



# OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY

## Financial Audit

For the fiscal year ended June 30, 2018

**Cindy Byrd, CPA**  
State Auditor & Inspector

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | [www.sai.ok.gov](http://www.sai.ok.gov)

December 11, 2019

**TO THE HONORABLE KEVIN STITT  
GOVERNOR OF THE STATE OF OKLAHOMA**

This is the audit report and the financial statements of the Oklahoma Center for the Advancement of Science and Technology for the year ended June 30, 2018. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

This report is a public document pursuant to the Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying,

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR AND INSPECTOR



**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR’S REPORTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

### TO THE OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oklahoma Center for the Advancement of Science and Technology (OCAST), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the OCAST'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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the OCAST, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements of the OCAST are intended to present the financial position and the changes in financial position of only that portion of the general fund of the State of Oklahoma that is attributable to the transactions of OCAST. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective July 1, 2017 the OCAST has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*; and GASB Statement No. 85, *Omnibus 2017*.

Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the pension schedules and related ratios, and OPEB schedules and related ratios 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 November 20, 2019, on our consideration of the OCAST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is 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 OCAST'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 OCAST's internal control over financial reporting and compliance.



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR AND INSPECTOR

November 20, 2019

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY  
FINANCIAL REPORT  
As of and for the Year Ended June 30, 2018**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The management of the Oklahoma Center for the Advancement of Science and Technology (OCAST) is pleased to provide this annual financial report to the citizens of the State of Oklahoma and other report users to demonstrate its accountability and communicate OCAST’s financial condition and activities as of and for the fiscal year ended June 30, 2018. Management of OCAST is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts.

**Financial Highlights**

- In FY 2018, OCAST originally received state appropriated funding in the amount of \$13,422,892. Due to a FY18 State revenue failure, OCAST’s original appropriation was reduced by \$89,037 resulting in a revised FY18 appropriation amount of \$13,333,855. The state also returned an appropriation reduction from FY2017 in amount of \$98,771, which brought the total amount of state appropriated funding for FY18 to \$13,432,626, a decrease of \$990,781 (7%) from the FY 2017 state appropriation of \$14,423,407.
- Over the last nine years, OCAST’s appropriation has been reduced from \$20,374,567 to \$13,432,626, a decrease of \$6,941,941, or 34%.

FY 2010	FY 2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
\$20,374,567	\$19,152,085	\$17,811,449	\$17,811,449	\$17,811,449	\$16,811,295	\$14,852,779	\$14,423,407	\$13,432,626

- From the total FY 2018 appropriation of \$13,432,626, \$2,955,178 was transferred by statute to the Seed Capital Revolving Fund, a decrease of \$219,079 from the FY 2017 transfer of \$3,174,257.
- Oklahoma Seed Capital Fund Series 2008-2 was closed for new investments in FY2018. Oklahoma Seed Capital Fund Series 2018-3 was established in February of FY2018. All unencumbered funds from Series 2007-1 in amount of \$539,979 and all funds except for funds retained for potential follow-on investments from Series 2008-2 in amount of \$14,200,000 were moved to the new Series 2018-3 fund by June 30, 2018.
- In order to conserve the funds available to researchers and for commercialization efforts, OCAST has implemented the following budgeting procedures, beginning with FY 2015.
  - In order to preserve the funds originally appropriated for research and commercialization efforts for that purpose, OCAST allocates the appropriation received that year first to the out-years of previous year awards that will be initiated in the current budget year, then allocates the remainder to the first year of the multi-year awards to be initiated in the current budget year.
  - This results in a lower cash balance over the years as the cash previously set-aside for out-years is spent down.
  - The Oklahoma Science and Technology Research and Development (OSTRaD) Board of Directors feels that this method better ensures continued levels of funding for research and commercialization efforts.
- As of 06/30/2018, the balance of the Technology Business Financing Program Fund is \$579,659.35.

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- In FY16, OCAST received a Grant from the General Electric Foundation (GE) in amount of \$400,000 to launch the project “STEM Empowers Oklahoma”. The components of this project include: a Summer STEM (Science, Technology, Engineering and Math) Academy for up to 50 high-school students from across the state; an Open Innovation Challenge and Regional Innovation Forums to engage middle and high school students toward building an innovation economy; and Internships and Scholarships for high school students and Fellowships for STEM educators. OCAST has been working closely with Oklahoma School of Science and Mathematics and the GE Foundation (and local team) to implement the grant. The balance of the GE Grant as of 06/30/2018 is \$62,029.53
- In September of 2016, the Department of Commerce’s Economic Development Administration (EDA) approved OCAST’s application for a \$1,000,000 Economic Adjustment Award. This EDA Grant allows OCAST to expand and accelerate technical and business support for manufacturers and supply chain providers supporting Oklahoma’s oil and natural gas industry and its growth and sustainability. Award disbursements are provided on reimbursement basis. As of 06/30/2018, OCAST received EDA Grant reimbursement in the amount of \$593,423; accounts receivable associated with the EDA Grant amount to \$156,733.
- On September 21, 2017, Gov. Mary Fallin launched the Innovate Oklahoma technology initiative between OMES and OCAST with the purpose of creating a community-led, collaborative environment that uses technology to improve Oklahoma's Government Services. Tapzot LLC will provide a "Collab" Platform software service subscription (online portal) which will provide an inlet for the public to share problems it would like the government to solve. The portal will allow users to submit ideas, discuss challenges, and propose solutions as well as comment and vote on the ideas and proposals of others. Tapzot LLC will provide hosting and operational management of the Platform. Per the service contract between Tapzot LLC and the State of Oklahoma by and through OCAST for the benefit of OMES, OMES reimburses OCAST expenses associated with the contract and pays OCAST a contract management fee of 3% of the invoiced amount of the contract. As of 06/30/2018, OCAST received reimbursement from OMES in the amount of \$35,000 and contract management fees in the amount of \$1,050. Accounts receivable associated with Tapzot contract amount to \$15,450.
- In January 2018, OCAST received from The Oklahoma Business Roundtable a grant in amount of \$20,000 to implement the OCAST special project, OU Innovation Hub – SBIRx. The SBIRx program pairs four Oklahoma based Small Business Innovative Research (SBIR) companies currently working on phase I SBIR projects with a Project Fellow and a Project Mentor, who guide the SBIR company through a training program that teaches the company founders how to successfully commercialize technologies in the context of Phase II of the SBIR program.
- OCAST general administrative costs remain low at \$ 689,391 (4.2%).

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to OCAST’s basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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Government-wide financial statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, and are designed to provide readers with a broad overview of OCAST's finances in a manner similar to a private-sector business; included are a Statement of Net Position and a Statement of Activities.

The Statement of Net Position presents information on OCAST's net position and includes all assets and liabilities as of the fiscal year presented. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of OCAST is improving or deteriorating.

The Statement of Activities presents information on OCAST's revenues and expenses showing how OCAST's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that result in cash flow of previous and future periods. It is important to note that the statement of net position does not report remaining obligations for multiple-year research awards as liabilities because they are not due and payable in the current fiscal year. As stated in footnote 1.D., \$ 5,106,007 is obligated in what is termed "out-years" of multi-year research awards. While this amount is not yet contracted for, and accordingly does not fit the accounting definition of a liability, the researchers are relying on the resources as awarded in multi-year awards.

Fund financial statements

The Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements, focus primarily on the sources, uses, and balances of current financial resources and have budgetary orientation. All governmental activities of OCAST are reflected in a single fund – the General Fund, and all activities of OCAST are reported as governmental activities. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Because the focus of governmental fund financial statements is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements which allows for a better understanding of the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and government-wide financial statements.

**Analysis of Government-wide Balances**

The following table provides OCAST's Net Position information as of the end of fiscal years 2017 and 2018.

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY**  
**FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2018**

	FY 2017	FY 2018	%
			Change
<b>Assets:</b>			
Cash and cash equivalents	\$ 10,945,276	\$ 8,532,690	-22%
Accounts receivable	112,799	156,733	39%
Due from other agencies	0	15,450	100%
Prepaid items	12,442	11,819	-5%
Total Assets	\$ 11,070,517	\$ 8,716,692	-21%
<b>Deferred Outflows of Resources:</b>			
Deferred Outflows - Pensions	\$ 751,828	\$ 306,472	-59%
Deferred Outflows - Other Post-Employment Benefits	3,990	19,678	393%
Total Deferred Outflows of Resources	\$ 755,818	\$ 326,150	57%
<b>Liabilities:</b>			
Accounts payable	\$ 1,306,754	\$ 838,882	-36%
Due to other state agencies	606,642	636,475	5%
<b>Compensated absences:</b>			
Payable within one year	49,767	45,685	-8%
Payable in more than one year	116,124	106,598	-8%
Total OPEB liability	49,670	46,627	-6%
Net pension liability-noncurrent	603,125	333,542	-45%
Net OPEB liability - noncurrent for 2018, Prior period adjustment for net OPEB liability for 2017	-677	7,066	
Total Liabilities	\$ 2,731,405	\$ 2,014,875	-26%
<b>Deferred Inflow of Resources:</b>			
Deferred Inflows - Pension	\$ 234,065	\$ 70,598	-70%
Deferred Outflows - Other Post-Employment Benefits		18,154	100%
Total Deferred Inflow of Resources	\$ 234,065	\$ 88,752	62%
<b>Net Position:</b>			
<b>Restricted for:</b>			
Technology Business Finance Program	\$ 735,350	\$ 572,170	-22%
Unrestricted	8,125,515	6,367,045	-22%
Total Net Position	\$ 8,860,865	\$ 6,939,215	-22%

OCAST's net position has decreased by 22% compared to FY17, mostly because funding has decreased through appropriation reductions due to the decreased revenue to the state.

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY**  
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**As of and for the Year Ended June 30, 2018**

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Deferred outflows - pensions, had a balance of \$ 751,828 for FY17, and decreased by \$445,356 or by 59% in FY18. Deferred inflows - pensions, in FY17 had a balance of \$ 234,065 and decreased by \$163,467 or 70%. Net pension liability's FY18 balance was \$ 333,542, which is a decrease of \$269,583 or 45%. See note #4 for additional information.

As a result of implementing GASB Statement 75, OCAST's Statement of Net Position contains four new accounts representing other postemployment benefits (OPEB): Deferred Outflows – OPEB, Total OPEB Liability, Net OPEB Liability, and Deferred Inflows – OPEB. Deferred Outflows – OPEB in FY17 had a balance of \$3,990 and increased to \$19,678 in FY18, and Total OPEB Liability started with a FY17 balance of \$49,670 and decreased in FY18 by 6% to \$46,627.

Technology Business Finance Program: the purpose of this program is to provide financing for high-tech companies just starting out, which can include commitments on the part of the OCAST to provide funding to companies now and in the future, as they meet milestones. This requires committed cash to be on hand at OCAST when the company meets its milestones and requests its funding. This leads to a restricted component of net position for this program. The TBFP Program funds are held in TBFP Program Revolving Fund (23000).

Because OCAST's expenses are greatly impacted by the three-year R&D grant awards and the variations in cash flow resulting from factors affecting the research projects, OCAST has deliberately accumulated a cash balance in the agency's revolving fund to manage the resulting cash flow fluctuations. In addition to accumulating sufficient cash to cover the multi-year grant awards, the OSTRaD Board has set aside \$1 million in cash as a cushion against possible future appropriation reductions that would affect our ability to fully fund award commitments.

While OCAST's net position has decreased as discussed above, OCAST's "unrestricted" component of net position is thus also decreasing. The assets of the "unrestricted" component of net position are, in large part, committed for funding multi-year grant awards for research programs, as shown below.

Program	Current FY18 year obligations – already contracted	Future years of awards	Total committed to multi-year awards
Health Research	\$ 3,227,860	\$ 3,349,199	\$ 6,577,059
Applied Research	2,633,532	1,278,409	3,911,941
Intern Partnerships	407,622	207,467	615,089
Plant Science Research	602,014	270,932	872,946
<b>Total</b>	<b>\$ 6,871,028</b>	<b>\$ 5,106,007</b>	<b>\$ 11,977,035</b>

The following table reflects OCAST's changes in net position, from the government-wide financial statement perspective, for fiscal years 2017 and 2018:

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY**  
**FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2018**

	FY 2017	FY 2018	% Change
<b>Program Revenues:</b>			
Charges for services	\$2,129	\$1,050	-51%
Operating grants & contributions	211,157	882,384	318%
Total Program Revenues	\$213,286	\$883,434	314%
<b>General Revenues:</b>			
State Appropriation	\$14,423,407	\$13,432,626	-7%
Transfer Out	0	0	
Total General Revenues	\$14,423,407	\$13,432,626	-7%
Total Revenues	\$14,636,693	\$14,316,060	-2%
<b>Expenses:</b>			
Operational Programs	\$15,293,559	\$15,193,680	-1%
Technology Information Services	391,059	354,639	-9%
Administration	731,936	689,391	-6%
Total Expenses	\$16,416,554	\$16,237,710	-1%
Change in Net Position	(\$1,779,861)	(\$1,921,650)	8%
Net Position -- Beginning of Year	\$10,640,726	\$8,860,865	-17%
Net Position -- End of Year	\$8,860,865	\$6,939,215	-22%

**Analysis of Governmental Fund Balances – General Fund**

The General Fund reports activities on a modified accrual basis of accounting and on a current financial resources measurement focus that is different from the economic resources measurement focus. The focus of the OCAST General Fund is to provide information on near-term inflows, outflows, and balances of spendable resources. This General Fund information identifies (through a review of changes to the fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the OCAST programs.

In FY 2018, total revenues and other financing sources decreased by \$320,633, or 2%, compared to FY17, for the most part resulting from appropriation reductions due to the decreased revenue to the state related to the national and local economic recession. The FY2018 total expenses decreased by \$196,648, or 1%, compared to FY17.

**Contacting OCAST**

This report is designed to provide the citizens of the State of Oklahoma and other report users an understanding of OCAST’s finances and to demonstrate OCAST’s accountability for the resources it receives. If you have questions about this report or need additional financial information, you may contact the OCAST offices at 755 Research Parkway, Suite 110, Oklahoma City, OK 73104. You may also contact us by email at [info@ocast.ok.gov](mailto:info@ocast.ok.gov).

**BASIC FINANCIAL STATEMENTS**

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY**  
**FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2018**

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**OCAST**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**30-Jun-18**

Assets:	
Cash and cash equivalents	\$8,532,690
Accounts receivable	156,733
Due from other agencies	15,450
Prepaid items	11,819
Total Assets	8,716,692
Deferred Outflows of Resources:	
Deferred Outflows - Pensions	306,472
Deferred Outflows - Other Post-Employment Benefits	19,678
Total Deferred Outflows of Resources	326,150
Liabilities:	
Accounts payable	838,882
Due to other state agencies	636,475
Compensated absences:	
Payable within one year	45,685
Payable in more than one year	106,598
Total OPEB liability	46,627
Net pension liability-noncurrent	333,542
Net OPEB liability - noncurrent	7,066
Total Liabilities	2,014,875
Deferred Inflow of Resources:	
Deferred Inflows - Pension	70,598
Deferred Outflows - Other Post-Employment Benefits	18,154
Total Deferred Inflow of Resources	88,752
Net Position:	
Restricted for:	
Technology Business Finance Program	572,170
Unrestricted	6,367,045
Total Net Position	\$6,939,215

The Notes to the Financial Statements are an integral part of this statement.

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY**  
**FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2018**

**OCAST**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year End June 30, 2018**

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activity
Governmental Activities:				
Administration	\$689,391	\$0	\$0	(\$689,391)
Operational Programs				
Health Research	3,348,997	0	0	-3,348,997
Applied Research	2,860,902	0	0	-2,860,902
Intern Partnerships	335,545	0	0	-335,545
Plant Science	577,175	0	0	-577,175
Inventors Assistance	680,957	0	286,896	-394,061
Small Business Research	118,922	1,050	20,000	-97,872
Industrial Extension System	1,614,219	0	349,160	-1,265,059
Technology Commercialization	1,312,791	0	1,300	-1,311,491
Technology Business Finance Program	387,210	0	224,030	-163,180
Seed Capital	2,955,178	0	0	-2,955,178
Program Services	900,244	0	998	-899,246
Programs - MIS	101,540	0	0	-101,540
Technology Information Services	354,639	0	0	-354,639
<b>Total OCAST Expenses</b>	<b>\$16,237,710</b>	<b>\$1,050</b>	<b>\$882,384</b>	<b>-15,354,276</b>
General Revenues - State Appropriation				13,432,626
Transfer out				0
<b>Total General Revenues and Transfers</b>				<b>13,432,626</b>
Change in Net Position				-1,921,650
Net Position - Beginning (July 1, 2017)				8,860,865
Net Position – Ending (June 30, 2018)				<u><u>\$6,939,215</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY**  
**FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2018**

**OCAST**  
**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
**June 30, 2018**

	<b>General Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 8,532,690
Accounts Receivable	156,733
Due from other agencies	15,450
Prepaid items	11,819
Total Assets	8,716,692
<b>Liabilities</b>	
Accounts payable	838,882
Due to other state agencies	636,475
Total Liabilities	1,475,357
<b>Fund Balance</b>	
Nonspendable	11,819
Restricted	572,170
Committed	6,657,346
Assigned	-
Unassigned	-
Total Fund Balance	7,241,335
<b>Total Liabilities and Fund Balance</b>	<b>\$ 8,716,692</b>

The Notes to the Financial Statements are an integral part of this statement.

**OKLAHOMA CENTER FOR THE ADVANCEMENT OF SCIENCE AND TECHNOLOGY**  
**FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2018**

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**OCAST**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2018**

Total Fund Balance – Governmental Fund	\$ 7,241,335
Deferred outflows related to the pension are not financial resources and therefore, are not reported in the fund	306,472
Deferred outflows related to other postemployment benefits (OPEB) are not financial resources and therefore are not reported in the fund	19,678
Long-term liabilities are not due and payable in the current period from current resources and therefore are not reported in the fund	
Compensated Absences	(152,283)
Total OPEB liability	(46,627)
Net Pension Liability	(333,542)
Net OPEB Liability	(7,066)
Deferred inflows related to the pension are not due and payable in the current period and therefore are not reported in the fund.	(70,598)
Deferred inflows related to OPEB are not due and payable in the current period and therefore are not reported in the fund.	(18,154)
	<hr/>
Net Position of Governmental Activities	<u>\$ 6,939,215</u>

The Notes to the Financial Statements are an integral part of this statement.

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**OCAST**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**For the Fiscal Year End June 30, 2018**

	<b>General Fund</b>
Revenues:	
Charges for services	\$ 1,050
Operating grants & contributions	882,384
Total Revenues	883,434
Expenditures:	
Administration / MIS	697,286
Operational Programs	
Health Research	3,348,997
Applied Research	2,860,902
Intern Partnerships	335,545
Plant Research	577,175
Inventors Assistance	680,957
Small Business Research	118,922
Industrial Extension System	1,614,219
Technology Commercialization	1,312,791
Technology Business Finance Program	387,210
Seed Capital	2,955,178
Programs Services	878,093
Programs - MIS	101,540
Technology Information Services	363,031
Total Expenditures	16,231,845
Revenue Over (Under) Expenditures	(15,348,411)
Other Financing Sources and Uses:	
State Appropriation	13,432,626
Total Other Financing Sources and Uses	13,432,626
Change in Fund Balance:	(1,915,785)
Fund Balance - Beginning (July 1, 2017)	9,157,121
Fund Balance – Ending (June 30, 2018)	\$ 7,241,335

The Notes to the Financial Statements are an integral part of this statement.

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**OCAST**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF THE**  
**GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year End June 30, 2018**

Net Change (Decrease) in Fund Balance – Governmental Fund \$ (1,915,785)

Amounts reported for governmental activities in the Statement of Activities are different because:

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

This amount represents the increase in unused compensated absences during the current period. 13,608

This amount represents the decrease in the net pension liability, the decrease in deferred outflows, and the decrease in deferred inflows. (12,306)

This amount represents the decrease in Total OPEB liability, increase in the net OPEB liability, increase in OPEB deferred outflows of resources and increase in OPEB deferred inflows of resources. (7,167)

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Decrease in net position of governmental activities \$ (1,921,650)

The Notes to the Financial Statements are an integral part of this statement.

**FOOTNOTES TO THE FINANCIAL STATEMENTS**

**OCAST**  
**Notes to the Basic Financial Statements**

**Note 1. Summary of Significant Accounting Policies**

The accompanying financial statements of the Oklahoma Center for the Advancement of Science and Technology (OCAST) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of Oklahoma that is attributable to the transactions of the OCAST.

**A. Reporting Entity**

The Oklahoma Center for the Advancement of Science and Technology (OCAST) is an agency of the State of Oklahoma established in 1987 with the goal to expand and diversify Oklahoma's economy and provide new and higher quality jobs for Oklahomans by encouraging the development of new products, new processes, and new industries in Oklahoma. To achieve this goal, OCAST's mission is to foster innovation in existing and developing businesses by:

- Supporting basic and applied research
- Facilitating technology transfer between research laboratories and firms and farms
- Stimulating seed-capital for new innovative firms and their products
- Fostering enhanced competitiveness in the national and international markets by small and medium-sized Oklahoma manufacturing firms.

In FY 2018 OCAST operated the following programs:

Oklahoma Health Research Program  
Oklahoma Applied Research Support Program  
Oklahoma Applied Research Faculty and Student Intern Partnerships  
Plant Science Research Program  
Inventors Assistance Services  
Small Business Research Assistance  
Industrial Extension System – Oklahoma Manufacturing Alliance  
Oklahoma Technology Commercialization Center  
Oklahoma Technology Business Finance Program  
Seed Capital Program

Competitive awards for all of OCAST's research programs (Health, Applied, Intern Partnerships and Plant Science) may be, and usually are, for between two and three years. Each year of an award is contracted separately to allow evaluation of the research project as it progresses.

## **B. Basis of Presentation**

### Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all resources of the reporting entity, including governmental activities, proprietary activities, and fiduciary activities if an entity is involved in these activities. OCAST is involved only in governmental activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenue.

### Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

The fund financial statements report the detailed activities by fund type. OCAST's activities are reported in one governmental fund, the General Fund. For OCAST, the funding sources are:

- State Appropriations – Funds provided by annual appropriations from the State Legislature, less any appropriations lapsing in the current fiscal year.
- Operating Grants – reimbursement of federal and state grant funded program initiatives.
  1. In FY 2016 OCAST received the General Electric (GE) Grant in amount of \$400,000 to launch in FY2016, FY2017, FY2018 and FY2019 the project “STEM Empowers Oklahoma”—the components of which include:
    - a Summer STEM Academy for up to 50 high-school students from across the state;
    - an Open Innovation Challenge and Regional Innovation Forums to engage middle and high school students toward building an innovation economy;
    - Internships and Scholarships for high school students and Fellowships for STEM educators. OCAST works closely with Oklahoma School of Science and Mathematics (OSSM) and the GE (Foundation and local team) to implement the grant.

The balance of the GE Grant Fund as of 06/30/2018 is \$ 62,029.53.

2. In September of 2016 the Department of Commerce's Economic Development Administration (EDA) approved OCAST's application for a \$1,000,000 Economic Adjustment Federal Award. This EDA Grant allows OCAST to expand and accelerate technical and business support for manufacturers and supply chain providers supporting Oklahoma's oil and natural gas industry and its growth and sustainability. Award disbursements are provided on reimbursement basis. As of 06/30/2018

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OCAST received EDA Grant reimbursement in amount of \$593,423; accounts receivable associated with EDA Grant amount to \$156,733.

3. In 2018 OCAST received from The Oklahoma Business Roundtable a grant in amount of \$20,000 to implement the OCAST special project, OU Innovation Hub – SBIRx. The SBIRx program pairs four Oklahoma-based Small Business Innovation Research (SBIR) companies currently working on phase I SBIR projects with a Project Fellow and a Project Mentor, who guide the SBIR company through a training program that teaches the company founders how to successfully commercialize technologies in the context of Phase II of the SBIR program.

- Charges for services, which include revenues based on exchange or exchange-like transactions. In FY2018 OCAST received the Tapzot contract management fees from OMES in amount of \$1,050.
- Program Revenues, which include gain (\$78,500) and principal (\$145,530) repayments from Technology Business Finance Program (TBFP) clients (total \$224,030).

OCAST’s Technology Business Finance Program provides contract awards to technology companies whose entrepreneurial business ventures appear to have the capability of both advancing technology in Oklahoma and earning a profit. This program is administered through an Oklahoma non-profit corporation, i2E. The TBFP award contracts require repayment of the award amount, plus interest, if the technology company meets agreed-upon milestones relating to profit. The contract also indicates that if the technology company does not meet the profit milestone, no repayment is required. Although funds advanced to awardees under award contracts are anticipated to be repaid, they are at potentially high risk of not being repaid at all due to the start-up stage of the awardees. Therefore, OCAST does not record a receivable related to these awards.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus recognizes the net economic effect of transactions on all resources, whether financial or capital, regardless of when they will be received or disbursed in cash, presenting both long- and short-term consequences of transactions. All assets and liabilities are accounted for, as well as all inflows and outflows of resources. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. For award programs payments, which are “reimbursement-type” nonexchange transactions, a liability is not recognized until the recipient has met the OCAST’s requirements by incurring costs in accordance with the program. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The current financial resources measurement focus accounts for near-term (current) inflows, outflows, and balances of spendable financial resources, and focuses on the short run. This measurement focus is intended to determine if there are sufficient current financial resources available to pay for goods and services. In general, only current assets and liabilities are included in the governmental fund financial statements. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OCAST considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due. The amount of accumulated annual leave unpaid at June 30, 2018 has been reported only in the government-wide statements.

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**

Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. OCAST's cash is pooled with the cash of all other state agencies; this pool of cash is deposited in banks or invested by the State Treasurer in accordance with Oklahoma Statutes. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution.

Capital Assets

The Office of Management and Enterprise Services in accordance with Oklahoma Statutes, Title 74 § 110.1, has primary responsibility to maintain control of all property and equipment owned by the State of Oklahoma. The Office of Management and Enterprise Services has delegated to each of the various state agencies the responsibility to maintain the accounting records for property and equipment purchased and used by each agency. Capital assets are defined as assets that have a cost in excess of \$25,000 at the date of acquisition and have an expected useful life of five or more years. OCAST has no assets meeting this definition.

Deferred outflows / inflows of resources.

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources; this financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources, which represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

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Deferred outflows and deferred inflows of resources represent amounts associated with pension and OPEB differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, changes in assumptions, and changes in proportionate share. (see notes 4 and 5)

Compensated Absences

Employees earn annual leave at the average rate of 10 hours per month for up to 5 years of service, an average of 12 hours per month for 5 to 10 years of service, an average of 13.33 hours per month for 10 to 20 years of service, and an average of 16.67 hours per month for over 20 years of service. Employees with up to 5 years of service may accumulate annual leave to a maximum of 240 hours and employees with over 5 years of service may accumulate to a maximum of 480 hours. Vested accrued leave, up to a total of 480 hours, is payable upon termination, resignation, retirement, or death. In the Statement of Net Position, this accrued leave is reported as a liability. The Amount Due Within One Year varies from year to year based on personnel turnover and the amount reported is an estimate. For the year ended June 30, 2018, accrued compensated absences liabilities changed as follows:

Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Amount Due Within One Year
\$ 165,891	\$75,458	\$89,066	\$152,283	\$45,685

Accounts Payable / Due To Other State Agencies / Out-year Commitments

Payables consist of prior year payments from July 1<sup>st</sup> to September 30<sup>th</sup> for which the goods or services were received prior to June 30<sup>th</sup>. While a portion of the payments are for operational expenses, the majority of the payments are for contractual program management costs and for research project grant payments.

As of June 30, 2018, OCAST had encumbered FY18 awards contracts not classified as Accounts Payable in the amount of \$ 2,297,047 and out-year commitments for multi-year contracts which had not yet been contracted in the amount of \$5,106,007.

Net Position

Net position, in the government-wide statements, may consist of three components:

Net investment in capital assets consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or commercial paper, and leases that are attributable to the acquisition, construction, or improvement of those assets. OCAST has no assets in this category.

The Restricted component of net position consist of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. A liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the

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liability will be liquidated with the restricted assets reported. The assets are considered restricted when the constraints are placed on the use of those assets either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state.

The Unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund equity

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned.

- *Nonspendable* fund balance represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Prepaid items are not in spendable form, so are included in this classification.
- *Restricted* fund balance represents amounts where constraints placed on the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

The following components are restricted due to constraints imposed by laws or regulations of governments (the State of Oklahoma) other than the reporting entity (OCAST):

- That portion of the Technology Business Finance Program which is funded from “royalties, fees, interest, profits, or other payments or return of funding and financing” which is required by Title 74, Section 5060.20a of the Oklahoma Statutes, a law imposed by the State of Oklahoma, a government other than the reporting entity of OCAST, to be retained for use in the program. All funds available to this program are considered restricted because all prior appropriations have been paid out.
- *Committed* fund balance represents amounts that can be used only for the specific purposes determined by a formal action of a government’s highest level of decision-making authority. The Oklahoma Science and Technology Research and Development (“OSTRaD”) Board, OCAST’s governing board, is the highest level of decision-making authority that can, by formal action in a legally convened board meeting, commit fund balance. The OSTRaD Board approves the following competitive research awards, contracts for operation of technology commercialization assistance, and other major contracts in its Board meetings:
  - Competitive research awards for Health Research, Applied Research, Intern Partnerships, Plant Research, and Nanotechnology Research. The majority of these awards are for multiple years, although each year is separately contracted.
  - Oklahoma Technology Commercialization Center (contracted with i2E)
  - Industrial Extension Service (contracted with the Oklahoma Manufacturing Alliance)

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- Inventors Assistance (contracted with Oklahoma State University)
- Various operating contracts such as legal, audit, marketing and information technology services.

The amount reported as committed is the remaining balance of the contract as of the June 30th, as represented by the encumbrance balance, less amounts recorded in accounts payable, less projected awards deobligations for the next two consecutive years, plus all out-year amounts which have not yet been contracted.

- *Assigned* fund balance represents amounts that are intended to be used by OCAST for specific purposes but do not meet the criteria to be classified as committed. Outstanding encumbrances for purposes not included in “restricted” or “committed” are included in this classification.
- *Unassigned* fund balance represents the residual amount for the general fund not included in the four categories described above.

**E. Pension and OPEB plans.**

Pension Plan

The Office participates in two pension plans. The first is a cost-sharing, multiple employer defined benefits pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). This plan applies only to state employees who were employed by the Office before November 1, 2015 or had prior participation in this defined benefits plan.

The second is a tax-qualified defined contribution retirement plan named Pathfinder which is also administered by the OPERS. In a defined contribution plan, no specific benefit is promised to a plan participant. This plan applies only to employees who first became employed by the Office on or after November 1, 2015 and have no prior participation in the defined benefits plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deletions from the plan’s fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

OPEB Plans

The Office participates in two OPEB plans. The first is a cost-sharing multiple employer health insurance subsidy plan (HISP) administered by OPERS held in an irrevocable trust. The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by OPERS.

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The second is a non-trusted single employer OPEB plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65 (implicit rate subsidy of health insurance). The total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the State of Oklahoma.

**Note 2. Operating Leases**

OCAST's operating leases consist of a contract with University of Oklahoma Health Sciences Center for OCAST Oklahoma City office space and parking, a contract with i2E INC for OCAST Tulsa office space, a contract with Standley Systems for leasing Savin MP C5503 Color Laser Multifunction Printer and, a contract for leasing a postage machine. For FY 2018, total lease expenditures amounted to \$78,272. The lease on the Savin printer is effective until June 30, 2021, the lease for the Oklahoma City office space is effective until 01/31/2024, the lease for the Tulsa office space is effective until 05/31/2022, and the lease for the postage machine is effective until 12/31/2019. The future minimum lease payments for these leases are as follows:

2019	81,203
2020	83,536
2021	85,870
2022	83,570
2023	84,516
2024	52,264
Total	470,959

**Note 3. Risk Management**

As part of the State of Oklahoma primary government, the risk of losses to which OCAST is exposed is managed through the State's risk management activities. OCAST is subject to risks of loss from tort claims, property loss, health claims, and workers' compensation claims. In general, the State is self insured for health care claims, workers' compensation claims, tort claims, and property losses. These services are provided by the Risk Management Department of the Office of Management and Enterprise Services. OCAST is at no financial risk of loss from these types of risks.

**Note 4. Pension Plan Participation**

**Defined Contribution Plan Description**

House Bill 2630 and Senate Bill 2120 directed OPERS to establish a defined contribution retirement system for members first employed by a participating employer of the system on or after November 1, 2015, including statewide elected officials and legislators. This new defined contribution plan was created and implemented during the year ended June 30, 2016. Under this new plan, participating employees contribute a minimum of 4.5% of their

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compensation. Participating employers match employee contributions up to 7%. In addition to the matching contributions, participating employers are required to remit to OPERS the difference between the matching contributions for defined contribution plan members and the amount the participating employer would have contributed for a defined benefit plan member. Participating employees are immediately vested in their contributions and begin vesting in matching employer contributions at 20% after one year of service increasing by 20% each year until reaching 100% after 5 years of service. In 2018 OCAST made all required contributions of \$13,074.48 to the Pathfinder plan for one participating employee. Annual financial reporting for Pathfinder is available from OPERS as reflected below.

**Defined Benefit Plan Description.**

OCAST contributes to the Oklahoma Public Employees Retirement System (OPERS) cost-sharing, multi-employer, defined benefit plan. A separately issued annual report for OPERS may be obtained from the Public Employees Retirement System, 5400 N Grand Boulevard, Suite 400, Oklahoma City, OK 73112-5625. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension benefit provisions are established and amended by the State Legislature, O.S. Title 74, Sections 901 through 943. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

**Eligibility to participate**

Each new employee of a participating employer becomes a member of OPERS on the first day of the month immediately following the beginning date of employment, provided all three following requirements are met:

- The position the employee holds is permanent, not seasonal or temporary; and
- The position the employee holds requires at least 1,000 hours work per year (12 months after date of employment); and
- The monthly salary of the employee must at least equal the hourly rate of minimum wage for state employees or the minimum wage established by the local government agency.

Employees who meet all three requirements above are eligible for membership if the employee is not eligible for or participating in another retirement system authorized under Oklahoma Law and not participating in the U.S. Civil Service Retirement System. With limited exceptions, above, membership is a condition of employment and is thus mandatory for all employees who meet the eligibility requirements. The age of an employee is not a factor in determining eligibility for membership. Members of OPERS whose hours worked and/or salary earned falls below eligibility levels after they have established eligibility in OPERS remain eligible for participation and must continue to participate.

**Period required to vest**

Eight years of credited service, at least 6 of those years must be full-time equivalent employment with a participating OPERS employer.

**Normal retirement age, eligibility for distribution**

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Except as provided in 51 O.S. §24.1, a member's normal retirement benefit is nonforfeitable upon the attainment of the following normal retirement ages and the completion of the specified years of service for a member who is a state, county, and local agency employee:

(1) joining before November 1, 2011, age sixty-two , (for elected officials age 60) with a minimum of six (6) years of full-time-equivalent employment if actively employed by a participating employer on their 62nd birthday, otherwise a member must have eight (8) years of service.

(2) joining on or after November 1, 2011, age sixty-five (65), with a minimum of six (6) years of full-time-equivalent employment if actively employed by a participating employer on their 65th birthday, otherwise a member must have eight (8) years of service.

(3) joining before July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30 1992, when the sum of the member's age and years of credited service equals or exceeds 90 (Rule of 90). For a member joining on and after November 1, 2011, the Rule of 90 is only applicable if the member has reached age 60.

(4) A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011 or age 60 if the participant became a member on or after November 1, 2011.

(5) Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

#### Determination of benefits

For State Agency Employees benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the System is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the System.

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Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least six years of participating elected service and was married at least three years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, the System will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary. Death benefits paid for the years ended June 30, 2017 and 2016 totaled approximately \$5,493,000 and \$5,190,000, respectively.

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional \$200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to the System. In April 2001, limited benefit payments began for qualified retired members. The estimated liability for future payments of the limited benefit of approximately \$0.4 million has been included in the calculation of the total pension liability of the System at June 30, 2017.

#### Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation. Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members. For 2018, state agency employers contributed 16.5% on all salary, and state employees contributed 3.5% on all salary.

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For the fiscal year ended June 30, 2018 the OCAST contributions to the plan were \$152,198; OCAST contributions for the two preceding fiscal years were \$177,563 for 2017 and \$187,831 for 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2018 OCAST reported a liability of \$333,542 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total OPERS restated pension liability (\$540,663,181) used to calculate the OCAST net pension liability was determined by an actuarial valuation as of July 1, 2017. The OCAST's proportion of the net pension liability was based on the OCAST's contributions received by OPERS for all participating employers as of June 30, 2017. Based upon this information, OCAST's proportion was 0.06169120%.

For the year ended June 30, 2018 OCAST recognized pension expense of \$142,573

At June 30, 2018 OCAST reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflow of resources	Deferred inflow of resources
Difference between expected and actual experience	\$ -	\$ 59,647
Net difference between projected and actual investment earnings on pension plan investments	14,900	-
Changes of assumptions	148,073	-
Changes in proportionate share	1,767	10,952
Contributions made since measurement date	141,732	
	<u>\$ 306,472</u>	<u>\$ 70,598</u>

Reported deferred outflows of resources of \$141,732, related to pensions resulting from the OCAST contributions subsequent to the measurement date, will be recognized as a decrease of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	\$29,642
2020	94,036
2021	23,727
2022	-53,263
	<u>\$94,142</u>

**Actuarial Assumptions**

The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as of July 1, 2017 using the following actuarial assumptions:

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Investment return:	7.00% compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.5% per year including inflation
Mortality rates:	Active participants and nondisabled pensioners – RP-2014 Mortality table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75%
Payroll growth:	3.5% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Percent of married employees:	85% Males; 85% Females
Spouse age difference:	Males 4 years older than females
Turnover:	Varies from 1% - 24%

The actuarial assumptions used in the July 1, 2017 valuation are based on the results of the most recent actuarial experience study, which covers the three-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

The long-term expected rate of return on pension plan investments was determined using a lognormal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The Target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0%	5.6%
U.S. Fixed Income	25.0%	0.7%
International Stock	18.0%	5.6%
Emerging Market Stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	100.0%	

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Discount rate

The discount rate used to measure the total pension liability was 7.00% for 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the System’s employers for FY 2017 calculated using the discount rate of 7.00%, as well as what the plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
2017 Net pension liability (asset)	985,796	333,542	(218,765)

Detailed information about OPERS’ fiduciary net position is available in the separately issued financial report of OPERS which can be located at [www.opers.ok.gov](http://www.opers.ok.gov)

Legal and Accounting Liability

Attorney General opinions as well as the Oklahoma Supreme Court have implied that the State of Oklahoma is legally responsible for any pension liability over the employers’ set contribution amount. However, GASB Statement 68 requires that the net pension liability be accounted for and reported by the entity that created the liability. Therefore, the OCAST’s portion of the State’s net pension liability has been recorded and reported.

**Note 5. Other Post-Employment Benefits - Implicit Rate Subsidy of Health Insurance**

**A. Plan Description**

The Employee Group Insurance Division (EGID) is a division of the Office of Management and Enterprise Services (OMES). EGID administers, manages, and provides group health, dental, life, and disability insurance for active employees and retirees of state agencies, school districts, and other governmental units of the State of Oklahoma (the State) through Title 74 of the Oklahoma Statutes, Sections 1301 et seq. as amended. As a state agency, the Office offers this insurance coverage and Office employees receive a post-employment benefit of blended health insurance rates. Therefore, the Office recognizes its proportionate piece of the State of Oklahoma Implicit Rate Subsidy of Health Insurance OPEB liability.

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This OPEB Plan is a non-trusted single-employer plan in which no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75. Contributions are made by both participants and participating employer agencies on a “pay as you go” basis.

**B. Benefits Provided**

The Plan covers all current retirees of the Office and provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the Plan before retiring. The State of Oklahoma provides postretirement medical benefits through the Plan until age 65 if the retiree and spouse pay the full active premium. Participants can elect to enroll in special coverage and surviving spouses may continue in the Plan until age 65. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma and the authority granted to EGID.

The amount of benefit payments during fiscal year June 30, 2018 were \$3,457.

**C. OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2018 the Office reported a liability of \$46,627 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of July 1, 2017. The total OPEB liability used was determined by an actuarial valuation as of June 30, 2017. The Office’s proportion of the total OPEB liability was based on OCAST’s active employees of the plan relative to the total participation of the substantive plan as of June 30, 2017. Based upon this information, the Office’s proportion was 0.03139940% percent.

Changes of assumptions reflect a change in the discount rate from 2.85% in 2016 to 3.58% in 2017 resulting in recognition of a deferred inflow of resources.

For the year ended June 30, 2018, the Office recognized OPEB expense of \$2,765. At June 30, 2018, the Office reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$0	\$0
Changes in assumptions	0	1,819
Net difference between projected and actual earnings on pension plan investments	0	0
Changes in proportion and differences between Agency contributions and proportionate share of contributions	0	0
Office contributions subsequent to the measurement date	3,457	0
	\$3,457	\$1,819
	\$3,457	\$1,819

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Reported deferred outflows of resources of \$3,457 related to OPEB resulting from the Office's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. The amortization of deferred outflows of resources and deferred inflows of resources related to OPEB is as follows:

2019	\$ (505)
2020	(505)
2021	(505)
2022	(303)
	<u>\$(1,819)</u>

**D. Actuarial Methods and Assumptions**

The total OPEB liability was determined based on actuarial valuations prepared using a July 1, 2017 measurement date using the following actuarial assumptions:

Investment return:	Not applicable, as the Plan is unfunded and benefits are not paid from a qualifying trust
Mortality rates:	RP-2006 Combined Healthy Mortality Table, with a fully generational projection using Scale MP-2017
Salary scale, retirement rate, withdrawal rate, and disability rate:	Actuarial assumptions are based on rates for the various retirement systems that the Plan's participants are in, including: <ul style="list-style-type: none"> <li>• Oklahoma Public Employees Retirement System</li> <li>• Oklahoma Law Enforcement Retirement System</li> <li>• Teachers' Retirement System of Oklahoma</li> <li>• Uniform Retirement System of Justices &amp; Judges</li> <li>• Oklahoma Dept. of Wildlife Conservation Defined Benefit Pension Plan</li> </ul>
Plan entry date:	Date of hire
Healthcare trend rate:	7.10% decreasing to 4.60%
Actuarial cost method:	Entry age normal based upon salary
Plan participation:	40% of retired employees are assumed to participate in the Plan
Marital assumptions:	Male participants: 25% who elect coverage are assumed to have a spouse who will receive coverage  Female participants: 15% who elect coverage are assumed to have a spouse who will receive coverage
Spouse age difference:	Males are assumed to be 3 years older than their spouses
Discount rate:	Based on bond buyer index

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The June 30, 2018, valuation is based on a measured date of July 1, 2017, with a measurement period of July 1, 2016 to July 1, 2017.

**E. Changes in the Total OPEB Liability**

The following table reports the components of the changes in the total OPEB liability for the year ended June 30, 2018:

Balance at the beginning of the year (restated)	\$49,670
Changes for the year:	
Service cost	1,859
Interest expense	1,412
Changes in assumptions	(2,325)
Benefits paid	<u>(3,990)</u>
Net changes	<u>(3,044)</u>
Balance at end of year	\$46,627

**F. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the Office's proportionate share of the total OPEB liability, as well as what the Office's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.58%) or 1 percentage-point higher (4.58%) than the current discount rate:

	1% Decrease <u>(2.58%)</u>	Current Discount Rate <u>(3.58%)</u>	1% Increase <u>(4.58%)</u>
Employers Total OPEB Liability	\$42,768	\$46,627	\$43,702

**G. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the Office's proportionate share of the total OPEB liability, as well as what the Office's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (6.1% decreasing to 3.6%) or 1 percentage-point higher (8.1% decreasing to 5.6%) than the current healthcare cost trend rates:

	6.1% Decreasing <u>to 3.6%</u>	Current 7.1% Decreasing <u>to 4.6%</u>	8.1% Decreasing <u>to 5.6%</u>
Employers Total OPEB Liability	\$47,794	\$46,627	\$51,066

**Note 6. Other Post-Employment Benefits - Health Insurance Subsidy Plan (OPERS)**

**A. Plan Description**

The Office participates in the Supplemental Health Insurance Program, a cost-sharing multiple-employer defined benefit OPEB plan administered by the Oklahoma Public Employees Retirement System (OPERS). The authority to establish and amend benefit provisions rests with the State Legislature. OPERS issues a publicly available financial report that can be obtained at [www.opers.ok.gov](http://www.opers.ok.gov).

**B. Benefits Provided**

OPERS pays a medical insurance supplement to eligible members who elect to maintain health insurance with the Employees Group Insurance Division (EGID) or other qualified insurance plans provided by the State. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries. The supplement payment is capped at \$105 per month per retiree, remitted to EGID.

**C. Contributions**

The contribution rates for each member category of the System are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. An actuarially determined portion of the total contributions to the System are set aside to finance the cost of the benefits of the Health Insurance Subsidy Plan (HISP) in accordance with provisions of the Internal Revenue Code. Based on the contribution requirements of the plan employers and employees contribute a single amount based on a single contribution rate of 16.5% as described in Note 4 above; from this amount OPERS allocates a portion of the contributions to the supplemental health insurance program. Contributions allocated to the OPEB plan from the Office were \$11,615.

**D. OPEB Liabilities (Assets), Expense, Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2018, the Office reported a liability of \$7,066 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Office's proportion of the net OPEB liability was based on the Office's contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2017. Based upon this information, the Office's proportion was 0.06169120%

For the year ended June 30, 2018, the Office recognized OPEB expense of \$4,327. At June 30, 2018, the Office reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$0	\$8,710
Changes in assumptions	5,755	0
Net difference between projected and actual earnings on OPEB plan investments	0	7,625
Changes in proportion and differences between Agency contributions and proportionate share of contributions	0	0
Office contributions subsequent to the measurement date	10,466	0
	<u>\$16,221</u>	<u>\$16,335</u>

Reported deferred outflows of resources of \$10,466 related to OPEB resulting from the Office's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability (asset) in the year ended June 30, 2019. The amortization of deferred outflows of resources and deferred inflows of resources related to OPEB is as follows:

2019	\$ (2,458)
2020	(2,458)
2021	(2,458)
2022	(2,458)
2023	(553)
Thereafter	(195)
	<u>\$ (10,580)</u>

**E. Actuarial Methods and Assumptions**

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2017, using the following actuarial assumptions:

Investment return:	7.00% compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.5% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75%

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Payroll growth:	3.5% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Health Care Trend Rate:	N/A based on how the System is structured and benefit payments are made

The actuarial assumptions used in the July 1, 2017 valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
Treasury Inflation-Protected Securities	3.5%	0.7%
Rate anticipation	3.5%	1.5%
	<b><u>100.0%</u></b>	

**F. Discount Rate**

A single discount rate of 7.00% was used to measure the total OPEB liability as of June 30, 2017. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 7.00%. Based on the stated assumptions and the projection of cash flows, the OPEB plan's fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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**G. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the Office’s proportionate share of the total OPEB liability, as well as what the Office’s proportionate share of the total OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 %) or 1 percentage-point higher (8.00%) than the current discount rate:

	1% Decrease <u>(6.00%)</u>	Current Discount <u>Rate (7.00%)</u>	1% Increase <u>(8.00%)</u>
Employer’s Net OPEB Liability	\$27,911	\$7,066	\$(10,854)

**H. OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial report of the OPERS; which can be located at [www.opers.ok.gov](http://www.opers.ok.gov)

**Note 7. Interagency Service Agreement**

OCAST entered into an agreement with the office of Management and Enterprise Services (OMES) to obtain all information technology and telecommunication services. The total amount of payments per this agreement in FY2018 was \$46,534.02.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**Required Supplementary Information**  
**Pension Schedules and Related Ratios**

**Schedule 1**  
**Oklahoma Public Employees Retirement System**  
**Schedule of Proportionate Shares**

	2017	2016	2015	2014
OCAST's proportion of the net pension liability	0.06%	0.06%	0.07%	0.06%
OCAST's proportionate share of the net pension liability	333,542	603,125	239,456	112,308
OCAST's covered payroll	1,007,184	1,068,494	1,116,472	1,072,734
OCAST's proportionate share of the net pension liability as a percentage of its covered payroll	33.10%	56.40%	21.40%	10.50%
OPERS fiduciary net position as a percentage of the total pension liability	94.28%	89.48%	96.00%	97.90%

**Schedule 2**  
**Oklahoma Public Employees Retirement System**  
**Schedule of Contribution**

	2018	2017	2016	2015	2014
OCAST's contractually required employer contributions	141,732	165,947	187,400	194,184	171,029
OCAST's actual employer contributions	141,732	165,948	187,831	194,184	171,029
Annual contribution deficiency (excess)	-	-	-431	-	-
OCAST's covered payroll	982,875	1,007,184	1,068,494	1,116,472	1,072,734
Contributions as a percentage of covered payroll	14.40%	16.50%	17.60%	17.40%	15.90%

The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

GASB Statement 68 requires the information presented in the "Schedules of Required Supplementary Information" cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 68 and is the latest information available. Only five most recent years presented because 10-year data is not yet available.

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**Required Supplementary Information**  
**OPEB Schedules and Related Ratios**

**Schedule 1**

**Oklahoma Public Employees Health Insurance Subsidy Plan**  
**Schedule of Proportionate Share of Net OPEB Liability**

	<u>2017</u>
OCAST proportion of the net OPEB liability	0.06169120%
OCAST proportional share of the net OPEB liability	\$7,066
OCAST covered payroll	\$1,007,184
OCAST proportionate share of the net OPEB liability as a percentage of covered payroll	0.70%
OPERS fiduciary net position as a percentage of the total OPEB liability	96.5%

**Schedule 2**

**Oklahoma Public Employees Health Insurance Subsidy Plan**  
**Schedule of Contributions**

	<u>2018</u>
Contractually required contribution	\$10,466
Contributions in relation to the contractually required contributions	\$10,466
Contribution deficiency (excess)	\$0
OCAST's covered payroll	\$982,875
Contributions as a percentage of covered payroll	1.06%

**Notes to Schedule:**

GASB Statement 75 requires the information presented in the Schedules of Required Supplementary Information cover the 10 most recent fiscal years. Only the current fiscal year is presented because 10-year data is not readily available.

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**Required Supplementary Information**  
**OPEB Schedules and Related Ratios**

**Schedule 3**

**Implicit Rate Subsidy of Health Insurance OPEB Liability**  
**Schedule of Changes in Total OPEB Liability and Related Ratios**

Total OPEB liability:	<u>2017</u>
OCAST proportion of the total OPEB liability	0.03139940%
Proportional share of the total OPEB liability	\$46,627
Covered payroll	\$982,875
Total OPEB liability as a percentage of covered payroll	4.74%

**Notes to Schedule:**

GASB Statement 75 requires the information presented in the Schedules of Required Supplementary Information cover the 10 most recent fiscal years.

Only the current fiscal year is presented because 10-year data is not readily available.

The amounts presented for each fiscal year were determined as of June 30.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

**INDEPENDENT AUDITOR'S 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**

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Oklahoma Center for the Advancement of Science and Technology (OCAST), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the OCAST's basic financial statements, and have issued our report thereon dated November 20, 2019. Our report includes an emphasis of matter paragraph stating that the financial statements of the OCAST are intended to present the financial position and results of daily operations of only that portion of the general fund of the State of Oklahoma attributable to the transactions of the OCAST.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the OCAST'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 the OCAST's internal control. Accordingly, we do not express an opinion on the effectiveness of the OCAST'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 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 the 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 were not identified.



## **Compliance and Other Matters**

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

## **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 Audit Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR AND INSPECTOR

November 20, 2019

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S·A·I

STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

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