

**OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
BASIC FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

July 26, 2004

**TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith are our audit reports on the basic financial statements of the Oklahoma Department of Career and Technology Education for the fiscal year ended June 30, 2003. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996, and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

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Interim Executive Officer of the Board

Management's Discussion and Analysis

As management of the Oklahoma Department of Career and Technology Education (ODCTE), we offer readers of ODCTE's financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2003.

Financial Highlights

- Federal revenues for fiscal year 2003 totaled \$25,128,859. The major source of federal revenue was the Carl Perkins Basic Grant in the amount of \$17,004,390 or 67.7% of the total. Three other sources of federal funding exceeded one million dollars each: (1) Temporary Assistance for Needy Families (TANF)-\$2,932,631 or 11.7%; (2) Carl Perkins Tech Prep-\$1,903,269 or 7.5%; and (3) Career Clusters-\$1,309,144 or 5.2%. Other small contracts and grants generated a total of \$1,979,425 or 7.9% of total federal revenues.
- Revolving revenues for fiscal year 2003 totaled \$5,024,234. The major source of revolving revenue was the sale of curriculum materials, which totaled \$2,670,819 or 53.2% of the total. The next largest source of revolving revenue was safety training, which totaled \$425,000 or 8.4% of the total. All other revolving revenue sources generated \$1,928,415 or 38.4% of total revolving revenues.
- Special Revenue Fund revenues for the Conference Account totaled \$187,874.
- Original state appropriations were \$131,196,667 for fiscal year 2003. Due to the shortfall in tax collection, the agency received reductions in cash allocations totaling \$10,298,938 or 7.85%. Total state appropriations received in cash allocations were \$121,057,738. This includes \$160,009 FY 02 appropriation received in FY 03.

Overview of the Financial Statements

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

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of ODCTE's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of ODCTE's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of ODCTE is improving or deteriorating.

The statement of activities presents information showing how ODCTE's net assets changed during the most recent fiscal year. All changes in net assets 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 will only result in cash flow in future periods.

Fund financial statements

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. All governmental activities of ODCTE are reflected in the general fund and special revenue fund. However, 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. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial 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. By doing so, readers may better understand the

See independent auditor's report.

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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

At the end of the fiscal year, ODCTE's net assets are reported as follows:

	2002	2003
Current Assets	\$ 15,646,180	\$ 16,751,811
Capital Assets, net	3,160,394	1,264,563
Total Assets	<u>18,806,574</u>	<u>18,016,374</u>
Current Liabilities	8,377,411	7,018,181
Long Term Liabilities	1,581,315	303,035
Total Liabilities	<u>9,958,726</u>	<u>7,321,216</u>
Invested in Capital Assets	860,394	1,264,563
Unrestricted	7,987,454	9,430,595
Total Net Assets	<u>\$ 8,847,848</u>	<u>\$ 10,695,158</u>

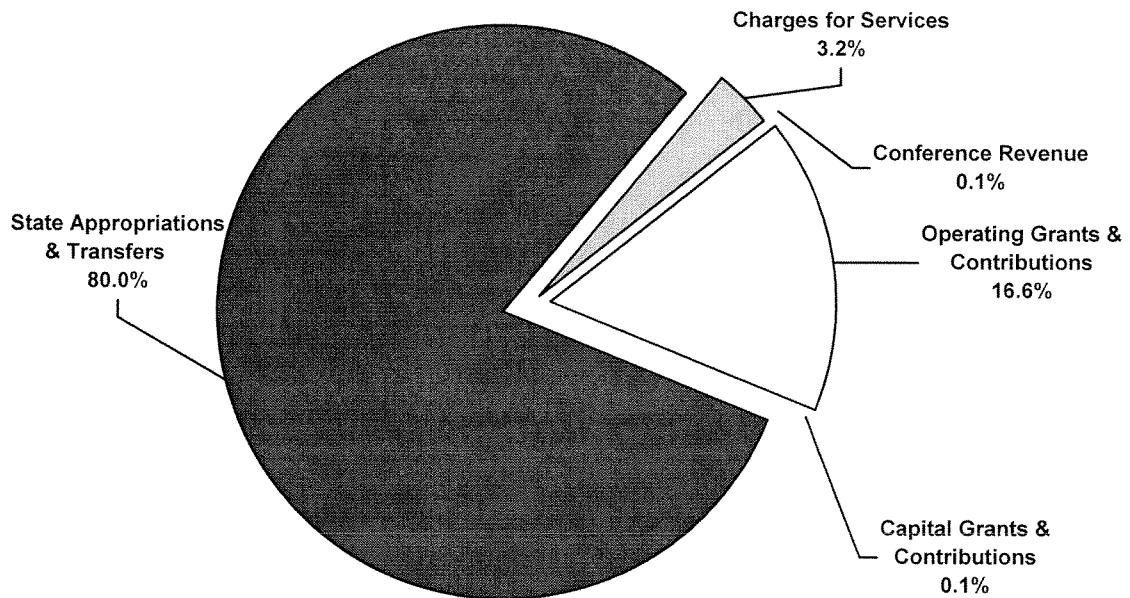
Analysis of Government-wide Balances

The largest effect on the government-wide balances in the general fund is payments to local schools. Schools are not always consistent in seeking reimbursement. In some years, reimbursements to schools are made prior to June 30 and in other years after June 30. The following reflects ODCTE's changes in net assets for fiscal years:

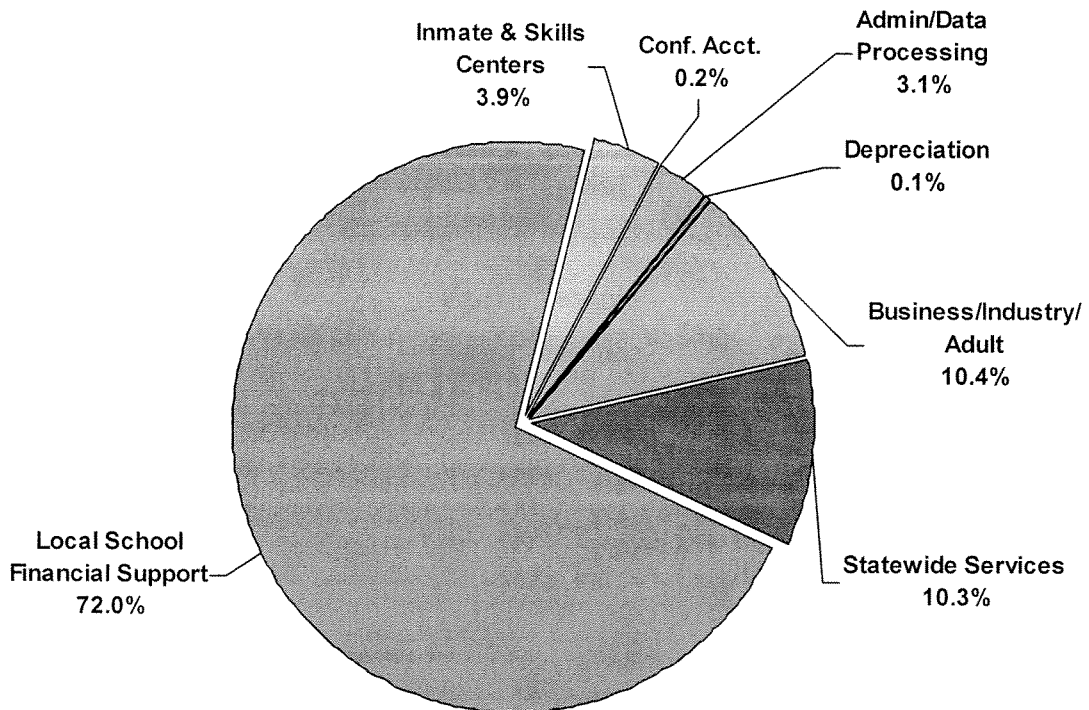
	2002	2003
Program Revenues:		
Charges for Services	\$ 6,076,084	\$ 4,907,796
Operating Grants and Contributions	27,725,552	25,081,223
Capital grants and Contributions	562,760	164,074
Conference Revenue	212,593	187,874
Total Program Revenues	<u>34,576,989</u>	<u>30,340,967</u>
General Revenues:		
State Appropriations	126,694,745	121,057,738
Transfers	515	(511)
Total General Revenues	<u>126,695,260</u>	<u>121,057,227</u>
Total Revenues	161,272,249	151,398,194
Expenditures/Expenses:		
Business/Industry/Adult	18,858,666	15,345,656
Local School Financial Support	115,299,876	106,372,462
Statewide Services	16,027,515	15,305,574
Inmate and Skills Centers	6,265,892	5,796,541
Administration/Data Processing	3,172,255	4,538,122
Career Tech Conference Account	185,816	262,752
Depreciation - Unallocated	872,202	214,600
Total Expenditures/Expenses	<u>160,682,222</u>	<u>147,835,707</u>
Changes in Net Assets	590,027	3,562,487
Fund Balance/Net Assets:		
Beginning of the year	8,284,421	7,132,671 *
End of the year	<u>\$ 8,874,448</u>	<u>\$ 10,695,158</u>

* - Restated for fiscal year 2003.

Sources of Revenue



Expenditures by Activity



See independent auditor's report.

Analysis of Governmental Fund Balances

General Fund – As in the Government-Wide Balances, the largest effect in the funds presentation is payments to local schools reported in the general fund. The increase in the general fund balance was the result of reduced spending by the agency to include a freeze on hiring, reduced travel, delayed maintenance of building and grounds, and reduced curriculum development and in-service training as well as equitable reductions in formula payments to schools. The agency reduced spending in excess of the appropriations shortfall.

Special Revenue Fund - The decrease in fund balance of \$74,879 was due to conference expenses increasing while revenue decreased.

Additional information for the governmental funds has also been presented in the Financial Highlights section of the MD&A.

Budgetary Accounts

The ODCTE revenue is budgeted using the categories of State Appropriations, Federal, Revolving, and Conference Revenues. Budget categories for expenditures are Personnel Services; Travel; Administrative Expense; Property, Furniture, and Equipment; Related Debt; Assistance and Payments to Local Governments; Transfers and Other Disbursements; and Budget Reductions.

ODCTE originally budgeted general fund expenditures in the amount of \$163,668,560. After a series of budget reductions initiated by the Office of State Finance, the final budget amount of general fund expenditures was \$151,635,007. Actual expenditures were \$148,845,696, which is \$2,789,311 under budget.

Variances in budget to actual expenditures reflect normal agency operations. Expenditures in the following schedule are presented by object of expenditure so that users can determine the purpose of the expenditures.

Oklahoma Department of Career and Technology Education
Budget-to-Actual Expenditures - General Fund

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance</u>
Revenues			
Federal Grants and Contracts	\$ 27,935,000	\$ 25,611,814	\$ (2,323,186)
Revolving	6,044,850	5,061,302	(983,548)
Total Revenues	<u>33,979,850</u>	<u>30,673,116</u>	<u>(3,306,734)</u>
Expenditures			
Personnel Services	22,827,344	22,901,036	(73,692)
Travel	792,475	725,368	67,107
Administrative Expense	4,229,599	2,371,984	1,857,615
			-
Property, Furniture and Equipment Related Debt	2,707,654	2,359,092	348,562
			-
Assistance and Payments to Local Governments	124,814,613	119,382,321	5,432,292
Transfers and Other Disbursements	792,251	1,105,895	(313,644)
Budget Reductions	(4,528,929)	0	(4,528,929)
Total Expenditures	<u>151,635,007</u>	<u>148,845,696</u>	<u>2,789,311</u>
Excess (deficiency) of revenues over expenditures	<u>(117,655,157)</u>	<u>(118,172,580)</u>	<u>(517,423)</u>
Other financing sources (uses)			
State Appropriations	121,057,738	121,057,738	-
Transfers In/Out	(511)	(511)	-
Total other financing sources (uses)	<u>121,057,227</u>	<u>121,057,227</u>	<u>-</u>
Net change in fund balance	3,402,070	2,884,647	(517,423)
Fund balance July 1, 2002	<u>9,391,830</u>	<u>10,366,824</u>	<u>974,994</u>
Fund balance June 30, 2003	<u>\$ 12,793,900</u>	<u>\$ 13,251,471</u>	<u>\$ 457,571</u>

See independent auditor's report.

**Oklahoma Department of Career and Technology Education
Budget-to-Actual Expenditures - Special Revenue Fund**

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance</u>
Conference Revenues	\$ 300,000	\$ 187,874	\$ (112,126)
Total Conference Revenues	<u>300,000</u>	<u>187,874</u>	<u>(112,126)</u>
 Expenditures			
Administrative Expense	210,000	140,219	69,781
Transfers and Other Disbursements	<u>90,000</u>	<u>122,857</u>	<u>(32,857)</u>
Total Expenditures	<u>300,000</u>	<u>263,076</u>	<u>36,924</u>
 Net change in fund balance	-	(75,202)	(75,202)
 Fund balance July 1, 2002	<u>59,387</u>	<u>175,001</u>	<u>115,614</u>
 Fund balance June 30, 2003	<u>\$ 59,387</u>	<u>\$ 99,799</u>	<u>\$ 40,412</u>

Capital Assets

During fiscal year 2003, the ODCTE increased its capital asset reporting threshold from \$500 to \$25,000. This capitalization change caused a decrease in net book value of \$1,715,177. The ODCTE investment in capital assets for its governmental activities as of June 30, 2003 is \$4,857,729, with a net accumulated depreciation of \$3,593,166, leaving a net book value of \$1,264,563. This investment in capital assets includes equipment purchased from state and federal funds. Equipment is located in skills centers and at the state department.

New purchases during the year total \$44,972. Deletions and adjustments total \$162,434 for a net decrease of \$117,462. Depreciation charges for the year totaled \$214,600.

Debt Administration

The Legislature approved the issuance of Bond Series 1999 A, B, and C effective September 1, 1998, which included \$5,000,000 to be used for the purchase of equipment in the Career Tech System. The repayment schedule to retire these bonds is as follows:

	2004		2005		Total
Capital Leases:	\$ 1,261,965	*	\$ 210,400	\$	1,472,365
Less: Interest	<u>181,965</u>		<u>25,400</u>		<u>207,365</u>
Total Principal	<u>\$ 1,080,000</u>		<u>\$ 185,000</u>	\$	<u>1,265,000</u>

* Fiscal Year 2004 payments were reduced from \$1,261,965 to \$996,250 by applying a Reserve Fund Credit by the Oklahoma Capitol Improvement Authority.

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Monthly installments are paid to the Oklahoma Capitol Improvement Authority, which coordinates with the State Treasurer's Office to make payments to the bondholders. Annual appropriations from the Legislature include funding to retire these bonds. This debt is reflected in the financial statements as capital leases.

Economic Factors/Next Year's Budget

State general fund revenue collections for the first quarter of FY-04 are up significantly over the same period of the prior fiscal year. If this trend continues, agency budgets from state appropriations will be fully funded during FY-04. This would be a significant change from the previous two years when the agency had to reduce budgets several times.

Income from Carl Perkins federal grants, which account for the majority of federal funds, remains steady. Revolving funds are projected to be down some due to an anticipated reduction in curriculum sales.

The agency implemented a voluntary "buy-out" effective July 1, 2003. A total of 31 employees accepted the offer. Not all positions will be replaced; therefore, the agency will experience a significant savings in personnel cost during FY-04. A portion of the savings will be used to offset salary adjustments and increased employee insurance cost.

An increase in health insurance cost of approximately 17% effective January 1, 2003 as well as an additional increase anticipated effective January 1, 2004 and increases in Worker's Compensation and Risk Management costs have resulted in an increased budget need for fiscal year 2004.

Contacting ODCTE's Financial Management

This financial report is designed to provide interested parties with a general overview of ODCTE's finances and to demonstrate ODCTE's accountability for the money it receives. If you have questions about this report or need additional information, contact the Oklahoma Department of Career and Technology Education, 1500 W. Seventh Avenue, Stillwater, Oklahoma 74074.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

INDEPENDENT AUDITOR'S REPORT

**TO THE BOARD OF THE OKLAHOMA DEPARTMENT
OF CAREER AND TECHNOLOGY EDUCATION**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oklahoma Department of Career and Technology Education (the Department), as of and for the year ended June 30, 2003, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not accounted for inventories by the consumption method on the government-wide statements. Accounting principles generally accepted in the United States of America require that the consumption method of accounting for inventories be used on an accrual-basis statement. The amount by which this departure would affect the assets and expenditures presented in the government-wide statements is not reasonably determinable.

In our opinion, except for the effects, if any, of not valuing inventory in accordance with the consumption method, the financial statements of the governmental activities referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Department as of June 30, 2003, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

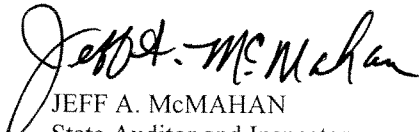
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, of the Department, as of June 30, 2003, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 19, 2004, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules on pages 1 through 8 and 24 through 27 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,



JEFF A. McMAHAN
State Auditor and Inspector

July 19, 2004

OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
STATEMENT OF NET ASSETS
June 30, 2003

Assets:

Current Assets:

Cash			\$ 10,593,488
Receivables			
From Sale of Curriculum Materials	\$ 227,762		
Less: Uncollectible	<u>(4,555)</u>	\$ 223,207	
From Federal Grant/Entitlement-Direct		2,976,610	
From Federal Funded Contracts as Subrecipient		618,560	
From Registration, Activity Charges		<u>3,735</u>	3,822,112
Prepaid Expenses-Postage			25,529
Inventories			
Curriculum Materials for Resale		2,184,492	
Printshop Raw Materials		<u>126,190</u>	2,310,682
Total Current Assets			<u>16,751,811</u>

Non-Current Assets:

Investments in Capital Assets-Equipment		4,857,729	
Less: Accumulated Depreciation		<u>(3,593,166)</u>	<u>1,264,563</u>
Total Assets			<u>\$ 18,016,374</u>

Liabilities:

Current Liabilities

Accounts Payable			
Vendor from Federal Funds		3,258,837	
Vendor from State Revolving Funds		1,241,829	
Vendor from Special Revenue Funds		711	
Payroll		<u>171,892</u>	4,673,269
Compensated Absences			1,214,874
Deferred Revenue			
Federal			15,295
Conference Account			34,743
Capital Leases - Current Payable			<u>1,080,000</u>
Total Current Liabilities			<u>7,018,181</u>

Non-Current Liabilities

Compensated Absences			118,035
Capital Leases - Long Term			<u>185,000</u>
Total Non-Current Liabilities			<u>303,035</u>

Total Liabilities

7,321,216

Net Assets:

Invested in Capital Assets-Equipment			1,264,563
Unrestricted			<u>9,430,595</u>
Total Net Assets			<u>\$ 10,695,158</u>

The notes to the financial statements are an integral part of this statement.

**OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Governmental Activity
Governmental Activity-Education:					
Business/Industry/Adult					
Program/Field Services	\$ 1,173,732	\$ 63,403	\$ 269,150	\$ -	\$ (841,179)
Payments to Local Schools	11,321,541	1,197	13,201		(11,307,143)
Training for Industry Program (TIP)	2,850,383				(2,850,383)
Local School Financial Support					
Program/Field Services	2,043,757	437	231,562		(1,811,758)
Payments to Local Schools	104,328,705	450,020	19,334,330		(84,544,355)
Statewide Services					
Program/Field Services	10,486,813	740,561	3,826,697	164,074	(5,755,481)
Curriculum Development/Distribution	4,818,761	2,823,158	461,216		(1,534,387)
Inmate and Skills Centers					
Program/Field Support	244,700				(244,700)
Skills Centers	5,365,475	713,566	874,827		(3,777,082)
OIC	186,366				(186,366)
Administration/Data Processing					
Administration	2,741,960	24,368	2,520		(2,715,072)
Data Processing	1,796,162	91,086	67,720		(1,637,356)
Conference Account	262,752	187,874			(74,878)
Depreciation	214,600				(214,600)
Total Governmental Activity	<u>\$ 147,835,707</u>	<u>\$ 5,095,670</u>	<u>\$ 25,081,223</u>	<u>\$ 164,074</u>	<u>\$ (117,494,740)</u>
General Revenues:					
State Appropriations					121,057,738
Transfers In / (Out)					(511)
Total General Revenues					<u>121,057,227</u>
Change in Net Assets					3,562,487
Net Assets - Beginning (restated)					7,132,671
Net Assets - Ending					<u>\$ 10,695,158</u>

The notes to the financial statements are an integral part of this statement.

OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	Special Revenue Fund	Total Governmental Funds
Assets:			
Cash	\$ 10,507,362	\$ 86,126	\$ 10,593,488
Receivables			
From Sale of Curriculum Materials, net of uncollectible allowance	223,207		223,207
From Federal Grant/Entitlement-Direct	2,976,610		2,976,610
From Federal Funded Contracts	618,560		618,560
From Registration, Activity Charges		3,735	3,735
Prepaid Expenses-Postage	25,529		25,529
Inventories			
Curriculum Materials	2,184,492		2,184,492
Printshop Raw Materials	126,190		126,190
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 16,661,950	\$ 89,861	\$ 16,751,811
	<hr/>	<hr/>	<hr/>
Liabilities:			
Accounts Payable			
Vendor from Federal Funds	\$ 3,258,837		3,258,837
Vendor from State Revolving Funds	1,241,829		1,241,829
Vendor from Special Revenue Fund		711	711
Payroll	171,892		171,892
Compensated Absences	133,048		133,048
Deferred Revenue			
Federal	15,295		15,295
Conference Account		34,743	34,743
Total Liabilities	4,820,901	35,454	4,856,355
	<hr/>	<hr/>	<hr/>
Fund Balances			
Reserve for Encumbrances	3,314,448		3,314,448
Reserve for Inventories	2,310,682		2,310,682
Unreserved	6,215,919	54,407	6,270,326
	<hr/>	<hr/>	<hr/>
Total Fund Balances	11,841,049	54,407	11,895,456
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 16,661,950	\$ 89,861	\$ 16,751,811
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

**OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

Total Fund Balances - Governmental Funds	\$ 11,895,456
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Amounts reported for governmental activities in the
Statements of Net Assets are different because:

1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These consist of:	
Investments in Capital Assets - Equipment	4,857,729
Less: Accumulated Depreciation	(3,593,166)
2) Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those consist of:	
Compensated Absences	(1,199,861)
Future Capital Lease Payments	(1,265,000)
	(1,265,000)
Net Assets of Governmental Activities	\$ 10,695,158

The notes to the financial statements are an integral part of this statement.

OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
Federal Grants-in-aid	\$ 20,364,917	\$ 0	\$ 20,364,917
Federal Reimbursement	1,011,881	0	1,011,881
Federal Funds from Other State Agencies	3,752,061	0	3,752,061
Grants and Donations - Private Sources	160,000	0	160,000
Reimbursements - Non-Federal	163,062	5,600	168,662
Sales of Services	362,863	0	362,863
Sales of Documents and Merchandise	2,670,819	0	2,670,819
Registration, Activity Charges	122,200	109,824	232,024
Sale of Property	11,021	0	11,021
Insurance Taxes	425,000	0	425,000
Education-Licenses, Permits and Fees	226,938	0	226,938
Income from Rent	0	68,300	68,300
Insurance and Other Reimbursements	1,393	0	1,393
Contributions, Judgements & Forfeits	0	1,500	1,500
Other Non-Revenue Receipts	0	2,650	2,650
Inter/Intra Agency Transfers	788,849	0	788,849
Inter/Intra Agency Receipts	54,384	0	54,384
Other Grants, Refunds, & Reimbursements	37,598	0	37,598
Motor Vehicle and Related Taxes	107	0	107
Total Revenues	30,153,093	187,874	30,340,967
Expenditures:			
Business/Industry Adult			
Program/Field Services	1,173,732		1,173,732
Payments to Local Schools	11,321,541		11,321,541
Training for Industry Program (TIP)	2,850,383		2,850,383
Local School Financial Support			
Program/Field Services	2,074,268		2,074,268
Payments to Local Schools	105,363,705		105,363,705
Statewide Services			
Program/Field Services	10,702,228		10,702,228
Curriculum Development Services	4,835,634		4,835,634
Inmate and Skills Centers			
Program/Field Services	244,700		244,700
Skills Centers	5,373,659		5,373,659
OIC	186,366		186,366
Administration/Data Processing			
Administration	2,795,021		2,795,021
Data Processing	1,796,893		1,796,893
Conference Account	0	262,753	262,753
Total Expenditures	148,718,130	262,753	148,980,883
Revenues Over (Under) Expenditures	(118,565,037)	(74,879)	(118,639,916)
Other Financial Sources (Uses):			
State Appropriations	121,057,738		121,057,738
Transfers In/Out	(511)	0	(511)
Total Other Financing Sources (Uses)	121,057,227	0	121,057,227
Net Change in Fund Balances	2,492,190	(74,879)	2,417,311
Fund Balance - Beginning of Year	9,348,859	129,286	9,478,145
Fund Balance - End of Year	\$ 11,841,049	\$ 54,407	\$ 11,895,456

The notes to the financial statements are an integral part of this statement.

**OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

Net Change in Fund Balance - Total Governmental Funds	\$ 2,417,311
Difference in amounts reported for Governmental Activities on the Statement of Activities:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.	(169,628)
This amount represents the carrying value of the capital assets that were transferred for disposal	(11,026)
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 is the amount of compensated absences earned but not used in the current period, less the amount accrued in the fund statement.	290,830
Capital leases provide current financial resources to governmental funds, but create current and long-term liabilities in the statement of net assets. This amount is	<u>1,035,000</u>
Change in Net Assets on Statement of Activities	<u>\$ 3,562,487</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

Oklahoma Department of Career and Technology Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1. Summary of Significant Accounting Policies

The Oklahoma Department of Career and Technology Education complies with generally accepted accounting principles (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

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 Department of Career and Technology Education.

A. Reporting Entity

The State Board of Career and Technology Education as established under Title 70, Section 14, paragraph 101, is a part of the primary government of the State of Oklahoma. The State Board of Career and Technology Education consists of thirteen members. Seven of the members are ex officio voting members; these seven members are the State Superintendent of Public Instruction and the six appointed members of the State Board of Education. The Governor appoints the remaining six members; five of these members are with the advice and consent of the Senate. One of the appointed members must be from each of the five Congressional districts. The term of the office is six years. The Director of the Department of Career and Technology Education serves as an ex officio nonvoting member, and is the executive officer of the Board.

House Bill 1068, signed into law by the Governor, reconstitutes the Board as a nine (9)-member board with specific qualifications. This new legislation is effective August 28, 2003.

B. Basis of Presentation

Government-Wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity. The Department 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 funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the primary operating fund of the Agency and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

Oklahoma Department of Career and Technology Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

Major Funds

The types of funds that qualify as major to the Oklahoma Department of Career and Technology Education are as follows:

General Fund – The General Fund is made up of three separate funding sources:

- 1) State Appropriations – Funds provided by annual appropriations from State Legislation.
- 2) Revolving Revenue – Funds provided by the sale of curriculum materials; telecommunication assessment fees; contracts with other state agencies and private prisons; and membership dues from a ten-state curriculum consortium.
- 3) Federal Revenue – Funds provided by federal grants and contracts as well as contracts with other state agencies.

Special Revenue Fund – (CareerTech Conference Account) - Note: This fund did not meet major fund criteria; however, ODCTE management determined it to be significant enough to be reported as major. The account's purpose is to receive conference-related revenue such as registration fees and booth rentals and to pay for conference-related expenses.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets and financial position. All assets or liabilities (whether current or non-current) associated with their activities are reported.

In the fund financial statements, all governmental funds are accounted for using a current measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, assets and liabilities resulting from exchange transactions are recognized when the exchange takes place.

In the fund financial statements, all governmental funds are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and related current assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year. For this purpose, the agency considers revenues to be available if collected within sixty days of the end of the current fiscal year.

Oklahoma Department of Career and Technology Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2003, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

D. Assets, Liabilities, and Equity

Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. The Department'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.

Inventories

Inventories are valued at cost. The flow assumption used to determine cost is first in, first out. The costs of inventories for the ODCTE are recorded as expenditures when purchased.

Capital Assets

The Department of Central Services (formerly the Office of Public Affairs), in accordance with 74 O.S. §110.1 of the Oklahoma Statutes, has primary responsibility to maintain control of all property and equipment owned by the State of Oklahoma with a cost in excess of \$500. The ODCTE has adopted a \$25,000 capital asset reporting threshold for financial statement purposes. The Department of Central 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 held by the ODCTE and reflected in the accompanying financial statements are stated at original cost or estimated cost as determined from available records maintained by the ODCTE net of accumulated depreciation. Assets valued by estimate represent 0.5 percent of total capitalized assets. The asset values were based on equipment fair market values at the time of acquisition.

Additional capital asset disclosures are presented in Note 5.

Compensated Absences

Employees earn annual vacation at the average rate of 10 hours per month for up to 5 years service and may accumulate to a maximum of 240 hours. Employees earn an average of 12 hours per month for 5 to 10 years, an average of 13.33 hours per month for 10 to 20 years, and an average of 16.67 hours per month for over 20 years of service. Annual leave for employees over 5 years service may accumulate to a maximum of 480 hours. All accrued annual leave is payable upon layoff, resignation, retirement, or death.

The general fund records expenditures when the employee is paid for annual leave, and the cost of accumulated annual leave is recorded in the statement of net assets. Payments for employee vested annual leave for the year ended June 30, 2003 were made in the amount of \$105,749. Total amount outstanding at June 30, 2003 is \$1,332,909 of which \$118,035 is recorded as a non-current liability.

Oklahoma Department of Career and Technology Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

Accounts Payable

Payables consist of all prior year payments made during the months of July and August of the following fiscal year. Most of the payments are to schools for previous fiscal year activity.

E. Program Revenues

In the Statement of Activities, revenues are derived directly from governmental activities and reported as program revenue.

The agency has the following types of program revenues in the governmental activities:

Charges for Services	In conducting day-to-day operations the agency collects revenue from registration fees, live work, vending machines, sale of salvage, and insurance damages. These types of revenues are specifically related to the government activity program.
Operating Grants	The agency participates in various Federal grants-in-aid and reimbursement programs. The agency also contracts with other state agencies and private prisons.
Capital Grants	The agency has one Federal grant with the U.S. Department of Education that provides for capital equipment.

Note 2. Cash

At June 30, 2003, all cash was under the control of the State Treasurer and was collateralized in accordance with 62 O.S. § 72.1, titled, "Security for Public Deposits Act." As of this date, the bank balances on deposit are fully insured or collateralized with securities held by the State's agent in the State's name.

Note 3. Pension Plan

Plan Description. The Department contributes to the Teachers' Retirement System Plan, a multiple employer, cost sharing public employee retirement plan, which is a defined benefit pension plan administered by the Teachers' Retirement Systems of Oklahoma (TRS). Benefit provisions are established and can be amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits. Title 70 of the Oklahoma Statutes, Section 17-101 through 17-120 as amended, provides more complete information about the Plan. TRS issues a publicly available financial report that includes financial statements and required supplementary information about the Plan. The report may be obtained by writing to the Teachers' Retirement System, P.O. Box 53524, Oklahoma City, Oklahoma 73152 or by calling 405-521-2387.

Funding Policy

The contribution rates for each member category of the Plan are established rates determined by the State Legislature each year and are not based on actuarial calculations. The contribution rate for employees for the fiscal year ended June 30, 2003 was 7% of regular annual compensation, not to exceed the members' maximum compensation level.

On behalf of active members, the State agencies contribute 6.8% of the employees' annual compensation.

The Department's contributions to the Plan for the years ending June 30, 2003, 2002, and 2001, were \$2,618,798, \$2,637,201, and \$2,392,277, respectively, equal to the required contributions for each year.

Oklahoma Department of Career and Technology Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 4. Other Post Employment Benefits

In addition to the pension benefits described in Note 3, the State provides post-retirement health care benefits (OPEB). For retirees that elect to obtain health insurance coverage through the Oklahoma State and Education Employees Group Insurance Board (the Board), the System pays between \$100 and \$105 per month to the Board for each retiree, depending on the members' years of service.

TRS funds post-employment health care benefits as part of the overall retirement requirement. OPEB expenditures and participant information is available for the state as a whole; however, information specific to the Career and Technology Education is not available or reasonably estimable.

Note 5. Capital Assets

During fiscal year 2003, ODCTE increased its capital asset reporting threshold from \$500 to \$25,000. This new capitalization amount is reflected in the accompanying financial statements. Expenditures for capital assets are recorded as period costs when the assets are purchased in the governmental funds. A provision for depreciation has been recorded in the governmental activities of the Statement of Net Assets and Statement of Activities. The depreciation method used for capital assets is straight line with half-year convention. The estimated useful life of equipment was estimated to range between three and twenty years.

The following are examples of useful lives:

<u>Descriptions</u>	<u>Years</u>
Vehicles, Computers	3
Digital Cameras, LCD Projectors, Camcorders	5
Fax Machines, TV's, Telephones	6
Welders, Lathes, Drill Presses, Saws	10
Print Shop Equipment, Construction Equipment, Forklifts, Concrete Mixers	15
Fence, Storage Buildings, Parking Lot	20

Changes in capital assets for the year ended June 30, 2003, were as follows:

	Equipment	Accumulated Depreciation	Capital Assets - Net
Beginning Balance	\$ 12,347,081	\$ (9,186,687)	\$ 3,160,394
Adjustments:			
Reporting threshold raised from \$500 to \$25,000	(7,360,864)	5,645,687	(1,715,177)
Beginning Balance (restated)	\$ 4,986,217	\$ (3,541,000)	\$ 1,445,217
Increases / Net Transfers	44,972	(214,600)	(169,628)
Decreases	(173,460)	162,434	(11,026)
Ending Balance	<u>\$ 4,857,729</u>	<u>\$ (3,593,166)</u>	<u>\$ 1,264,563</u>

Oklahoma Department of Career and Technology Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 6. Operating Leases

The Department leases two pieces of printing equipment, which meet the qualifications of operating leases. By State regulations, all leases are made through and with the permission of the Department of Central Services, for a period not to exceed 12 months. Payments required to satisfy the Department's contractual obligations for the fiscal year ended June 30, 2003, were approximately \$100,625.

Note 7. Risk Management

The Department participates in the Risk Management Division of the Department of Central Services for the State of Oklahoma. The Risk Management Division of the Department of Central Services is empowered by the authority of 74 O.S. §85.34 et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for use by the State or for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The State Risk Management Division is authorized to settle claims of the State and shall govern the dispensation and /or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the State, agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act, as provided by 51 O.S., § 154. The Risk Management Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or entity.

The Risk Management Division is also charged with responsibility to immediately notify the Attorney General of any claims against the State presented to the Division.

Note 8. Long-Term Obligations

Long-term obligations at June 30, 2003 are as follows:

Compensated Absences:

Beginning Balance	\$ 1,492,584
Additions	1,055,199
Reductions	(1,214,874)
Ending Balance	\$ 1,332,909
Due Within One Year	\$ 1,214,874
Long-Term Amount	118,035
	\$ 1,332,909

Oklahoma Department of Career and Technology Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

Leases:

Beginning Balance	\$	2,300,000
Additions		-
Reductions		(1,035,000)
Ending Balance	\$	<u>1,265,000</u>

Due Within One Year	\$	1,080,000
Long-Term Amount		<u>185,000</u>
	\$	<u>1,265,000</u>

	2004		2005	Total
Capital Leases:	\$ 1,261,965	*	\$ 210,400	\$ 1,472,365
Less: Interest	181,965		25,400	207,365
Total Principal	<u>\$ 1,080,000</u>		<u>\$ 185,000</u>	<u>\$ 1,265,000</u>

*Fiscal Year 2004 payments were reduced from \$1,261,965 to \$966,250 by applying a Reserve Fund Credit by the Oklahoma Capitol Improvement Authority.

Note 9. Litigation and Contingencies

The Oklahoma Department of Career and Technology Education is the defendant in a breach of contract action in the District Court of Payne County, State of Oklahoma, case number CJ-01-535. This action involved an alleged breach of contract of employment with the Department and was filed in 2001. A jury trial concluded on May 14, 2003, with a verdict for the defendant, the Department. Thus, the Plaintiff was awarded nothing in the jury trial. This matter cannot be treated as "closed" as of June 30, 2003, because the matter is on appeal to the Oklahoma Supreme Court.

Required Supplementary Information

OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>with</u> <u>Final Budget</u>
Revenues:				
Federal Grants-in-aid	\$ 20,100,000	\$ 20,100,000	\$ 20,142,863	\$ 42,863
Federal Reimbursements	2,135,000	2,135,000	1,022,652	(1,112,348)
Federal Funds form Other State Agencies	5,700,000	5,700,000	4,446,299	(1,253,701)
Grants and Donations - Private Sources	170,000	170,000	160,000	(10,000)
Reimbursement - Non-Federal	240,923	274,256	163,062	(111,194)
Other Grants, Refunds, and Reimbursements	0	0	37,598	37,598
Sales of Services	196,290	196,290	362,863	166,573
Sales of Documents and Merchandise	3,189,654	3,239,654	2,707,887	(531,767)
Registration, Activity Charges	98,150	98,150	122,200	24,050
Sale of Property	0	0	11,021	11,021
Insurance Taxes	294,450	294,450	425,000	130,550
Education - License Permits and Fees	955,000	1,120,000	226,938	(893,062)
Insurance and Other Reimbursements	0	0	1,393	1,393
Motor Vehicle and Related Taxes	0	0	107	107
Inter/Intra Agency Transfers	588,900	588,900	788,849	199,949
Inter/Intra Agency Receipts	63,150	63,150	54,384	(8,766)
Total Revenues	<u>33,731,517</u>	<u>33,979,850</u>	<u>30,673,116</u>	<u>(3,306,734)</u>
Expenditures:				
Personnel Services	23,691,363	22,827,344	22,901,036	(73,692)
Travel	1,002,750	792,475	725,368	67,107
Administrative Expense	3,805,984	4,229,599	2,371,984	1,857,615
Property, Furniture, Equipment and Related Debt	2,708,449	2,707,654	2,359,092	348,562
Assistance and Payments to Local Governments	131,667,763	124,814,613	119,382,321	5,432,292
Transfers and Other Disbursements	792,251	792,251	1,105,895	(313,644)
Budget Reductions	0	(4,528,929)	0	(4,528,929)
Total Expenditures	<u>163,668,560</u>	<u>151,635,007</u>	<u>148,845,696</u>	<u>2,789,311</u>
Excess (deficiency) of revenue over expenditures	(129,937,043)	(117,655,157)	(118,172,580)	(517,423)
Other Financing Sources (Uses)				
State Appropriations	131,196,667	121,057,738	121,057,738	0
Transfers In/Out	(511)	(511)	(511)	0
Total Other Sources (Uses)	<u>131,196,156</u>	<u>121,057,227</u>	<u>121,057,227</u>	<u>0</u>
Net Change in Fund Balance	1,259,113	3,402,070	2,884,647	(517,423)
Fund Balance - July 1, 2002	<u>11,158,860</u>	<u>9,391,830</u>	<u>10,366,824</u>	<u>974,994</u>
Fund Balance - June 30, 2003	<u>\$ 12,417,973</u>	<u>\$ 12,793,900</u>	<u>\$ 13,251,471</u>	<u>\$ 457,571</u>

The notes to Required Supplementary Information are an integral part of this schedule.

See independent auditor's report.

**OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>with Final Budget</u>
Revenues:				
Reimbursements - Non-Federal	\$ 0	\$ 0	\$ 5,600	\$ 5,600
Registration	235,000	235,000	109,824	(125,176)
Income from Rent	65,000	65,000	68,300	3,300
Contributions Judgements and Forfeits	0	0	1,500	1,500
Other Non-Revenue Receipts	0	0	2,650	2,650
Total Revenues	<u>300,000</u>	<u>300,000</u>	<u>187,874</u>	<u>(112,126)</u>
Expenditures:				
Administrative Expense	210,000	210,000	140,219	69,781
Transfers and Other Disbursements	90,000	90,000	122,857	(32,857)
Total Expenditures	<u>300,000</u>	<u>300,000</u>	<u>263,076</u>	<u>36,924</u>
Net Change in Fund Balance	0	0	(75,202)	(75,202)
Fund Balance - July 1, 2002	<u>82,289</u>	<u>59,387</u>	<u>175,001</u>	<u>115,614</u>
Fund Balance - June 30, 2003	<u>\$ 82,289</u>	<u>\$ 59,387</u>	<u>\$ 99,799</u>	<u>\$ 40,412</u>

The notes to Required Supplementary Information are an integral part of this schedule.

See independent auditor's report.

Oklahoma Department of Career and Technology Education
Notes to Required Supplementary Information –Budgetary Reporting
For the Fiscal Year Ended June 30, 2003

Note A. Budgeting, Budgeting Control and Budgetary Reports – General Fund

The State's annual budget is prepared on the cash basis, utilizing encumbrance accounting. Encumbrances represent executed but unperformed purchase orders. In the accompanying financial statements, encumbrances are recorded as expenditures for budgetary purposes if expected to be presented for payment by November 15 following the end of the fiscal year and as reservations of fund balance for GAAP purposes. Since the budgetary basis differs from generally accepted accounting principles, budget and actual amounts in the accompanying Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Budgetary Basis) are presented on the budgetary basis.

The legal level of budgetary control is maintained at the line item level (i.e. Duties, etc.) identified in the appropriation acts. Budgets may be modified subject to statutory limits on transfers. The Director of the Office of State Finance can approve transfers between line items up to 25%. Agencies can obtain approval from the Contingency Review Board to transfer up to an additional 15%; however, all transfers are subject to review by the Joint Legislative Committee on Budget and Program Oversight to determine if the transfer tends to effectuate or subvert the intention and objectives of the Legislature.

Current policy allows agencies to use unexpended monies for one-time purchases or non-recurring expenditures in the next fiscal year. This policy provides an incentive for management to distribute resources efficiently; however, it is subject to annual approval by the Legislature. Unexpended balances not carried forward to the new fiscal year by November 15 may: 1) lapse to unrestricted balances and be available for future appropriation, 2) lapse to restricted balances and be available for future appropriations restricted for specific purposes as defined by statute, or 3) be non-fiscal, and may be spent from one to 30 months from the date of appropriation.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 2003, is presented below for the General Fund:

Budgetary Basis Fund Balance, June 30, 2003	\$ 13,251,471
Basis Differences:	
Add: Encumbrances Recognized as Expenditures	3,314,449
Less: Prior Year Encumbrances	(3,036,724)
Expenditures Not Recognized	(670,182)
Difference in July 1, 2002, GAAP Basis Fund Balance,	
Compared to July 1, 2002, Budgetary Basis Fund Balance	(1,017,965)
GAAP Basis Fund Balance, June 30, 2003	<u><u>\$ 11,841,049</u></u>

See independent auditor's report.

Note B.**Budgeting, Budgeting Control and Budgetary Reports – Special Revenue Fund**

An Agency Special Account is a fund to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Agency Special Account used by the ODCTE is the Special Revenue Fund. A Special Revenue Fund is an account established under specific conditions for a state agency in the official depository in the State Treasury. Disbursements are made on vouchers and issued directly against the account by the agency concerned. The only level of budgetary control required is an estimate of the total of the activity expected to occur.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resulting differences in the excess of revenues over (under) expenditures between budgetary and GAAP presentations for the year ended June 30, 2003, is presented below for the Special Revenue Fund:

Budgetary Basis Fund Balance, June 30, 2003	\$ 99,799
Basis Differences:	
Add: Accrual Revenue Not Recognized	323
Difference in July 1, 2002, GAAP Basis Fund Balance, compared to July 1, 2002, Budgetary Basis Fund Balance	(45,715)
GAAP Basis Fund Balance, June 30, 2003	<u>\$ 54,407</u>

See independent auditor's report.

OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FYE 6-30-03

Grantor Pass-through Grant Title	Federal CFDA #	Cash Bal 7/1/2002	Revenue Received	State/Local Matching Contributions	Federal Disbursements	Pass-Through to Subrecipient	Refunds and Adjustments	Cash Bal 6/30/2003
U.S. Department of Defense								
Procurement Technical Assistance for Business Firms	12.002	\$ 12,589	\$ 276,358	\$ 1,066,792	\$ 273,501	\$ 24,751	\$ -	\$ 15,446
Total U.S. Department of Defense		12,589	276,358	1,066,792	273,501	24,751	-	15,446
U.S. Department of Justice								
Pass-through Oklahoma Office of Juvenile Affairs: Part E - State Challenge Activities	16.549	-	5,610	-	4,956	-	-	654
Total U.S. Department of Justice		-	5,610	-	4,956	-	-	654
U.S. Department of Labor								
Employment Services and Job Training - Pilot and Demonstration Programs	17.249	(5,658)	409,822	-	404,164	298,816	-	-
Pass-Through Oklahoma Employment Security Commission:								
Workforce Investment Act	17.255	(74,917)	87,284	-	14,220	-	-	(1,853)
Workforce Investment Act (Adult)	17.258	-	426,058	3,036,463	480,551	-	-	(54,493)
Workforce Investment Act (Youth)	17.259	-	204,000	-	204,000	-	-	-
Total U.S. Department of Labor		(80,575)	1,127,164	3,036,463	1,102,935	298,816	-	(56,346)
U.S. Small Business Administration								
Congressional - Special Initiative: Revtech Support	59.000	(114,185)	200,738	-	301,975	-	-	(215,422)
Total U.S. Small Business Administration		(114,185)	200,738	-	301,975	-	-	(215,422)

See notes to the Schedule of Expenditures of Federal Awards.
See independent auditor's report.

OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FYE 6-30-03

Grantor Pass-through Grant Title	Federal CFDA #	Cash Bal 7/1/2002	Revenue Received	State/Local Matching Contributions	Federal Disbursements	Pass-Through to Subrecipient	Refunds and Adjustments	Cash Bal 6/30/2003
U.S. Department of Education								
Carl Perkins Act:								
Vocational Education - Basic Grants to States	84.048 *	(164,061)	16,921,580	25,735,792	16,873,659	14,481,521	78,609	(37,531)
National Vocational Education Research	84.051	(39,865)	1,362,244	-	1,323,444	609,899	1,065	-
Tech Prep Education	84.243	-	1,694,965	210,447	1,695,434	1,638,321	-	(469)
Occupational and Employment Information State Grant:	84.346	(15,162)	142,942	-	129,196	-	-	(1,416)
Funds for the Improvement of Postsecondary Education: REVTECH	84.116	(10,047)	164,074	-	154,027	-	-	-
Total U.S. Department of Education		(229,135)	20,285,805	25,946,239	20,175,760	16,729,741	79,674	(39,416)
U.S. Department of Health and Human Services								
Pass-through Oklahoma Department of Health: State Rural Hospital Flexibility Program Rural Health Project	93.241	(31,158)	155,005	-	130,548	63,913	-	(6,701)
Pass-through Oklahoma Department of Human Services Temporary Assistance for Needy Families	93.558	-	3,568,341	746,382	3,584,882	3,559,872	-	(16,541)
Total U.S. Department of Health and Human Services		(31,158)	3,723,346	746,382	3,715,430	3,623,785	-	(23,242)
Total All Federal Funds		\$(442,464)	\$25,619,021	\$30,795,876	\$25,574,557	\$ 20,677,093	\$ 79,674	\$(318,326)

* - Tested as a major program.
See notes to the Schedule of Expenditures of Federal Awards.
See independent auditor's report.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003

Note 1. Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared in conformity with the requirements set forth in the Single Audit Act of 1984, Public Law 98-502, the Single Audit Act Amendments of 1996, Public Law 104-156 and Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*.

A. Basis of Presentation

The Schedule presents expenses for the fiscal year ended June 30, 2003. The Schedule reports total federal award expenses for each federal program as identified in the *Catalog of Federal Domestic Assistance (CFDA)*.

Federal awards include federal financial assistance and federal cost-reimbursement contracts. Federal financial assistance may be defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, food commodities, interest subsidies, insurance or direct appropriations, but does not include direct federal cash assistance to individuals.

The major program for the Oklahoma Department of Career and Technology Education was defined as those that were major at the State level.

B. Basis of Accounting

The accompanying Schedule reports expenses of the Oklahoma Department and Career Technology Education on the cash basis. Using the cash basis of accounting, revenues are recognized when cash is received and expenses are recognized when cash is disbursed.

Report on Compliance and on Internal Control Over Financial Reporting



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

**TO THE BOARD OF THE DEPARTMENT OF
CAREER AND TECHNOLOGY EDUCATION**

We have audited the basic financial statements of the governmental activities and each major fund of the Oklahoma Department of Career and Technology Education (Department), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2003, and have issued our report thereon dated July 19, 2004. Our opinion on the government-wide financial statements is qualified because the value of inventory is not presented using the consumption method. The report also includes an explanatory paragraph stating that the basic financial statements of the Department are intended to present the financial position and results of operations of only that portion of the State of Oklahoma attributable to the transactions of the Department. 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.

Compliance

As part of obtaining reasonable assurance about whether the Department's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 03-800-007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that

are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the Oklahoma Department of Career and Technology Education and its governing members and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff A. McMAHAN". The signature is stylized with a large, looping initial "J" and a cursive "McMAHAN".

JEFF A. McMAHAN
State Auditor and Inspector

July 19, 2004

**Report on Compliance With Requirements Applicable to Its Major Program and
Internal Control Over Compliance**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE**

**TO THE BOARD OF THE OKLAHOMA DEPARTMENT
OF CAREER AND TECHNOLOGY EDUCATION**

Compliance

We have audited the compliance of the Oklahoma Department of Career Technology and Education with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The Oklahoma Department of Career Technology and Education's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Oklahoma Department of Career Technology and Education's management. Our responsibility is to express an opinion on the Oklahoma Department of Career Technology and Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Oklahoma Department of Career Technology and Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Oklahoma Department of Career Technology and Education's compliance with those requirements.

In our opinion, the Oklahoma Department of Career Technology and Education complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Oklahoma Department of Career Technology and Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Oklahoma Department of Career Technology and Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of law, regulations, contracts, and grants that would material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the Oklahoma Department of Career and Technology Education and its governing members and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of governmental records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,

A handwritten signature in black ink, reading "Jeff A. McMahon". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

JEFF A. McMAHAN
State Auditor and Inspector

July 19, 2004

Schedule of Findings

Section I - Summary of Auditor's Results***Financial Statements***

Type of auditor's report issued: qualified

Internal control over financial reporting:

Material weakness(es) identified? yes

Reportable condition(s) identified that are not
considered to be material weakness(es)?none reported

Noncompliance material to financial statements noted?.....no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?no

Reportable condition(s) identified that are not
considered to be material weakness(es)?none reportedType of auditor's report issued on
compliance for major programs: unqualifiedAny audit findings disclosed that are required to be reported
in accordance with Section 510(a) of Circular A-133?.....noDollar threshold used to distinguish between
type A and type B programs:\$12,417,505

Auditee qualified as low-risk auditee?.....No

Identification of Major Program:

CFDA Number and Program

84.048 Vocational Education – Basic Grants to States

**DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Section II – Financial Statement Findings

REF NO: 03-800-007

CATEGORY: Inventory (Repeat Finding)

Criteria: GASB 34 ¶ 224 states in part that the consumption method of inventory must be used when using an accrual basis of accounting. The consumption method recognizes economic transactions and other events when they occur, rather than only when the related inflows and outflows of cash or other financial resources occur. A charge is made to operations in the period when goods and services are used or consumed.

Condition: The agency accounts for all printshop raw materials and curriculum re-sale inventory on the purchase method.

Effect: Inventory is not being expensed in the period of consumption, but when purchased. This will result in a qualification of inventory reported on the government-wide financial statements.

Recommendation: We recommend the agency establish and implement a system that will recognize and record inventory items when they are consumed.

Management's Corrective Action Plan

Contact Person: Bill Beierschmitt, Chief Financial Officer

Anticipated Completion Date: July 1, 2005

Corrective Action Planned: While we concur in principal with this requirement of GASB 34, the accounting system in place does not allow expenditures to be recorded on the book in the year other than the one in which they were incurred. Due to current difficulties this accounting change would require (personnel), we are relying on the new accounting system that is being implemented in the State of Oklahoma to correct this deficiency.

Section III – Federal Award Findings

No matters were reported.