Oklahoma State University Research Foundation, Inc. (A Component Unit of Oklahoma State University)

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016

BKD LLP
CPAs & Advisors

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

June 30, 2017 and 2016

Contents

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Independent Auditor's Report

Board of Directors
Oklahoma State University Research Foundation, Inc.
Stillwater, Oklahoma

Report to the Financial Statements

We have audited the accompanying financial statements of Oklahoma State University Research Foundation, Inc. (the "Foundation"), a component unit of Oklahoma State University, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

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 the equity method investment, which represents $1,216,722 of total assets at June 30, 2017, and equity loss of investee of $345,932 included in expenses as of June 30, 2017. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts in the equity method investment, 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. The financial statements of the equity method investment were not audited in accordance with *Government Auditing Standards.*

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 the entity'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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State University Research Foundation, Inc. as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2016 financial statements were audited by other auditors and their report thereon, which contained a reference to the report of other auditors, dated October 31, 2016, expressed an unmodified opinion.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 27, 2017, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
October 27, 2017

Oklahoma State University Research Foundation, Inc.
(A Component Unit of Oklahoma State University)
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2017 and 2016

Overview of Financial Statements and Financial Analysis

Oklahoma State University Research Foundation, Inc. (OSURF or the "Foundation") proudly presents its financial statements for fiscal years 2017 and 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 present the assets (current and noncurrent), liabilities (current and noncurrent) 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 noncurrent 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 provide 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, net investment in capital assets, provides the organization's equity in property, plant and equipment owned by the organization. The next category is restricted net assets. Expendable restricted net position 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 positon. Unrestricted assets are available for any lawful purpose of the organization. The chart on the following page is a summary of the Statements of Net Position over the last three years:

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Management's Discussion and Analysis (Unaudited)

Years Ended June 30, 2017 and 2016

	2017	2016	2015
Statements of Net Positon			
Assets			
Current assets	$ 5,339,017	$ 7,215,861	$ 8,575,646
Capital assets, net of accumulated depreciation	500,252	427,755	437,815
Total assets	5,839,269	7,643,616	9,013,461
Liabilities			
Accounts payable	142,474	173,937	130,609
Due to Oklahoma State University	-	2,270,466	2,712,525
Deposits	2,222	2,222	2,222
Accrued compensated absences	158,437	155,732	129,333
Total liabilities	303,133	2,602,357	2,974,689
Net Position			
Net investment in capital assets	500,252	427,755	437,815
Restricted for			
Expendable			
Scholarships, research and instruction	1,217	1,248	-
Capital projects	-	4,932	4,932
Unrestricted	5,034,667	4,607,324	5,596,025
Total net position	$ 5,536,136	$ 5,041,259	$ 6,038,772

In fiscal year 2017, total assets of the organization decreased by $(1,804,347) or (23.61)% over fiscal year 2016. A review of the Statements of Net Position will reveal that the decrease was due to a decrease in accounts receivable of $(917,142), a decrease in the net of cash and cash equivalents and investments of $(218,311), and the write off of interest receivable from OSU – University Multispectral Laboratories, L.L.C. (OSU-UML) of $(741,391).

In fiscal year 2016, total assets of the organization decreased by $(1,369,845) or (15.20)% over fiscal year 2016. 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 2017, total liabilities for the year decreased by $(2,299,224) or (88.35)%. The decrease was due primarily to decreases in amounts due to Oklahoma State University (OSU) of $(2,270,466) and accounts payable of $(31,463). These were offset by an increase in accrued compensated absences of $2,705. The combination of the decreases in total assets and total liabilities nets to an increase in total net position of $494,877 or 9.82%.

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 decrease in total assets and the decrease in total liabilities nets to an decrease in total net position of $(997,513) or (16.52)%.

Statements of Revenues, Expenses and Changes in Net Position

While the 2016 and 2017 comparisons are important indicators of activity during the year under audit, it is also important to look at some of the operating and nonoperating categories over time. One of the important measures of an organization's fiscal stability is how operating revenues compare to operating expenses.

	2017	2016	2015
Operating Revenues	$ 10,301,707	$ 9,207,340	$ 5,205,950
Operating Expenses	5,599,844	5,056,117	4,786,329
Operating Income	4,701,863	4,151,223	419,621
Nonoperating Revenues (Expenses)	(4,292,318)	(6,922,627)	(71,956)
Income (loss) before other revenues, expenses, gains and losses	409,545	(2,771,404)	347,665
Capital provided by affiliates	1,730	1,773,891	-
Other additions, net	83,602	-	-
Increase (Decrease) in Net Position	$ 494,877	$ (997,513)	$ 347,665

Operating revenues of $10,301,707 in fiscal year 2017 increased $1,094,367 or 11.89% when compared to fiscal year 2016 operating revenues of $9,207,340. The increase is due to increases in federal grants and contracts of $658,062, nongovernmental grants and contracts of $50,000 and the service agreement between OSU and OSURF of $470,000. This was offset by decreases in auxiliary revenues of $(67,396) and other operating revenues of $(16,299).

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).

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

	2017	2016	2015
Operating Revenues			
Federal grants and contracts	$ 4,900,335	$ 4,242,273	$ 4,468,037
Nongovernmental grants and contracts	50,000	-	-
Auxiliary revenue	293,576	360,972	626,992
Service agreement	5,020,000	4,550,000	-
Other operating revenues	37,796	54,095	110,921
Total operating revenues	$ 10,301,707	$ 9,207,340	$ 5,205,950

Operating expenses of $5,599,844 in fiscal year 2017 increased $543,727 or 10.75% when compared to fiscal year 2016 operating expenses of $5,056,117. The increases came from increases in compensation and employee benefits of $575,187, supplies and materials of $46,525, communications of $4,179 and depreciation expense of $1,045. These were offset by decreases in contractual services of $(20,634), utilities of $(6,750) and other operating expenses of $(55,825).

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).

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

	2017	2016	2015
Operating Expenses			
Compensation and employee benefits	$ 3,667,718	$ 3,092,531	$ 2,957,194
Contractual services	520,108	540,742	618,357
Supplies and materials	260,927	214,402	326,305
Utilities	44,368	51,118	45,532
Communication	14,338	10,159	13,667
Other operating expenses	1,081,280	1,137,105	815,214
Depreciation expense	11,105	10,060	10,060
Total operating expenses	$ 5,599,844	$ 5,056,117	$ 4,786,329

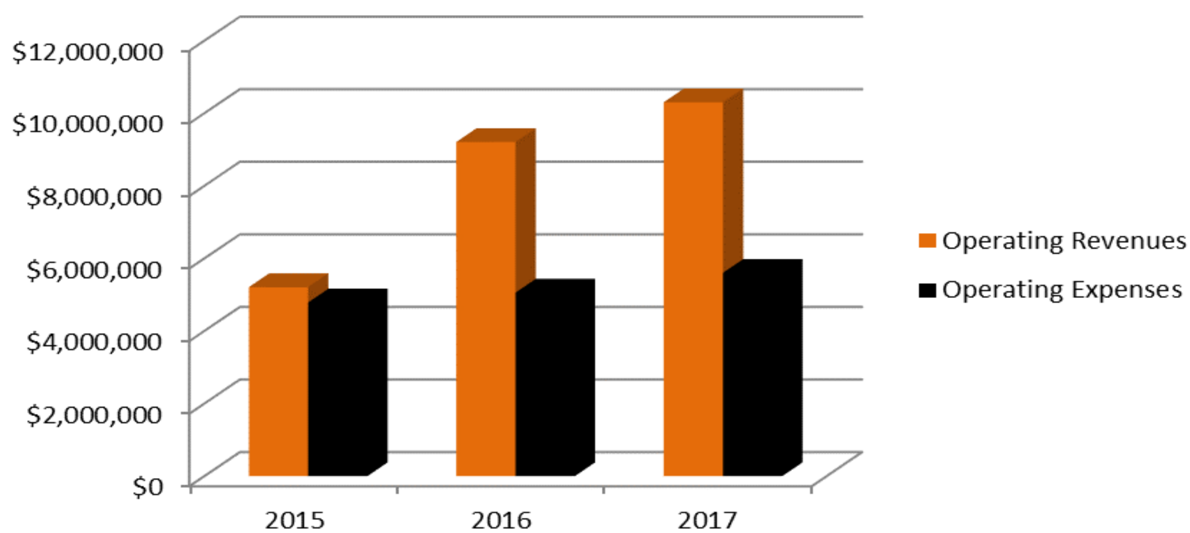
Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Management's Discussion and Analysis (Unaudited)

Years Ended June 30, 2017 and 2016

It is important to understand the relationship of grants and contracts to the operating revenue and expenses of OSURF. Since fiscal year 2015 grant and contract revenue has accounted for 55.07% 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 increase, it is logical to see a correlating increase in the operating expenses of OSURF. Since fiscal year 2015 OSURF has seen a 10.79% increase in their grants and contracts revenue and operating expenses have increased 17.00% during this same period. The primary reasons for the overall increase in operating expenses are increases in compensation and employee benefits of $710,524, communications of $671, other operating expenses of $266,066 and depreciation expense of $1,045. These were offset by decreases in contractual services of $(98,249), supplies and materials of $(65,378) and utilities of $(1,164).



Nonoperating revenues/(expenses) of $(4,292,318) in fiscal year 2017 changed $2,630,309 when compared to fiscal year 2016 nonoperating revenues/(expenses) of $(6,922,627). The majority of this decrease in expenses is due to a decrease in the reserve for bad debts related to the OSU-UML loan receivable of $2,038,467. Additionally, investment income increased by $213,983 and there was a decrease in loss in equity of an investee of $377,859.

Nonoperating 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).

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Management's Discussion and Analysis (Unaudited)

Years Ended June 30, 2017 and 2016

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

	2017	2016	2015
Nonoperating Revenues (Expenses)			
Investment income	$ 465,147	$ 251,164	$ 261,758
Equity (losses) of investee	(345,932)	(723,791)	(333,714)
Bad debt expense	(4,411,533)	(6,450,000)	-
Total nonoperating revenues (expenses)	$ (4,292,318)	$ (6,922,627)	$ (71,956)

Statements of Cash Flows

The final statement presented by OSURF is the Statements of Cash Flows. The Statements of Cash Flows present 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.

	2017	2016	2015
Cash Flows			
Cash provided by (used in)			
Operating activities	$ 3,330,886	$ 1,483,695	$ 792,174
Investing activities	1,949,424	(206,917)	3,574,190
Capital and related financial activities	(3,348,270)	(1,776,109)	(5,673,064)
Net change in cash	1,932,040	(499,331)	(1,306,700)
Cash and cash equivalents, beginning of year	174,973	674,304	1,981,004
Cash and cash equivalents, end of year	$ 2,107,013	$ 174,973	$ 674,304

In fiscal year 2017 the cash and cash equivalents, end of year increased by $1,932,040 or 1,104.19% which represents a difference in net increase/(decrease) in cash and cash equivalents from fiscal years 2016 to 2017 of $2,431,371. The net increase was generated by an increase in net cash provided by operating activities of $1,847,191, an increase in net cash provided by (used in) investing activities of $2,156,341 (this is due to the closing out of the UBS investments and moving the funds to cash) and an increase in net cash used by capital and related financing activities of $(1,572,161).

Oklahoma State University Research Foundation, Inc.
(A Component Unit of Oklahoma State University)
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2017 and 2016

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 2016 to 2017 of $807,369. The net increase was generated by an increase in net cash provided by operating activities of $691,521, an increase in net cash used by investing activities of $(3,781,107), and a decrease in net cash used by capital and related financing activities of $3,896,955.

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 University. In fiscal year 2017, OSURF experienced a 16.69% increase in the total grant and contract revenue from fiscal year 2016. There was also an increase of 10.75% in operating expenses. Overall OSURF experienced an increase in net position of $494,877 for fiscal year 2017 increasing the organization's total net position to $5,536,136.

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 have generated almost all of OSURF's federal grant revenue in fiscal year 2017. OSURF was notified in fiscal year 2017 that its effort to extend a contract with NASA was successfully awarded through the College of Education. This contract will provide revenue streams to OSURF of approximately $350,000 per annum for five years beginning in fiscal year 2018.

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	Joe Weaver
President	Secretary/Treasurer

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 2,107,013	$ 174,973
Accounts receivable, net	2,015,282	2,932,424
Interest receivable	-	741,391
Investments	1,216,722	3,367,073
Total current assets	5,339,017	7,215,861
Noncurrent Assets		
Capital assets, net of accumulated depreciation	500,252	427,755
Total noncurrent assets	500,252	427,755
Total assets	$ 5,839,269	$ 7,643,616
Liabilities		
Current Liabilities		
Accounts payable	$ 142,474	$ 173,937
Due to Oklahoma State University	-	2,270,466
Deposits	2,222	2,222
Accrued compensated absences	158,437	155,732
Total current liabilities	303,133	2,602,357
Total liabilities	303,133	2,602,357
Net Position		
Net investment in capital assets	500,252	427,755
Restricted for		
Expendable		
Scholarships, research, instruction and other	1,217	1,248
Capital projects	-	4,932
Unrestricted	5,034,667	4,607,324
Total net position	5,536,136	5,041,259
Total liabilities and net position	$ 5,839,269	$ 7,643,616

Oklahoma State University Research Foundation, Inc.
(A Component Unit of Oklahoma State University)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Federal grants and contracts	$ 4,900,335	$ 4,242,273
Nongovernmental grants and contracts	50,000	-
Auxiliary revenue		
Mike Morgan Building	212,650	277,994
Eastgate Property	80,926	82,978
Service agreement	5,020,000	4,550,000
Other operating revenues	37,796	54,095
Total operating revenues	10,301,707	9,207,340
Operating Expenses		
Compensation and employee benefits	3,667,718	3,092,531
Contractual services	520,108	540,742
Supplies and materials	260,927	214,402
Utilities	44,368	51,118
Communication	14,338	10,159
Other operating expenses	1,081,280	1,137,105
Depreciation expense	11,105	10,060
Total operating expenses	5,599,844	5,056,117
Operating income	4,701,863	4,151,223
Nonoperating Revenues (Expenses)		
Investment income	465,147	251,164
Equity (losses) of investee	(345,932)	(723,791)
Bad debt expense	(4,411,533)	(6,450,000)
Total nonoperating revenues (expenses)	(4,292,318)	(6,922,627)
Income (loss) before other revenues, expenses, gains and losses	409,545	(2,771,404)
Capital provided by affiliates	1,730	1,773,891
Other additions, net	83,602	-
Increase (Decrease) in Net Position	494,877	(997,513)
Net Position, Beginning of Year	5,041,259	6,038,772
Net Position, End of Year	$ 5,536,136	$ 5,041,259

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Grants and contracts	$ 4,667,477	$ 3,969,690
Other operating receipts	6,551,372	2,932,394
Payments to OSU employees for salaries and benefits	(3,655,148)	(3,081,085)
Payments to suppliers	(4,232,815)	(2,337,304)
Net cash provided by operating activities	3,330,886	1,483,695
Cash Flows from Investing Activities		
Investment in equity investee	(803,214)	(204,073)
Proceeds from sales of investments	2,750,342	16,584
Investment (gains) losses	2,296	(19,428)
Net cash provided by (used in) investing activities	1,949,424	(206,917)
Cash Flows from Capital and Related Financing Activities		
Issuances of loan receivable	(706,000)	(1,000,000)
Advances to affiliates	(2,644,000)	(2,550,000)
Capital provided by affiliates	1,730	1,773,891
Net cash used in financing activities	(3,348,270)	(1,776,109)
Net Increase (Decrease) in Cash and Cash Equivalents	1,932,040	(499,331)
Cash and Cash Equivalents, Beginning of Year	174,973	674,304
Cash and Cash Equivalents, End of Year	$ 2,107,013	$ 174,973
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 4,701,863	$ 4,151,223
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	11,105	10,060
Changes in assets and liabilities		
Accounts receivable	917,142	(2,305,256)
Accounts payable	(31,463)	43,328
Due to Oklahoma State University	(2,270,466)	(442,059)
Compensated absences	2,705	26,399
Net cash provided by operating activities	$ 3,330,886	$ 1,483,695
Noncash Financing Activities		
Loans receivable deemed uncollectible	$ 4,411,533	$ 6,450,000
Noncash Investing Activities		
Equity losses on investee	$ 345,932	$ 723,791

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Notes to Financial Statements

June 30, 2017 and 2016

Note 1: Summary of Significant Accounting Policies

Nature of Operations

The Oklahoma State University Research Foundation, Inc. (OSURF or the "Foundation"), 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.

Basis of Accounting and Presentation

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 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. The accompanying financial statements of OSURF have been prepared in accordance with U.S. generally accepted accounting principles prescribed by GASB.

As a member of the Oklahoma State System of Higher Education, 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*.

A statement of net position provides information about the assets, liabilities and net position of OSURF at the end of the year. Assets and liabilities are classified as current, noncurrent or other assets. Net position is classified according to availability of assets to satisfy OSURF's obligations. Net investments in capital assets represent the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net position, if any, represents resources that have been externally restricted for specific purposes. Unrestricted net position includes all other assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses and changes in net position provides information about OSURF's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net position are reported. Operating revenues and expenses generally result from providing services in connection with OSURF's principal ongoing operations. Accordingly, revenue such as pass-thru grants is considered to be operating revenues. Other revenue, such as investment income, is considered to be nonoperating revenues. Operating expenses include compensation and employee benefit contractual services and supplies.

A statement of cash flows provides information about OSURF's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, capital financing or investing activities.

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. At June 30, 2017, cash equivalents consisted primarily of deposits held by the University.

Investments and Investment Income

OSURF maintains investments in equity and debt securities, which are recorded at fair value. Investments are classified as current or noncurrent based on the expected purpose for which they will be used. Investments that are externally restricted to purchase or construct capital assets are classified as noncurrent assets in the statement of net assets. Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

OSURF accounts for its investment in Cowboy Technologies, LLC, a wholly owned entity as an equity method investment and allocation of losses or income 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 5 to 7 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 2017 and 2016, there was no interest incurred for capital projects.

Compensated Absences

The liability and expense incurred for employee vacation pay are recorded as accrued compensation 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

Net position of OSURF is classified in three components as follows:

- *Net investment in capital assets:* This represents OSURF's total investment in capital assets, net of outstanding debt obligations and depreciation 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 net investment in capital assets.
- *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.

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 2017 or 2016. 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 2014.

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 Accounting Pronouncements

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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for periods beginning after June 15, 2018. Earlier application is encouraged.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for periods beginning after December 15, 2018. Earlier application is encouraged.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017.* This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements, which include a variety of topics including blending component units, goodwill, fair value measurement and application, and postemployment benefits. This Statement is effective for periods beginning after June 15, 2017. Earlier application is encouraged.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* This Statement improves accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement is effective for periods beginning after June 15, 2017. Earlier application is encouraged.

In June 2017, GASB issued Statement No. 87, *Leases.* This Statement requires recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for periods beginning after December 15, 2019. Earlier application is encouraged.

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

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on total net position or the change in net position.

Note 2: Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

At June 30, 2017 and 2016, the carrying amount of OSURF's cash and cash equivalents was $2,107,013 and $174,973, respectively. These amounts consisted of deposits with the University, $1,931,202 and $0 at June 30, 2017 and 2016, respectively, and U.S. financial institutions of $175,811 and $174,973 at June 30, 2017 and 2016, respectively.

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 University are deposited with the State Treasurer and 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, OSURF's investments in municipal and corporate bonds were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service. During 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:

	2017	2016
U.S. government securities	$ -	$ 447,172
Corporate bonds and notes	-	198,981
Money funds	-	93,138
Equity securities	-	1,868,342
Equity investment in Cowboy Technologies, L.L.C. (*Note 8*)	1,216,722	759,440
	$ 1,216,722	$ 3,367,073

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 to ensure 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 of equity, debt and government securities were liquidated during 2017. The remaining investments of $1,216,722 at June 30, 2017, are an equity investment in Cowboy Technologies, L.L.C.

At June 30, 2017, the only investment held was in Cowboy Technologies, L.L.C., which is not subject to maturity dates.

Note 3: Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2017	2016
Federal, state and private grants and contracts	$ 1,165,282	$ 882,424
Service agreement with the University	850,000	2,050,000
	$ 2,015,282	$ 2,932,424

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. During 2017 and 2016, the loan receivable balance was deemed uncollectible and fully reserved for a net balance of zero in both years. In addition, interest receivable of $737,503 was recorded as of June 30, 2016, on this loan. An additional amount of $324,030 was recorded as revenue and interest receivable during fiscal year 2017. As of June 30, 2017, the entire balance of accrued interest of $1,061,533 was determined to be uncollectible and an allowance was recorded to reduce the interest receivable to zero.

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

	2017	2016
Outstanding advances	$ 7,706,000	$ 7,000,000
Allowance for loan losses	(7,706,000)	(7,000,000)
	$ -	$ -

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2017 and 2016, includes the following:

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
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	83,602	-	-	475,128
Furniture, fixtures and equipment	428,598	-	-	-	428,598
Total other capital assets	820,124	83,602	-	-	903,726
Less accumulated depreciation for					
Buildings	(91,223)	(11,105)	-	-	(102,328)
Furniture, fixtures and equipment	(414,069)	-	-	-	(414,069)
Total accumulated depreciation	(505,292)	(11,105)	-	-	(516,397)
Other capital assets, net	314,832	72,497	-	-	387,329
Capital asset summary					
Capital assets not being depreciated	112,923	-	-	-	112,923
Other capital assets, at costs	820,124	83,602	-	-	903,726
Total cost of capital assets	933,047	83,602	-	-	1,016,649
Less accumulated depreciation	(505,292)	(11,105)	-	-	(516,397)
Capital assets, net	$ 427,755	$ 72,497	$ -	$ -	$ 500,252

	2016				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
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 costs	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

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, 2017 and 2016, are as follows:

	2017	2016
Working Funds		
Education	$ -	$ 651,339
Engineering	-	40,761
Agriculture	-	24,162
Veterinary Medicine	-	-
Center for Health Sciences	-	4,140
Vice President for Research	-	142,668
Arts and Sciences	-	5,831
Enterprises Center	-	-
Total working funds	-	868,901
Other amounts due to Oklahoma State University		
Internal sales and services activity	-	8,289
Accounts deficits covered by OSU	-	1,393,276
	$ -	$ 2,270,466

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. During 2016, the total of these adjustments of $1,773,891 is reflected as capital provided by affiliates in the 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.

In fiscal year 2017, all amounts owed to University colleges and departments were transferred leaving no remaining balances owed at June 30, 2017.

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.

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, 2017 and 2016, 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 (NASA) 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, 2017 and 2016 totaled $322,602 and $270,814, respectively, which are shown as a reduction to federal grants and contracts revenue.

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. At June 30, 2016, under the terms of the agreement, the University shall pay OSURF an amount not to exceed $4,750,000. During 2017, the agreement was extended and the amount was increased to $5,020,000. As of June 30, 2017 and 2016, $850,000 and $2,050,000, respectively, was a receivable from the University.

Cowboy Technologies, L.L.C.

Nature of Relationship – OSURF is the sole member of Cowboy Technologies L.L.C. (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, L.L.C. and OSURF collected rent from Unmanned Cowboys, L.L.C. in the amount of $4,400 in fiscal year 2016 for space leased in the Mike Morgan Building. The lease agreement ended in December 2015 and no rent income was recorded in fiscal year 2017. During the years ended June 30, 2017 and 2016, OSURF made investments in CT of $803,214 and $204,073, respectively. At June 30, 2017 and 2016, OSURF's investment in CT is valued at $1,216,722 and $759,440, 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 2017 and 2016, OSURF loaned additional funds in the amount of $706,000 and $1,000,000, respectively, to OSU-UML. In fiscal year 2017 and 2016, an additional allowance of $706,000 and $3,900,000 was recorded, respectively. In fiscal year 2017 and 2016, OSURF made advances to OSU-UML in the amount of $2,644,000 and $2,550,000, respectively, for which an allowance for the total of the advances was also recorded (refer to *Note 4)*. At June 30, 2017, and 2016, accrued interest of $1,061,533 and $737,503, respectively, was also deemed unlikely to collect and an allowance was recorded. OSURF earned rent from OSU-UML in the amount of $7,200 and $13,710 in fiscal year 2017 and 2016, 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 earned lease revenue from TDC through office lease agreements in the amount of $51,720 in fiscal years 2017 and 2016.

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 earned rent income in the amount of $212,650 and $277,994 for the Mike Morgan Building during fiscal year 2017 and 2016, respectively.

Note 11: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
June 30, 2017				
Investments				
U.S. government securities	$ -	$ -	$ -	$ -
Money market funds	-	-	-	-
Corporate bonds and notes	-	-	-	-
Equity securities	-	-	-	-
	$ -	$ -	$ -	$ -
June 30, 2016				
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
	$ 1,961,480	$ 646,153	$ -	$ 2,607,633

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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.

Note 12: Natural Classifications with Functional Classifications

OSURF's operating expenses by functional classification were as follows for the year ended June 30:

Year Ended June 30, 2017
Natural Classification

Functional Classification	Compensation and Employee Benefits	Contractual Services	Supplies and Materials	Utilities	Communications	Other Operating Expenses	Depreciation Expense	Total
Instruction	$ 2,652,197	$ 194,471	$ 223,783	$ -	$ 6,763	$ 691,865	$ -	$ 3,769,079
Research	229,599	37,275	10,885	-	-	99,165	-	376,924
Academic support	784,445	98,302	25,127	72	5,310	286,962	-	1,200,218
Auxiliary enterprises	1,477	190,060	1,132	44,296	2,265	3,288	-	242,518
Depreciation	-	-	-	-	-	-	11,105	11,105
Total expenses	$ 3,667,718	$ 520,108	$ 260,927	$ 44,368	$ 14,338	$ 1,081,280	$ 11,105	$ 5,599,844

Year Ended June 30, 2016
Natural Classification

Functional Classification	Compensation and Employee Benefits	Contractual Services	Supplies and Materials	Utilities	Communications	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 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, 2017, through October 27, 2017, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Oklahoma State University Research Foundation, Inc.
Stillwater, Oklahoma

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), which comprise the statement of financial position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2017, which contained a reference to the report of other auditors. The financial statements of the equity method investment were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of OSURF is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered OSURF's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSURF's 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 internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Oklahoma State University Research Foundation, Inc.

Compliance and Other Matters

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

Purpose of this Report

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 the entity'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 communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
October 27, 2017

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)
Schedule of Findings and Responses
Year Ended June 30, 2017

Reference Number	Finding

No matters are reportable.