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

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018

Oklahoma State University Research Foundation, Inc.
(A Component Unit of Oklahoma State University)
June 30, 2019 and 2018

Contents

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Independent Auditor's Report

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

Report on 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 years ended June 30, 2019 and 2018, 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 audits. We did not audit the financial statements of the equity method investment, which represents $2,756,660 and $2,501,778 of total assets at June 30, 2019 and 2018, respectively, and equity income (losses) in investee of $(291,015) and $449,056 included in nonoperating revenue (expenses) as of June 30, 2019 and 2018, respectively. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts of 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 audits and the reports of the other auditor, 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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 29, 2019, 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 solely 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 the Foundation's 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 29, 2019

Oklahoma State University Research Foundation, Inc.
(A Component Unit of Oklahoma State University)
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2019 and 2018

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 2019 and 2018 with comparative data presented for fiscal year 2017. 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 position is 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 is 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 position. 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:

Statements of Net Position

	2019	2018	2017
Assets			
Current assets	$ 5,273,911	$ 4,749,309	$ 5,339,017
Capital assets, net of accumulated depreciation	467,804	488,103	500,252
Total assets	5,741,715	5,237,412	5,839,269
Liabilities			
Accounts payable	32,889	25,952	142,474
Deposits	-	2,222	2,222
Accrued compensated absences	1,191	34,785	158,437
Total liabilities	34,080	62,959	303,133
Net Position			
Net investment in capital assets	467,804	488,103	500,252
Restricted for			
Expendable			
Scholarships, research and instruction	7,228	-	1,217
Unrestricted	5,232,603	4,686,350	5,034,667
Total net position	$ 5,707,635	$ 5,174,453	$ 5,536,136

In fiscal year 2019, total assets of the organization increased by $504,303 or 9.63 percent over fiscal year 2018. A review of the Statements of Net Position will reveal that the increase was due to an increase in accounts receivable of $1,076,912, and investments of $254,882, offset by a $(807,192) decrease in the net of cash and cash equivalents and capital assets, net of accumulated depreciation, of $(15,634) and a loss on disposal of an asset, of $(4,665).

In fiscal year 2018, total assets of the organization decreased by $(601,857) or (10.31) percent over fiscal year 2017. A review of the Statements of Net Position will reveal that the decrease was due to a decrease in accounts receivable of $(1,241,945), and capital assets, net of accumulated depreciation, of $(12,149), offset by an increase in the net of cash and cash equivalents and investments of $652,237.

In fiscal year 2019, total liabilities for the year decreased by $(28,879) or (45.87) percent. The decrease was due primarily to the decreases in accrued compensated absences of $(33,594), and deposits of $(2,222), offset by an increase in accounts payable of $6,937. The combination of the increase in total assets and decrease in total liabilities nets to an increase in total net position of $533,182 or 10.30 percent.

In fiscal year 2018, total liabilities for the year decreased by $(240,174) or (79.23) percent. The decrease was due primarily to decreases in accounts payable of $(116,522), and the decrease in accrued compensated absences of $(123,652). The combination of the decreases in total assets and total liabilities nets to a decrease in total net position of $(361,683) or (6.53) percent.

Statements of Revenues, Expenses and Changes in Net Position

While the 2019 and 2018 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.

	2019	2018	2017
Operating Revenues	$ 10,836,612	$ 5,809,711	$ 10,301,707
Operating Expenses	7,535,726	6,161,973	5,599,844
Operating Income (Loss)	3,300,886	(352,262)	4,701,863
Nonoperating Revenues (Expenses)	(2,763,039)	(10,421)	(4,292,318)
Income (loss) before other revenues, expenses, gains and losses	537,847	(362,683)	409,545
Capital provided by affiliates	-	1,000	1,730
Other additions, net	-	-	83,602
Loss on disposal of fixed assets	(4,665)	-	-
Increase (Decrease) in Net Position	$ 533,182	$ (361,683)	$ 494,877

Operating revenues of $10,836,612 in fiscal year 2019 increased $5,026,901 or 86.53 percent when compared to fiscal year 2018 operating revenues of $5,809,711. The increase is due to the addition of the service agreement between OSU and OSURF of $3,020,897 and an increase in federal grants and contracts of $2,123,870. This was offset by decreases in auxiliary revenues of $(26,172), nongovernmental grants and contracts of $(47,761) and other operating revenues of $(43,933).

Operating revenues of $5,809,711 in fiscal year 2018 decreased $(4,491,996) or (43.60) percent when compared to fiscal year 2017 operating revenues of $10,301,707. The decrease is due to the elimination of the service agreement between OSU and OSURF of $(5,020,000) and a decrease in nongovernmental grants and contracts of $(2,239). This was offset by increases in federal grants and contracts of $516,905, auxiliary revenues of $7,201 and other operating revenues of $6,137.

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

	2019	2018	2017
Operating Revenues			
Federal grants and contracts	$ 7,541,110	$ 5,417,240	$ 4,900,335
Nongovernmental grants and contracts	-	47,761	50,000
Auxiliary revenue	274,605	300,777	293,576
Service agreement	3,020,897	-	5,020,000
Other operating revenues	-	43,933	37,796
Total operating revenues	$ 10,836,612	$ 5,809,711	$ 10,301,707

Operating expenses of $7,535,726 in fiscal year 2019 increased $1,373,753 or 22.29 percent when compared to fiscal year 2018 operating expenses of $6,161,973. The increase came from increases in compensation and employee benefits of $1,103,064, other operating expenses of $294,512, contractual services of $5,301, communication of $4,324 and depreciation expense of $3,485. These were offset by decreases in supplies and materials of $(36,538) and utilities of $(395).

Operating expenses of $6,161,973 in fiscal year 2018 increased $562,129 or 10.04 percent when compared to fiscal year 2017 operating expenses of $5,599,844. The increase came from increases in contractual services of $82,515, utilities of $5,924, other operating expenses of $707,691 and depreciation expense of $1,044. These were offset by decreases in compensation and employee benefits of $(24,367), supplies and materials of $(205,575) and communication of $(5,103).

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

	2019	2018	2017
Operating Expenses			
Compensation and employee benefits	$ 4,746,415	$ 3,643,351	$ 3,667,718
Contractual services	607,924	602,623	520,108
Supplies and materials	18,814	55,352	260,927
Utilities	49,897	50,292	44,368
Communication	13,559	9,235	14,338
Other operating expenses	2,083,483	1,788,971	1,081,280
Depreciation expense	15,634	12,149	11,105
Total operating expenses	$ 7,535,726	$ 6,161,973	$ 5,599,844

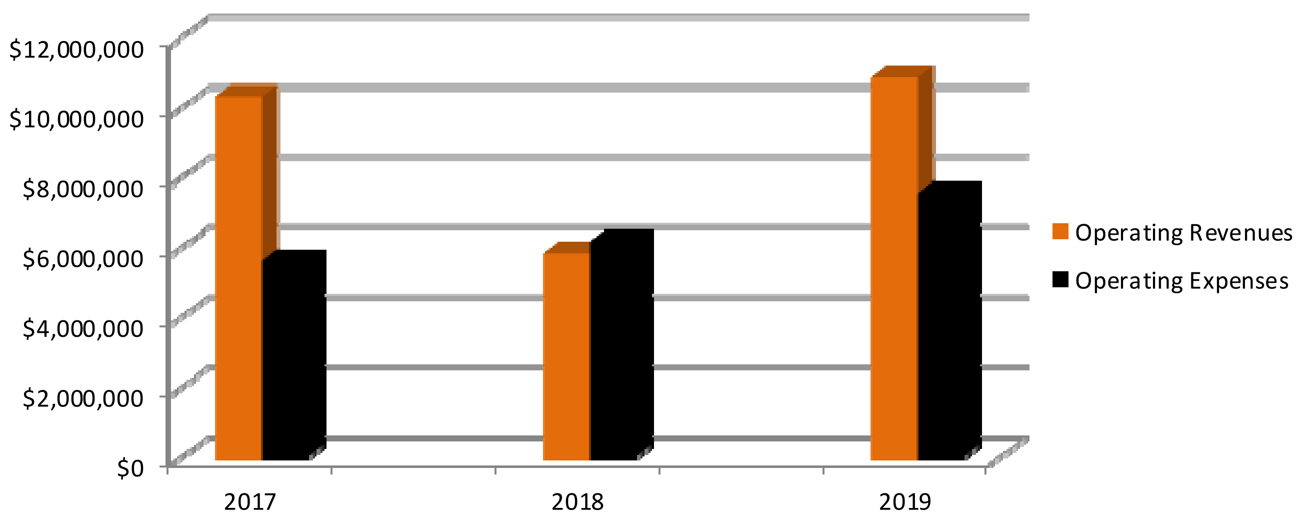
Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Management's Discussion and Analysis (Unaudited)

Years Ended June 30, 2019 and 2018

It is important to understand the relationship of grants and contracts to the operating revenue and expenses of OSURF. Since fiscal year 2017, grant and contract revenue has accounted for 66.27 percent 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 2017, OSURF has seen a 52.34 percent increase in their grants and contracts revenue and operating expenses have increased 34.57 percent during this same period. The primary reasons for the overall increase in operating expenses are increases in compensation and employee benefits of $1,078,697, contractual services of $87,816, other operating expenses of $1,002,203, utilities of $5,529, and depreciation expense of 4,529. These were offset by decreases in supplies and materials of $(242,113) and communication of $(779).



Nonoperating revenue/(expenses) of $(2,763,039) in fiscal year 2019 increased $(2,752,618) when compared to fiscal year 2018 nonoperating revenues/(expenses) of $(10,421). The majority of this increase in expenses is due to the increase in bad debts related to the OSU-UML loan receivable of $(2,013,000), while income in equity of an investee decreased by $(740,071). Additionally, investment income increased by $453.

Nonoperating revenue/(expenses) of $(10,421) in fiscal year 2018 changed when compared to fiscal year 2017 nonoperating revenues/(expenses) of $(4,292,318). The majority of this decrease in expenses is due to the decrease in bad debts related to the OSU-UML loan receivable of $3,949,533 which was reserved in fiscal year 2017. Additionally, investment income decreased by $(462,624) while income in equity of an investee increased by $794,988.

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

	2019	2018	2017
Nonoperating Revenues (Expenses)			
Investment income	$ 2,976	$ 2,523	$ 465,147
Equity (losses) of investee	(291,015)	449,056	(345,932)
Bad debt expense	(2,475,000)	(462,000)	(4,411,533)
Total nonoperating revenues (expenses)	$ (2,763,039)	$ (10,421)	$ (4,292,318)

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 provided 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.

	2019	2018	2017
Cash Flows			
Cash provided by (used in)			
Operating activities	$ 2,210,729	$ 661,658	$ 3,330,886
Investing activities	(542,921)	(833,477)	1,949,424
Capital and related financial activities	(2,475,000)	(461,000)	(3,348,270)
Net change in cash	(807,192)	(632,819)	1,932,040
Cash and cash equivalents, beginning of year	1,474,194	2,107,013	174,973
Cash and cash equivalents, end of year	$ 667,002	$ 1,474,194	$ 2,107,013

In fiscal year 2019 the cash and cash equivalents, end of year decreased by $(807,192) or (54.75) percent which represents a difference in net increase/(decrease) in cash and cash equivalents from fiscal years 2018 to 2019 of $(174,373). The net decrease was generated by an increase in net cash used by capital and related financing activities of $(2,014,000), offset by an increase in net cash provided by operating activities of $1,549,071 and a decrease in net cash used in investing activities of $290,556.

In fiscal year 2018 the cash and cash equivalents, end of year decreased by $(632,819) or (30.03) percent which represents a difference in net increase/(decrease) in cash and cash equivalents from fiscal years 2017 to 2018 of $2,564,859. The net decrease was generated by a decrease in net cash provided by operating activities of $(2,669,228), a decrease in net cash used in investing activities of $(2,782,901) and a decrease in net cash used by capital and related financing activities of $(2,887,270).

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 various educational, research and outreach programs of the University. In fiscal year 2019, OSURF experienced a 37.99 percent increase in the total grant and contract revenue from fiscal year 2018. There was also an increase of 22.29 percent in operating expenses. Overall OSURF experienced an increase in net position of $533,182 for fiscal year 2019 increasing the organization's total net position to $5,707,635.

Ongoing trends in federal funding have limited the availability of directed appropriation to OSURF as well as slowed the organization's access to general federal awards for research and development. In response, OSURF has shifted much of its focus in recent years to technology transfer, business development and economic development, in an effort to expand revenue-producing opportunities and to provide maximum benefit to the university. That said, specific federally-sponsored projects will continue to be a significant source of revenue for the organization. In fiscal year 2018, NASA projects generated the bulk of OSURF's federal grant revenue. OSURF's contract with NASA, awarded through the OSU College of Education, Health and Aviation, will continue to provide revenue streams to OSURF of approximately $350,000 per annum through fiscal year 2022.

The organization's leadership continues to review and explore new opportunities that will provide the revenues needed to meet the mission of OSURF and to advance the research enterprise at Oklahoma State University. As the needs and opportunities evolve, OSURF is poised to adjust, often in ways that are more rapid or flexible than is feasible in a traditional university setting, to maximize benefit to the University.

Kenneth Sewell	Joseph B. Weaver, Jr.
President	Secretary/Treasurer

Oklahoma State University Research Foundation, Inc.
(A Component Unit of Oklahoma State University)
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 667,002	$ 1,474,194
Accounts receivable, net	1,850,249	773,337
Investments	2,756,660	2,501,778
Total current assets	5,273,911	4,749,309
Noncurrent Assets		
Capital assets, net of accumulated depreciation	467,804	488,103
Total noncurrent assets	467,804	488,103
Total assets	$ 5,741,715	$ 5,237,412
Liabilities		
Current Liabilities		
Accounts payable	$ 32,889	$ 25,952
Deposits	-	2,222
Accrued compensated absences	1,191	34,785
Total current liabilities	34,080	62,959
Total liabilities	34,080	62,959
Net Position		
Net investment in capital assets	467,804	488,103
Restricted for		
Expendable		
Scholarships, research, instruction and other	7,228	-
Unrestricted	5,232,603	4,686,350
Total net position	5,707,635	5,174,453
Total liabilities and net position	$ 5,741,715	$ 5,237,412

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, 2019 and 2018

	2019	2018
Operating Revenues		
Federal grants and contracts	$ 7,541,110	$ 5,417,240
Nongovernmental grants and contracts	-	47,761
Auxiliary revenue		
Mike Morgan Building	203,654	230,456
Eastgate Property	70,951	70,321
Service agreement	3,020,897	-
Other operating revenues	-	43,933
Total operating revenues	10,836,612	5,809,711
Operating Expenses		
Compensation and employee benefits	4,746,415	3,643,351
Contractual services	607,924	602,623
Supplies and materials	18,814	55,352
Utilities	49,897	50,292
Communications	13,559	9,235
Other operating expenses	2,083,483	1,788,971
Depreciation expense	15,634	12,149
Total operating expenses	7,535,726	6,161,973
Operating income (loss)	3,300,886	(352,262)
Nonoperating Revenues (Expenses)		
Investment income	2,976	2,523
Equity (losses) of investee	(291,015)	449,056
Bad debt expense	(2,475,000)	(462,000)
Total nonoperating revenues (expenses)	(2,763,039)	(10,421)
Income (loss) before other revenues, expenses, gains and losses	537,847	(362,683)
Loss on disposal of fixed assets	(4,665)	-
Capital provided by affiliates	-	1,000
Increase (Decrease) in Net Position	533,182	(361,683)
Net Position, Beginning of Year	5,174,453	5,536,136
Net Position, End of Year	$ 5,707,635	$ 5,174,453

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Grants and contracts	$ 7,485,095	$ 5,856,945
Other operating receipts	2,272,383	1,194,710
Payments to OSU employees for salaries and benefits	(4,786,759)	(3,798,396)
Payments to suppliers	(2,759,990)	(2,591,601)
Net cash provided by operating activities	2,210,729	661,658
Cash Flows from Investing Activities		
Investment in equity investee	(545,897)	(836,000)
Investment income	2,976	2,523
Net cash used in investing activities	(542,921)	(833,477)
Cash Flows from Capital and Related Financing Activities		
Advances to affiliates	(2,475,000)	(462,000)
Capital provided by affiliates	-	1,000
Net cash used in financing activities	(2,475,000)	(461,000)
Decrease in Cash and Cash Equivalents	(807,192)	(632,819)
Cash and Cash Equivalents, Beginning of Year	1,474,194	2,107,013
Cash and Cash Equivalents, End of Year	$ 667,002	$ 1,474,194
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 3,300,886	$ (352,262)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation expense	15,634	12,149
Changes in assets and liabilities		
Accounts receivable	(1,076,912)	1,241,945
Accounts payable	6,937	(116,522)
Deposits	(2,222)	-
Compensated absences	(33,594)	(123,652)
Net cash provided by operating activities	$ 2,210,729	$ 661,658
Noncash Financing Activities		
Loans receivable deemed uncollectible	$ 2,475,000	$ 462,000
Noncash Investing Activities		
Equity losses (income) on investee	$ 291,015	$ (449,056)

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, 61 and 80, 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 or noncapital 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, 2019, cash equivalents consisted primarily of deposits held by the University.

Investments and Investment Income

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, until July 1, 2018, when GASB Statement No.89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* was adopted and the capitalization of interest ceased. In 2019 and 2018, 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 2019 or 2018. 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 2016.

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 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 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.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* This Statement enhances the relevance and comparability of capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This Statement is effective for periods beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. This Statement improves consistency and comparability of reporting a government's majority equity interest in a legally separate organization. It also requires that a component unit for which a government has a 100 percent equity interest account for its assets, deferred outflows or resources, liabilities and deferred inflows of resources at acquisition value. This Statement is effective for periods beginning after December 15, 2018. Earlier application is encouraged.

In May 2019, GASB issued Statement No 91, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations and related note disclosures. The Statement is effective for periods beginning after December 15, 2020. 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, 2019 and 2018, the carrying amount of OSURF's cash and cash equivalents was $667,002 and $1,474,194, respectively. These amounts consisted of deposits with the University of $486,496 and $1,296,663 at June 30, 2019 and 2018, respectively, and U.S. financial institutions of $180,506 and $177,531 at June 30, 2019 and 2018, 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

At June 30, 2019 and 2018, the only investment held was an equity investment in Cowboy Technologies, L.L.C., which is not subject to maturity dates. At June 30, 2019 and 2018, the value of this investment was $2,756,660 and $2,501,778, respectively.

Note 3: Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2019	2018
Federal, state and private grants and contracts	$ 829,352	$ 773,337
Service agreement with the University	1,020,897	-
	$ 1,850,249	$ 773,337

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. During 2019 and 2018, the loan and interest receivable balance was deemed uncollectible and fully reserved for a net balance of zero in both years. There was no additional accrued interest earned in 2019 or 2018.

Following is a summary of the receivable at June 30:

	2019	2018
Outstanding advances	$ 12,737,000	$ 10,262,000
Allowance for loan losses	(12,737,000)	(10,262,000)
	$ -	$ -

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2019 and 2018, includes the following:

	2019				
	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	475,128	-	-	(83,602)	391,526
Furniture, fixtures and equipment	428,598	-	(136,797)	-	291,801
Leasehold improvements	-			83,602	83,602
Total other capital assets	903,726	-	(136,797)	-	766,929
Less accumulated depreciation for					
Buildings	(114,477)	(10,061)	-	3,137	(121,401)
Furniture, fixtures and equipment	(414,069)	(3,483)	132,132	-	(285,420)
Leasehold improvements	-	(2,090)	-	(3,137)	(5,227)
Total accumulated depreciation	(528,546)	(15,634)	132,132	-	(412,048)
Other capital assets, net	375,180	(15,634)	(4,665)	-	354,881
Capital asset summary					
Capital assets not being depreciated	112,923	-	-	-	112,923
Other capital assets, at cost	903,726	-	(136,797)		766,929
Total cost of capital assets	1,016,649	-	(136,797)	-	879,852
Less accumulated depreciation	(528,546)	(15,634)	132,132	-	(412,048)
Capital assets, net	$ 488,103	$ (15,634)	$ (4,665)	$ -	$ 467,804

	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	475,128	-	-	-	475,128
Furniture, fixtures and equipment	428,598	-	-	-	428,598
Total other capital assets	903,726	-	-	-	903,726
Less accumulated depreciation for					
Buildings	(102,328)	(12,149)	-	-	(114,477)
Furniture, fixtures and equipment	(414,069)	-	-	-	(414,069)
Total accumulated depreciation	(516,397)	(12,149)	-	-	(528,546)
Other capital assets, net	387,329	(12,149)	-	-	375,180
Capital asset summary					
Capital assets not being depreciated	112,923	-	-	-	112,923
Other capital assets, at costs	903,726	-	-	-	903,726
Total cost of capital assets	1,016,649	-	-	-	1,016,649
Less accumulated depreciation	(516,397)	(12,149)	-	-	(528,546)
Capital assets, net	$ 500,252	$ (12,149)	$ -	$ -	$ 488,103

Note 6: 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 7: Related Party Transactions

A summary of related party transactions during the years ended June 30, 2019 and 2018, 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 percent of the facilities and administrative costs recovered under these contracts. The amounts allocated during the years ended June 30, 2019 and 2018, totaled $496,219 and $379,091, 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 administrative oversight of the OSU-University Multispectral Laboratories. The agreement was not extended for 2018. During 2019, the agreement was reinstated with an amount not to exceed $3,100,000. As of June 30, 2019 and 2018, $1,020,897 and $0, respectively, was a receivable from the University. OSURF earned rent from OSU in the amount of $79,302 and $96,624 in fiscal year 2019 and 2018, respectively, for space leased in the Mike Morgan Building.

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. During the years ended June 30, 2019 and 2018, OSURF made investments in CT of $545,897 and $836,000, respectively. At June 30, 2019 and 2018, OSURF's investment in CT is valued at $2,756,660 and $2,501,778, 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 – Prior to fiscal 2019, OSU-UML received and administered funds from federal and state organizations and from private sources for the purpose of carrying out certain research programs of the University. Funds were expended for purposes consistent with promoting the research activities of OSU-UML. The operations of OSU-UML have significantly decreased with limited activity in fiscal year 2019. The process has begun for liquidating all accounts receivable and accounts payable and finalizing all federal contracts in preparation for the dissolution of this entity. In fiscal year 2019 and 2018, OSURF made advances to OSU-UML in the amount of $2,475,000 and $462,000, respectively, for which an allowance for the total of the advances was also recorded (refer to *Note 4)*. OSURF earned rent from OSU-UML in the amount of $3,600 and $7,200 in fiscal year 2019 and 2018, respectively, for space leased in the Mike Morgan Building.

OSU - Technology Development Center

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

Description of Operations – The TDC assists faculty and staff, administrators and students with intellectual property issues resulting from their scholarly and creative activities. OSURF earned lease revenue from TDC through office lease agreements in the amount of $31,720 and $45,053 in fiscal years 2019 and 2018, respectively.

Note 8: 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 9: 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 $203,654 and $230,456 for the Mike Morgan Building during fiscal year 2019 and 2018, respectively.

Note 10: Natural Classifications with Functional Classifications

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

Year Ended June 30, 2019
Natural Classification

Functional Classification	Compensation and Employee Benefits	Contractual Services	Supplies and Materials	Utilities	Communications	Other Operating Expenses	Depreciation Expense	Total
Instruction	$ 4,736,775	$ 368,905	$ 10,965	$ -	$ 11,462	$ 1,773,188	$ -	$ 6,901,295
Academic support	9,640	51,110	7,849	-	696	307,399	-	376,694
Auxiliary enterprises	-	187,909	-	49,897	1,401	2,896	-	242,103
Depreciation	-	-	-	-	-	-	15,634	15,634
Total expenses	$ 4,746,415	$ 607,924	$ 18,814	$ 49,897	$ 13,559	$ 2,083,483	$ 15,634	$ 7,535,726

Year Ended June 30, 2018
Natural Classification

Functional Classification	Compensation and Employee Benefits	Contractual Services	Supplies and Materials	Utilities	Communications	Other Operating Expenses	Depreciation Expense	Total
Instruction	$ 3,450,622	$ 252,755	$ 47,710	$ -	$ 5,475	$ 1,135,599	$ -	$ 4,892,161
Research	-	47,762	-	-	-	-	-	47,762
Academic support	192,729	74,716	7,642	-	1,576	650,842	-	927,505
Auxiliary enterprises	-	227,390	-	50,292	2,184	2,530	-	282,396
Depreciation	-	-	-	-	-	-	12,149	12,149
Total expenses	$ 3,643,351	$ 602,623	$ 55,352	$ 50,292	$ 9,235	$ 1,788,971	$ 12,149	$ 6,161,973

Note 11: 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. 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.

Note 12: Subsequent Events

OSURF has evaluated events or transactions that occurred subsequent to June 30, 2019, through October 29, 2019, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

The OSURF property consisting of land and building held for sale located at 712 S. Eastgate, Stillwater, OK 74074 was sold for $420,000 on September 30, 2019. The property is reflected in the financial statements as a noncurrent asset in capital assets for $383,048.

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

Independent Auditor's Report

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, 2019, 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 29, 2019, which contained a reference to the report of other auditors. The financial statements of the equity method investment, which is included in OSURF's financial statements, were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the equity method investment.

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 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 the entity'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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
October 29, 2019

Oklahoma State University Research Foundation, Inc.

(A Component Unit of Oklahoma State University)
Schedule of Findings and Responses
Year Ended June 30, 2019

Reference Number	Finding
2019-001	Criteria or specified requirements – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – OSURF's financial statements required adjusting journal entries, to be in conformity with accounting principles generally accepted in the United States of America. Areas in which adjustments were proposed and recorded include:

- Accounts receivable and grant revenue
- Accounts receivable and operating revenue
- Accounts receivable and operating expenses
- Cash, grant revenue and operating expenses

Effect – Adjusting journal entries were proposed during the financial statement audit.

Cause – OSURF's policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with accounting principles generally accepted in the United States of America or identify the needed adjustments on a timely basis.

Recommendation – Management should modify monthly and year-end closing procedures to ensure controls in place are sufficient to assure financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Views of Responsible Officials and Planned Corrective Actions – As management works on both the Oklahoma State University and Oklahoma State University Research Foundation financial statements and audits, time and effort is split between both to complete the tight deadlines of the audit and report issuance. While management realizes the intercompany journal entries were missed during the accrual process, management had not yet had time to perform a full review of the financial statements before handing to the auditors. Going forward, the audit will be delayed a few weeks to give management time to perform a detailed review of the financial statements to ensure all accrual entries have been recorded.