash used by investing activities of $(3,781,107), and an increase in net cash used by capital and related financing activities of $3,896,955.

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 decrease 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).

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 2016, OSURF experienced a (5.05)% decrease in the total grant and contract revenue from fiscal year 2015, primarily from the completion a federal contract. There was also an increase of 5.64% in operating expenses. Overall OSURF experienced a decrease in net position of $(1,345,178) for fiscal year 2016 decreasing the organization's total net position to $5,041,259.

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 97.47% of OSURF's Federal grant revenue in fiscal year 2016. OSURF is currently working with NASA to extend the existing contract and management believes there is a high probability that it will be awarded to the College of Education. This contract is expected to provide revenue streams for five years.

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.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 $759,440 and $1,279,158 as of June 30, 2016 and 2015, respectively, and the equity in its net loss was $(723,791) and $(333,714) 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.

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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 opinion.

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, 2016 and 2015, and the respective changes in its net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

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

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 31, 2016, on our consideration of the 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 the OSURF's internal control over financial reporting and compliance.

GRANT THORNTON LLP

Grant Thornton LLP

Oklahoma City, Oklahoma
October 31, 2016

Oklahoma State University
OSU Research Foundation, Inc.

STATEMENTS OF NET POSITION
June 30,

		2016		2015
ASSETS				
Current assets				
Cash and cash equivalents	$	174,973	$	674,304
Accounts receivable, net		2,932,424		627,168
Interest receivable		741,391		485,620
Loan receivable, net		-		2,900,000
Investments		3,367,073		3,888,554
Total current assets		7,215,861		8,575,646
Noncurrent assets				
Capital assets, net of accumulated depreciation		427,755		437,815
Total noncurrent assets		427,755		437,815
TOTAL ASSETS		7,643,616		9,013,461
LIABILITIES				
Current liabilities				
Accounts payable		173,937		130,609
Due to Oklahoma State University		2,270,466		2,712,525
Deposits		2,222		2,222
Accrued compensated absences		155,732		129,333
Total current liabilities		2,602,357		2,974,689
TOTAL LIABILITIES		2,602,357		2,974,689
NET POSITION				
Invested in capital assets, net of debt		427,755		437,815
Restricted for:				
Expendable				
Scholarships, research, instruction and other		1,248		-
Capital projects		4,932		4,932
Unrestricted		4,607,324		5,596,025
TOTAL NET POSITION	$	5,041,259	$	6,038,772

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

Oklahoma State University
OSU Research Foundation, Inc.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30,

	2016	2015
Operating revenues		
Federal grants and contracts	**$ 4,242,273**	$ 4,468,037
Auxiliary revenue		
Mike Morgan Building	**277,994**	308,197
OSU Research Park	**-**	246,488
Eastgate Property	**82,978**	72,307
Service agreement	**4,550,000**	-
Other operating revenues	**54,095**	110,921
Total operating revenues	**9,207,340**	5,205,950
Operating expenses		
Compensation and employee benefits	**3,092,531**	2,957,194
Contractual services	**540,742**	618,357
Supplies and materials	**214,402**	326,305
Utilities	**51,118**	45,532
Communication	**10,159**	13,667
Other operating expenses	**1,137,105**	815,214
Depreciation expense	**10,060**	10,060
Total operating expenses	**5,056,117**	4,786,329
Operating income	**4,151,223**	419,621
Nonoperating revenues (expenses)		
Investment income	**251,164**	261,758
Equity in (loss) income of investees	**(723,791)**	(333,714)
Bad debt expense	**(6,450,000)**	-
Net nonoperating expenses	**(6,922,627)**	(71,956)
Income (loss) before other revenues, expenses, gains and losses	**(2,771,404)**	347,665
Capital provided by affiliates	**1,773,891**	-
Net increase (decrease) in net position	**(997,513)**	347,665
Net position - beginning of year	**6,038,772**	5,691,107
Net position - end of year	**$ 5,041,259**	$ 6,038,772

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

Oklahoma State University
OSU Research Foundation, Inc.

STATEMENTS OF CASH FLOWS
Year ended June 30,

	2016	2015
Cash flows from operating activities		
Grants and contracts	$ 3,969,690	$ 4,857,851
Other operating receipts	2,932,394	808,772
Payments to OSU employees for salaries and benefits	(3,081,085)	(3,010,793)
Payments to suppliers	(2,337,304)	(1,863,656)
Net cash provided by operating activities	1,483,695	792,174
Cash flows from investing activities		
Purchases of investments	(204,073)	(3,465,556)
Proceeds from sales of investments	16,584	7,335,016
Investment (gains) losses	(19,428)	(295,270)
Net cash provided by (used in) investing activities	(206,917)	3,574,190
Cash flows from capital and related financing activities		
Repayments for note payable	-	(4,673,064)
Payments for loan receivable	(1,000,000)	(1,000,000)
Payments for advances to affiliates	(2,550,000)	-
Capital provided by affiliates	1,773,891	-
Net cash used in capital and related financing activities	(1,776,109)	(5,673,064)
Net (decrease) in cash and cash equivalents	(499,331)	(1,306,700)
Cash and cash equivalents, beginning of year	674,304	1,981,004
Cash and cash equivalents, end of year	$ 174,973	$ 674,304

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2016	2015
Operating income (loss)	$ 4,151,223	$ 419,621
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	(2,305,256)	464,349
Accounts payable	43,328	(14,572)
Due to Oklahoma State University	(442,059)	(34,189)
Unearned revenue	-	(5,898)
Deposits	-	2,222
Compensated absences	26,399	(49,419)
Net cash provided by operating activities	$ 1,483,695	$ 792,174

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

Oklahoma State University
Research Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

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

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 2016 or 2015. 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 2013.

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 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement is effective for periods beginning after December 15, 2015. Earlier application is encouraged.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain requirements. This Statement is effective for periods beginning after December 15, 2015. Earlier application is encouraged.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for periods beginning after December 15, 2015. Earlier application is encouraged.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39. This Statement is effective for periods beginning after June 15, 2016. Earlier application is encouraged.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for periods beginning after December 15, 2016. Earlier application is encouraged.

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. This Statement is primarily effective for periods beginning after June 15, 2016, with certain exceptions noted in the Statement. 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, 2016 and 2015, the carrying amount of OSURF's cash and cash equivalents was $174,973 and $674,304, respectively. These amounts consisted of deposits with the State Treasurer ($0 and $499,910), and U.S. financial institutions ($174,973 and $174,394).

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.

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, 2016 and 2015, 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 2016, 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:

	2016	2015
U.S. Government securities	$447,172	$447,385
Corporate bonds and notes	198,981	198,272
Money funds	93,138	60,719
Equity securities	1,868,342	1,903,020
Equity in Cowboy Technologies, LLC (Note 10)	759,440	1,279,158
	$3,367,073	$3,888,554

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.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments - Continued

OSURF's investment schedule by maturity date as of June 30, 2016 is as follows:

Maturity Year Ending June 30	U.S. Government Securities	Corporate Bonds and Notes	Total
2017	$ 94,165	$ -	$ 94,165
2018	62,239	25,856	88,095
2019	53,888	18,006	71,894
2020	19,491	27,774	47,265
2021	27,384	25,359	52,743
2022-2026	190,005	101,986	291,991
	$ 447,172	$ 198,981	$ 646,153
Investments not subject to maturity dates:			
Money funds			93,138
Equity securities			1,868,342
Equity in Cowboy Technologies, LLC			759,440
Total Investments			$ 3,367,073

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2016	2015
Federal, state and private grants and contracts	$ 882,424	$ 609,841
Service agreement	2,050,000	-
Private companies	-	20,203
	2,932,424	630,044
Less allowance for doubtful accounts	-	2,876
	$ 2,932,424	$ 627,168

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. Interest receivable includes $737,503 and $480,638 for fiscal year 2016 and 2015, respectively, on this loan which OSURF has determined to be fully collectible.

NOTE 4 – LOAN RECEIVABLE - CONTINUED

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

	2016	2015
Outstanding advances	$ 7,000,000	$ 6,000,000
Allowance for loan losses	(7,000,000)	(3,100,000)
	$ -	$ 2,900,000

NOTE 5 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2016 and 2015:

	2016				
	Balance June 30, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
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	428,598	-	-	-	428,598
Total other capital assets	820,124	-	-	-	820,124
Less accumulated depreciation for					
Buildings	(81,163)	(10,060)	-	-	(91,223)
Furniture, fixtures and equipment	(414,069)	-	-	-	(414,069)
Total accumulated depreciation	(495,232)	(10,060)	-	-	(505,292)
Other capital assets, net	$ 324,892	$ (10,060)	$ -	$ -	$ 314,832
Capital asset summary:					
Capital assets not being depreciated	$ 112,923	$ -	$ -	$ -	$ 112,923
Other capital assets, at cost	820,124	-	-	-	820,124
Total cost of capital assets	933,047	-	-	-	933,047
Less accumulated depreciation	(495,232)	(10,060)	-	-	(505,292)
Capital assets, net	$ 437,815	$ (10,060)	$ -	$ -	$ 427,755

Oklahoma State University
Research Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016 and 2015

NOTE 5- CAPITAL ASSETS - CONTINUED

	2015				
	Balance June 30, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
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

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 amounts due to the University as of June 30, 2016 and 2015 are as follows:

	2016	2015
Working Funds:		
Education	$ 651,339	$ 842,079
Engineering	40,761	48,720
Agriculture	24,162	24,162
Veterinary Medicine	-	27,007
Center for Health Sciences	4,140	4,140
Vice President for Research	142,668	120,642
Arts and Sciences	5,831	5,831
Enterprise Center	-	1,570,211
Total Working Funds	868,901	2,642,792
Other Amounts due to Oklahoma State University:		
Internal sales and services activity	8,289	69,733
Account deficits covered by OSU	1,393,276	-
	$ 2,270,466	$ 2,712,525

In fiscal year 2016, it was determined that working funds associated with the Enterprise Center belong to OSURF and should not be separately recognized as owed to the University. Accordingly, adjustments were made during the year to transfer these funds to the appropriate working funds within OSURF. The total of these adjustments of $1,773,891 is reflected as capital provided by affiliates in the 2016 Statement of Revenues, Expenses and Changes in Net Position.

Some accounts within OSURF had deficit balances at the end of the fiscal year due to amounts that were expended for investing purposes as well as advances made to other entities. These deficits are temporarily covered by the University until such time that funds are received by OSURF to eliminate the deficit balances.

NOTE 7 - 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.

NOTE 7 - 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 8 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the years ended June 30, 2016 and 2015, 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, 2016 and 2015 totaled $270,814 and $299,105, respectively, which are shown as a reduction to federal grants and contracts revenue.

NOTE 8 - RELATED PARTY TRANSACTIONS - CONTINUED

Oklahoma State University - Continued

OSURF entered into an agreement for services with the University in fiscal year 2016 to coordinate and manage certain programs related to research for the benefit of the University. The research functions include the stewardship and management of University generated intellectual property owned by the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges for the benefit of the University. Through the Technology Development Center, OSURF shall provide guidance to research faculty regarding the protection of inventions and patent applications. OSURF shall market protected technologies for licensing and manage subsequent royalties. OSURF shall handle the commercialization of University intellectual property through start-up companies. OSURF shall provide leadership of the National Energy Solutions Institute – Smart Energy Source Association (NESI-SES), provide supervision of the Energy Resource Operations Center (EROC), and provide administrative oversight of the OSU-University Multispectral Laboratories. OSURF shall lead the collaboration of industry partners through the development of the OSURF Energy Park. OSURF shall coordinate with colleges and departments within the University to initiate development plans for expansion of facilities and assist faculty with grant and contract proposal and budget development. Under the terms of the agreement, during fiscal year 2016, the University shall pay OSURF an amount not to exceed $4,750,000. As of June 30, 2016, OSURF recorded revenue of $4,550,000 for services rendered, of which $2,050,000 is shown as a receivable from the University.

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 $4,400 and $3,300 in fiscal year 2016 and 2015, respectively, for spaced leased in the Mike Morgan Building. During the fiscal year ended June 30, 2016 and 2015, OSURF made investments in CT of $204,073 and $1,201,569, respectively. At June 30, 2016 and 2015 OSURF's investment in CT is valued at $759,440 and $1,279,158, 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.

NOTE 8 - RELATED PARTY TRANSACTIONS - CONTINUED

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 2016 and 2015, OSURF loaned additional funds in the amount of $1,000,000 each year to OSU-UML. In fiscal year 2016, an additional allowance of $3,900,000 was recorded. In fiscal year 2016, OSURF made advances to OSU-UML in the amount of $2,550,000 for which an allowance for the total of the advances was also recorded. OSURF collected rent from OSU-UML in the amount of $13,710 and $45,029 in fiscal year 2016 and 2015, respectively, for space leased in the Mike Morgan Building.

OSU - Technology Development Center

Nature of Relationship – The Technology Development Center (TDC) at Oklahoma Student 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 form TDC in the amount of $51,720 and $15,961 in fiscal year 2016 and 2015, respectively.

NOTE 9 - 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.

NOTE 10 – 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 $277,994 and $308,197 for the Mike Morgan Building during fiscal year 2016 and 2015, respectively. In addition the University transferred funds previously held by the Board in the amount of $246,488 to OSURF in 2015 for the purposes of the operation of the Mike Morgan Building and the OSU Research Park.

NOTE 11 – FAIR VALUE MEASUREMENTS

OSURF has the following recurring fair value measurements as of June 30, 2016 and 2015:

June 30, 2016	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Investments				
U.S. Government securities	$ -	$ 447,172	$ -	$ 447,172
Money market funds	93,138	-	-	93,138
Corporate bonds and notes	-	198,981	-	198,981
Equity securities	1,868,342	-	-	1,868,342
Cowboy Technologies, LLC	-	-	759,440	759,440
Total investments	1,961,480	646,153	759,440	3,367,073

June 30, 2015	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Investments				
U.S. Government securities	$ -	$ 447,385	$ -	$ 447,385
Money market funds	60,719	-	-	60,719
Corporate bonds and notes	-	198,272	-	198,272
Equity securities	1,903,020	-	-	1,903,020
Cowboy Technologies, LLC	-	-	1,279,158	1,279,158
Total investments	1,963,739	645,657	1,279,158	3,888,554

NOTE 11 – FAIR VALUE MEASUREMENTS - CONTINUED

U.S. Government securities and corporate bonds and notes are valued on the basis of evaluated prices provided by independent pricing services when such processes are believed to reflect the fair market value of such securities and are classified within Level 2 of the fair value hierarchy.

Money market funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded, on the last business day of each period presented and are classified within Level 1 of the fair value hierarchy.

Equity securities, including securities listed on national and international exchanges, are principally valued at the regular trading session closing price on the exchange or market in which such securities are principally traded, on the last business day of each period presented and are classified within Level 1 of the fair value hierarchy.

Investments in private operating companies consist of direct private common and preferred stock investments. The transaction price excluding transaction costs is typically the Company's best estimate of fair value at inception. When evidence supports a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values in the investment's principal market under current market conditions. These investments in private operating companies are generally based on observable inputs, and, as such, are categorized in Level 3 of the fair value hierarchy.

NOTE 12 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Year ended June 30, 2016							
	Natural classification							
Functional classification	Compensation and employee benefits	Contractual services	Supplies and materials	Utilities	Commun-ication	Other operating expenses	Depreciation expense	Total
Instruction	$ 2,540,998	$ 183,865	$ 181,837	$ -	$ 2,113	$ 636,615	$ -	$ 3,545,428
Research	3,666	25,789	260	-	-	3,762	-	33,477
Academic support	542,646	141,387	20,365	2,870	5,115	476,375	-	1,188,758
Auxiliary enterprises	5,221	189,701	11,940	48,248	2,931	20,353	-	278,394
Depreciation	-	-	-	-	-	-	10,060	10,060
Total expenses	$ 3,092,531	$ 540,742	$ 214,402	$ 51,118	$ 10,159	$ 1,137,105	$ 10,060	$ 5,056,117

NOTE 12 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS - CONTINUED

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	$ 2,957,194	$ 618,357	$ 326,305	$ 45,532	$ 13,667	$ 815,214	$ 10,060	$ 4,786,329

NOTE 13 – 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 has caused reductions in revenues over the past few years. Management continues to seek sponsored program opportunities and is currently working on a proposal to extend an existing NASA contract which management believes has a high probability of being awarded to the College of Education. OSURF entered into an agreement to manage properties within the OSU Research Park in fiscal year 2015 and is continuing to focus on commercialization endeavors. As OSURF transitions to become a contributor to the University's sponsored research opportunities steps are being taken to become qualified to receive government contracts. OSURF is working closely with the new Division in the College of Engineering, Architecture and Technology, Unmanned Systems Research Institute to bid on government contracts in order to produce revenue. Further, during this transition period OSU is providing a funding source through a Contract for Services Agreement.

NOTE 14 – SUBSEQUENT EVENTS

OSURF has evaluated events or transactions that occurred subsequent to June 30, 2016 through October 31, 2016, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

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

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, 2016, and the related notes to the financial statements, which collectively comprise OSURF's basic financial statements, and have issued our report thereon dated October 31, 2016.

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.

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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.

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Oklahoma City, Oklahoma
October 31, 2016