

State of Oklahoma
Department of Commerce

Financial Statements

June 30, 2012 and 2011
(With Independent Auditors' Report Thereon)



STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

FINANCIAL STATEMENTS

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STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

State of Oklahoma
Department of Commerce

We have audited the accompanying financial statements of the governmental activities and the General Fund of the State of Oklahoma Department of Commerce (ODOC) as of and for the years ended June 30, 2012 and 2011, which collectively comprise ODOC's basic financial statements as listed in the table of contents. ODOC is a part of the reporting entity of the State of Oklahoma. These financial statements are the responsibility of ODOC's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of ODOC are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma that is attributable to the transactions of ODOC. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of ODOC as of June 30, 2012 and 2011, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, on our consideration of ODOC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages I-1 through I-7 and 36 through 40 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, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ODOC's financial statements. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
October 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of ODOC's financial performance provides an overview of ODOC's financial activity for the years ended June 30, 2012 and 2011. It should be read in conjunction with the financial statements which begin on page 3.

Discussion of the Basic Financial Statements

The 2012 and 2011 financial statements have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34). GASB 34 not only provides for the presentation of Management's Discussion and Analysis and other required supplementary information, but also provides for the following statements:

Government-Wide Financial Statements:

Statements of Net Assets—These are financial statements of ODOC as a whole. They are prepared on the accrual basis of accounting and present all assets, liabilities, and net assets for the entire department as of June 30, 2012 and 2011.

Statements of Activities—These statements are also prepared on the accrual basis of accounting and present the operating results of ODOC for the years ended June 30, 2012 and 2011.

Fund Financial Statements:

Balance Sheets—General Fund—As ODOC has only one fund, the General Fund, these financial statements present the balance sheets prepared on a modified accrual basis of accounting. Certain assets and liabilities presented on the statements of net assets are not reflected on these statements. There is also a reconciliation prepared on the balance sheets to reconcile the fund balance per the General Fund to the government-wide net assets.

Statements of Revenues, Expenditures, and Changes in Fund Balances—General Fund—These statements are prepared on a modified accrual basis of accounting; consider only the governmental funds, i.e., in ODOC's case, the General Fund; and present operating results on a governmental fund basis. There is also a reconciliation of the statements of revenues, expenditures, and changes in fund balances—General Fund to the statements of activities—as the name implies, these statements are simply a reconciliation of the net changes in fund balances for governmental funds to the changes in net assets per the statements of activities.

The government-wide financial statements include all assets and liabilities of ODOC, such as land, building, furniture, fixtures, and equipment, capital leases payable, accruals for compensated absences, etc. As such, also included are depreciation and interest expenses, whereas the fund financial statements generally include only current assets and payables. At the fund level, payments on the capital lease obligations are reflected as expenditures when paid and no capital assets such as land and building are included.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Condensed Financial Information

Government-Wide Financial Statements

Statements of Net Assets

	<u>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 33,691,100	52,399,053
Noncurrent assets	<u>18,834,021</u>	<u>8,319,780</u>
Total assets	<u>52,525,121</u>	<u>60,718,833</u>
Liabilities		
Current liabilities	13,347,388	18,445,343
Noncurrent liabilities	<u>4,881,967</u>	<u>5,302,813</u>
Total liabilities	<u>18,229,355</u>	<u>23,748,156</u>
Net assets	<u>\$ 34,295,766</u>	<u>36,970,677</u>

Current assets primarily consist of cash and receivables from grantors. In addition, as of June 30, 2012 and 2011, there was approximately \$5,650,000 and \$11,975,000, respectively, of receivables from subgrantees. This represents amounts that ODOC has advanced to subgrantees but which the subgrantees have not expended. Capital assets primarily consist of land, building, furniture, fixtures, and equipment. Also included in noncurrent assets are certain loans which ODOC has made, for which repayment is expected. Current liabilities were primarily composed of accounts payable along with the current portion of capital lease obligations of \$465,000 and \$445,000 at June 30, 2012 and 2011, respectively, and the current portion of compensated absences of approximately \$524,000 and \$562,000 at June 30, 2012 and 2011, respectively. There was deferred revenue of approximately \$2,704,000 as of June 30, 2012. There was no deferred revenue as of June 30, 2011. Noncurrent liabilities consisted of lease obligations, net of the current portion, of \$4,730,000 and \$5,195,000 at June 30, 2012 and 2011, respectively, and accrued compensated absences, less the current portion, of approximately \$152,000 and \$108,000 at June 30, 2012 and 2011, respectively.

Net assets were composed of the investment in capital assets, net of related debt, of approximately \$885,000 and \$687,000 at June 30, 2012 and 2011, respectively. Restricted net assets totaled approximately \$27,664,000 and \$31,934,000 at June 30, 2012 and 2011, respectively, representing the net assets of the federal programs administered by ODOC, with approximately \$144,000 restricted for the Opportunity Fund at both June 30, 2012 and 2011, and approximately \$1,843,000 and \$3,445,000 restricted for the Oklahoma Bioenergy Center Fund at June 30, 2012 and 2011, respectively. Unrestricted net assets were approximately \$5,746,000 and \$4,350,000 at June 30, 2012 and 2011, respectively.

A significant portion of the statements of activities is represented by state appropriations. For the years ended June 30, 2012 and 2011, approximately \$40,606,000 and \$39,306,000, respectively, was transferred to ODOC from State of Oklahoma appropriated revenues. Grant programs as of June 30, 2012 and 2011, accounted for approximately \$147,926,000 and \$137,484,000, respectively, of expenses and approximately \$134,025,000 and \$148,017,000, respectively, of revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Analysis of the Government's Overall Financial Position and Results of Operations

The June 30, 2012 and 2011, statements of net assets reflect assets in excess of liabilities of approximately \$34,296,000 and \$36,971,000, respectively; approximately \$25,677,000 and \$28,344,000, respectively, of those net assets were restricted for grant operations. For the years ended June 30, 2012 and 2011, the statements of activities reflect a change in net assets of approximately \$(2,675,000) and \$7,708,000, respectively.

Analysis of Balances and Transactions of Individual Funds

As noted previously, ODOC, for reporting purposes, has one fund and that is the General Fund. Included in the fund balance of the General Fund are the remaining assets of federal programs which are reflected as restricted.

Condensed Financial Information

Fund Financial Statements

Balance Sheets

	<u>2012</u>	<u>2011</u>
Cash, including short-term investments	\$ 22,156,960	26,138,950
Subgrantee advances	5,649,838	11,975,281
Grants receivable	5,679,078	13,851,181
Accounts receivable	<u>205,224</u>	<u>433,641</u>
 Total assets	 <u>\$ 33,691,100</u>	 <u>52,399,053</u>
 Accounts payable	 \$ 9,653,747	 17,438,103
Deferred revenue	2,704,295	-
Fund balances	<u>21,333,058</u>	<u>34,960,950</u>
 Total liabilities and fund balances	 <u>\$ 33,691,100</u>	 <u>52,399,053</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Condensed Financial Information, Continued

Fund Financial Statements, Continued

Statements of Revenues, Expenditures, and Changes in Fund Balance

	<u>2012</u>	<u>2011</u>
Revenues and other sources:		
State appropriations	\$ 40,605,681	39,306,423
Federal grant revenues	93,571,676	130,303,836
In-kind revenues (match)	38,800,351	16,243,877
Other	<u>2,798,293</u>	<u>2,515,677</u>
Total revenues and other sources	<u>175,776,001</u>	<u>188,369,813</u>
Expenditures:		
Subgrantee expenditures	120,408,177	132,732,640
Salaries, wages, and benefits	10,303,913	10,677,559
In-kind expenditures (match)	38,800,351	16,243,877
Other	<u>19,891,452</u>	<u>21,229,680</u>
Total expenditures	<u>189,403,893</u>	<u>180,883,756</u>
Net (decrease) increase in fund balance	<u>\$ (13,627,892)</u>	<u>7,486,057</u>

Grants receivable represents amounts due from federal grants for expenditures made as of June 30, 2012 and 2011. Cash includes federal grant monies held at June 30, 2012 and 2011, of \$9,766,944 and \$14,376,226, respectively. The fund balance at June 30, 2012 and 2011, included \$12,923,502 and \$26,351,507, respectively, reserved for the grant programs administered by ODOC and \$143,762 at both June 30, 2012 and 2011, reserved for the Opportunity Fund and \$1,843,062 and \$3,445,467 at June 30, 2012 and 2011, respectively, reserved for the Oklahoma Bioenergy Center Fund.

Analysis of Significant Variations Between Budget Amounts for the General Fund

The largest significant variances in the budgets are in the areas of grant revenues, subgrantee expenditures, and state appropriations. For the years ended June 30, 2012 and 2011, it was anticipated that ODOC would receive approximately \$129,424,000 and \$162,809,000, respectively, in grant revenues and expend approximately \$148,649,000 and \$175,860,000, respectively, in subgrantee expenditures. For the years ended June 30, 2012 and 2011, grant revenue was overestimated by approximately \$33,898,000 and \$30,929,000, respectively, while subgrantee expenditures were overestimated by approximately \$28,241,000 and \$43,127,000, respectively. Actual state appropriations exceeded budget amounts by approximately \$11,532,000 and \$12,401,000 for the years ended June 30, 2012 and 2011, respectively. No other large variances in the budget were noted, with the exception of contractual and professional expenditures, for which actual expenditures were approximately \$2,096,000 more than budgeted for the year ended June 30, 2012, and \$822,000 less than budgeted for the year ended June 30, 2011, and salaries, wages, and benefits, for which actual expenditures were approximately \$3,168,000 and \$1,478,000 less than budgeted, respectively, and building and capitol dome leases for which actual expenditures were approximately \$5,718,000 and \$8,297,000 less than budgeted, respectively. The building and capitol dome leases variance is due to the reclassification for reporting purposes of certain amounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Description of Significant Capital Asset and Long-Term Debt Activity

As of June 30, 2012 and 2011, long-term debt of ODOC consisted of capital lease obligations and compensated absences. At June 30, 2012 and 2011, the principal amount of the capital lease obligations was \$5,195,000 and \$5,640,000, respectively. During the years ended June 30, 2012 and 2011, principal payments of \$445,000 and \$435,000, respectively, were made on the debt.

Compensated absences totaled \$676,313 and \$670,053 at June 30, 2012 and 2011, respectively. The allocation of the portion considered long-term is as follows:

	<u>2012</u>	<u>2011</u>
Total compensated absences	\$ 676,313	670,053
Portion considered short-term	<u>(524,346)</u>	<u>(562,240)</u>
Long-term portion	<u>\$ 151,967</u>	<u>107,813</u>

During the years ended June 30, 2012 and 2011, while recording approximately \$311,000 and \$238,000, respectively, of depreciation, there was approximately \$65,000 and \$291,000, respectively, of property added. ODOC had no large amounts of infrastructure assets, and property is depreciated on the half-year, straight-line basis.

Description of Currently Known Facts, Decisions, or Conditions that are Expected to Have a Significant Effect on the Financial Position or Results of Operations

On July 18, 2012, the Office of State Finance approved ODOC's budget for the fiscal year July 1, 2012, to June 30, 2013. Overall, the total budgeted operating expenditures decreased \$66,925,553 for FY-2013 and decreased \$66,582,727 for FY-2012. The change in anticipated expenditures, reflected by funding source, is as follows:

<u>Funding Source</u>	<u>2013 Budget Compared to 2012</u>	<u>2012 Budget Compared to 2011</u>
State-appropriated (including appropriation budgeted in revolving funds and Special Cash and REAP funds)	\$ (565,111)	395,463
Revolving funds (excluding appropriation budgeted in revolving funds)	(2,222,686)	(3,999,630)
Federal and other	<u>(64,137,756)</u>	<u>(62,978,560)</u>
Total budget change	<u>\$ (66,925,553)</u>	<u>(66,582,727)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Description of Currently Known Facts, Decisions, or Conditions that are Expected to Have a Significant Effect on the Financial Position or Results of Operations, Continued

ODOC is anticipating \$41,899,681 in state-appropriated funding for FY-2013, compared to \$42,464,792 in FY-2012. The \$565,111 decrease in the “state-appropriated” category for the year ending June 30, 2013, is due primarily to the following:

- Appropriations for pass-through entities and other operating other than Native American Cultural and Educational Authority (NACEA) increased by \$500,000 in FY-2013—from \$33,821,327 in FY-2012 to \$34,321,327 in FY-2013.
- Carryover of appropriated funds decreased by \$1,065,111 in FY-2013—from \$1,859,111 in FY-2012 to \$794,000 in FY-2013. NACEA requested the majority of their carryover be budgeted in August, but the remaining carryover for the agency is not known and is not budgeted until mid-November of each year.

ODOC is anticipating \$4,138,486 in revolving funded operating expenditures for FY-2013, compared to \$6,361,172 in FY-2012. The \$2,222,686 decrease in the “Revolving Funds” category for the year ending June 30, 2013, is due primarily to the following:

- The Oklahoma Bioenergy Center Fund non-appropriated budget decreased by \$2,044,414 in FY-2013—from \$2,113,476 in FY-2012 to \$69,062 in FY-2013.
- The ODOC Non-Appropriated Fund decreased by \$153,122 in FY-2013—from \$2,687,294 in FY-2012 to \$2,534,172 in FY-2013.
- The NACEA Fund increased by \$30,000 in FY-2013—from \$0 in FY-2012 to \$30,000 in FY-2013.
- The Community Development Center Program Fund decreased by \$51,336 in FY-2013—from \$85,349 in FY-2012 to \$34,013 in FY-2013.
- The Oklahoma Viticulture Enology Revolving Fund increased by \$73,450 in FY-2013—from \$282,100 in FY-2012 to \$355,550 in FY-2013.
- The Capital Improvement Planning Fund decreased by \$6,143 in FY-2013—from \$34,221 in FY-2012 to \$28,078 in FY-2013.
- The Intra-Agency Reimbursement Fund decreased by \$71,121 in FY-2013—from \$1,014,445 in FY-2012 to \$943,324 in FY-2013.

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

Description of Currently Known Facts, Decisions, or Conditions that are Expected to Have a Significant Effect on the Financial Position or Results of Operations, Continued

ODOC is anticipating \$68,693,898 in federally funded operating expenditures for FY-2013, compared to \$132,831,654 in FY-2012. The \$64,137,756 decrease in the “Federal and Other” category for the year ending June 30, 2013, is due primarily to the following:

- The ARRA stimulus budget decreased by \$43,150,528 in FY-2013—from \$58,506,255 in FY-2012 to \$15,355,727 in FY-2013.
- The federal pass-through and other budget including payroll decreased by \$20,987,228 in FY-2013—from \$74,325,399 in 2012 to \$53,338,171 in 2013.

Federal funds totaling approximately \$173 million have been made available to ODOC by the federal government for administering the American Recovery and Reinvestment Act (ARRA) program and funding over a 30-month period. Stimulus funds totaling \$58,506,255 were budgeted in FY-2012 compared to \$15,355,727 currently budgeted for FY-2013. This decrease is due to many of the grants ending on or before September 30, 2012.

This significant federal stimulus legislation, along with its massive funding levels and stringent reporting and monitoring requirements, necessitated an organizational change to develop and effectively administer the ARRA stimulus programs. The Operations Group filled this role for ODOC. However, as the ARRA program activity has decreased, the Operations Group staff has been transferred into Community Development to assist in closing out these programs.

Except for the ARRA program, ODOC does not anticipate any significant changes in operations unless the Sequestration mandated by the Budget Control Act of 2011 goes into effect on January 1, 2013. This could have a significant effect on the financial position of ODOC with the possibility of federal grants being reduced 8%–10% over a 9-year period. This would impact the FTEs and cost-sharing programs and cause a reduction of services.

Request for Information

This financial report is designed to provide a general overview of ODOC’s finances for those people who have an interest. Any questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Oklahoma Department of Commerce, 900 North Stiles Avenue, Oklahoma City, OK 73104

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF NET ASSETS

<i>June 30,</i>	<i>2012</i>	<i>2011</i>
Assets		
Current assets:		
Cash, including short-term investments	\$ 22,156,960	26,138,950
Subgrantee advances	5,649,838	11,975,281
Grants receivable	5,679,078	13,851,181
Accounts receivable	205,224	433,641
Total current assets	<u>33,691,100</u>	<u>52,399,053</u>
Noncurrent assets:		
Loans receivable	12,753,540	1,992,871
Capital assets:		
Nondepreciable—land	150,000	150,000
Depreciable, net of accumulated depreciation	5,930,481	6,176,909
Capital assets, net	<u>6,080,481</u>	<u>6,326,909</u>
Total noncurrent assets	<u>18,834,021</u>	<u>8,319,780</u>
Total assets	<u>\$ 52,525,121</u>	<u>60,718,833</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 9,653,747	17,438,103
Capital lease obligations—current portion	465,000	445,000
Compensated absences—current portion	524,346	562,240
Deferred revenue	2,704,295	-
Total current liabilities	<u>13,347,388</u>	<u>18,445,343</u>
Noncurrent liabilities:		
Capital lease obligations—less current portion	4,730,000	5,195,000
Compensated absences—less current portion	151,967	107,813
Total noncurrent liabilities	<u>4,881,967</u>	<u>5,302,813</u>
Total liabilities	<u>18,229,355</u>	<u>23,748,156</u>
Net Assets		
Invested in capital assets, net of related debt	885,481	686,909
Restricted—grant programs	25,677,042	28,344,379
Restricted—Opportunity Fund	143,762	143,762
Restricted—Oklahoma Bioenergy Center Fund	1,843,062	3,445,467
Unrestricted	5,746,419	4,350,160
Total net assets	<u>34,295,766</u>	<u>36,970,677</u>
Total liabilities and net assets	<u>\$ 52,525,121</u>	<u>60,718,833</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2012

	REVENUE			
	<u>Expense</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Government activities:				
General government:				
Operations	\$ (30,394,334)	420,337	-	(29,973,997)
Interest expense	(204,716)	-	-	(204,716)
Total general government	<u>(30,599,050)</u>	<u>420,337</u>	<u>-</u>	<u>(30,178,713)</u>
Grant programs	<u>(147,925,588)</u>	<u>-</u>	<u>134,025,445</u>	<u>(13,900,143)</u>
Total government activities	<u>\$ (178,524,638)</u>	<u>420,337</u>	<u>134,025,445</u>	<u>(44,078,856)</u>
General revenues:				
State appropriations				40,605,681
Investment income				123,990
Other				674,274
Total general revenues				<u>41,403,945</u>
Change in net assets				(2,674,911)
Net assets, beginning of year				<u>36,970,677</u>
Net assets, end of year				<u>\$ 34,295,766</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2011

	REVENUE			
	<u>Expense</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Government activities:				
General government:				
Operations	\$ (44,228,841)	1,585,669	-	(42,643,172)
Interest expense	(253,350)	-	-	(253,350)
Total general government	<u>(44,482,191)</u>	<u>1,585,669</u>	<u>-</u>	<u>(42,896,522)</u>
Grant programs	<u>(137,484,299)</u>	<u>-</u>	<u>148,017,324</u>	<u>10,533,025</u>
Total government activities	<u>\$ (181,966,490)</u>	<u>1,585,669</u>	<u>148,017,324</u>	<u>(32,363,497)</u>
General revenues:				
State appropriations				39,306,423
Investment income				151,897
Other				612,823
Total general revenues				<u>40,071,143</u>
Change in net assets				7,707,646
Net assets, beginning of year				<u>29,263,031</u>
Net assets, end of year				<u>\$ 36,970,677</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

BALANCE SHEETS—GENERAL FUND

<i>June 30,</i>	<i>2012</i>	<i>2011</i>
Assets		
Cash, including short-term investments	\$ 22,156,960	26,138,950
Subgrantee advances	5,649,838	11,975,281
Grants receivable	5,679,078	13,851,181
Accounts receivable	<u>205,224</u>	<u>433,641</u>
Total assets	<u>\$ 33,691,100</u>	<u>52,399,053</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 9,653,747	17,438,103
Deferred revenue	<u>2,704,295</u>	<u>-</u>
Total liabilities	<u>12,358,042</u>	<u>17,438,103</u>
Fund balances:		
Restricted	16,703,586	31,344,654
Assigned	892,509	809,766
Unassigned	<u>3,736,963</u>	<u>2,806,530</u>
Total fund balances	<u>21,333,058</u>	<u>34,960,950</u>
Total liabilities and fund balances	<u>\$ 33,691,100</u>	<u>52,399,053</u>
Reconciliation of Fund Balances to Net Assets		
Total fund balances from above	\$ 21,333,058	34,960,950
Amounts reported in the statements of net assets are different because:		
Capital assets and certain loans used in governmental activities are not financial resources and therefore not reported in the fund:		
Capital assets, net of accumulated depreciation of \$2,417,351 and \$2,106,360 at June 30, 2012 and 2011, respectively	6,080,481	6,326,909
Loans receivable	12,753,540	1,992,871
Certain liabilities are not due and payable in the current period and therefore not reported in the fund:		
Accrued compensated absences	(676,313)	(670,053)
Capital lease obligations	<u>(5,195,000)</u>	<u>(5,640,000)</u>
Net assets, per the statements of net assets	<u>\$ 34,295,766</u>	<u>36,970,677</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GENERAL FUND**

<i>Years Ended June 30,</i>	<i>2012</i>	<i>2011</i>
Revenues:		
Federal grant revenues	\$ 93,571,676	130,303,836
Program income	1,954,229	1,575,806
Interest	123,990	151,897
Other	720,074	787,974
In-kind revenues (match)	38,800,351	16,243,877
Total revenues	<u>135,170,320</u>	<u>149,063,390</u>
Expenditures:		
Subgrantee expenditures	120,408,177	132,732,640
Salaries, wages, and benefits	10,303,913	10,677,559
Professional	1,835,095	1,673,625
Travel	737,310	652,860
Building and capitol dome leases	649,716	688,350
Space rental	77,759	77,406
Equipment rental	33,348	56,272
Supplies	69,120	83,940
Equipment	329,701	551,217
Maintenance	306,575	261,758
Telephone	91,784	97,914
Postage and freight	20,707	44,493
Advertising	353,640	306,883
Printing	37,868	64,017
Contractual, including Oklahoma Bioenergy Center Fund expenditures in 2012 and 2011	7,198,819	8,591,184
Funds returned to grantor	10,397	45,783
Other	1,730,117	1,592,589
NACEA expenditures	6,409,496	6,441,389
In-kind expenditures (match)	38,800,351	16,243,877
Total expenditures	<u>189,403,893</u>	<u>180,883,756</u>
Deficiency of revenues over expenditures	(54,233,573)	(31,820,366)
Other funding sources:		
State appropriations	<u>40,605,681</u>	<u>39,306,423</u>
Net change in fund balances	(13,627,892)	7,486,057
Beginning fund balances	<u>34,960,950</u>	<u>27,474,893</u>
Ending fund balances	<u>\$ 21,333,058</u>	<u>34,960,950</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GENERAL FUND TO THE
STATEMENTS OF ACTIVITIES

<i>Years Ended June 30,</i>	<i>2012</i>	<i>2011</i>
Net changes in fund balances—General Fund	\$ (13,627,892)	7,486,057
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:		
Depreciation expense	(310,991)	(237,511)
Capital asset purchases capitalized	64,563	291,180
	<u>(246,428)</u>	<u>53,669</u>
In the statements of activities, the loss on the disposal of capital assets is recognized. The fund financial statements recognize no impact from these dispositions:		
Loss on the disposal of capital assets, including adjustments for change in capitalization policy	-	(128,240)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of net assets:		
Capital lease obligation principal payments	445,000	435,000
Repayment of certain loans is revenue in the governmental funds, but the repayment reduces long-term assets (loans) on the statements of net assets:		
Loan principal repayments	(348,147)	(281,346)
Principal advanced on certain loans is an increase in long-term assets (loans) on the statements of net assets, but an expenditure for the governmental funds:		
Advances of principal	11,108,817	111,180
Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued compensated absences	<u>(6,261)</u>	<u>31,326</u>
Changes in net assets, per the statements of activities	<u>\$ (2,674,911)</u>	<u>7,707,646</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State of Oklahoma Department of Commerce (ODOC) complies with accounting principles generally accepted in the United States. Accounting principles generally accepted in the United States 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.

Reporting Entity

ODOC was created on July 1, 1986, under the provisions of the State of Oklahoma House Bill 1944. This legislation joined two state agencies, the Department of Economic and Community Affairs and the Office of the Governor—Department of Economic Development, with several other smaller entities to become the State of Oklahoma Department of Commerce.

ODOC, as an agency of the State of Oklahoma, receives appropriations from state funds, in addition to administering various federal programs. ODOC passes certain federal and state funds through to qualifying participants. The financial statements include revenues and expenditures for all funds administered by ODOC.

The financial statements include only the activities of ODOC and are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma that is attributable to the transactions of ODOC. In addition, certain activities of the Native American Cultural and Educational Authority (NACEA), as discussed in Note 13, are included, as they are administered by ODOC on behalf of NACEA.

As a state agency, ODOC's insurance is provided through a risk pool of state agencies. For the years ended June 30, 2012 and 2011, the premiums paid for this coverage were approximately \$7,000 and \$11,000, respectively.

ODOC's financial statements are included in the statewide financial statements of the State of Oklahoma.

See Independent Auditors' Report.

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Basis of Presentation

Government-Wide Financial Statements

The statements of net assets and the statements of activities display information about ODOC as a whole. ODOC's activities are all governmental in nature and generally are financed primarily through state appropriations and other nonexchange revenues (grants). ODOC has no business-type activities as defined by GASB 34.

Fund Financial Statements

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

For the financial statement presentation, ODOC has only one fund, and that is the General Fund. All grant revenues and expenditures are accounted for in the General Fund, with net assets and fund balances restricted.

ODOC has only governmental-type funds and no proprietary or fiduciary funds.

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.

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Measurement Focus and Basis of Accounting, Continued

Measurement Focus

On the government-wide statements of net assets and the statements of activities, ODOC's activities are presented using the economic resources measurement focus as defined in item *a* below.

In the fund financial statements, the "current financial resources" measurement focus is used as defined in item *b* below.

- a. The statements of net assets and the statements of activities utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of changes in net assets and financial positions. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.
- b. The General Fund utilizes a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund uses fund balances as the measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statements of net assets and statements of activities, ODOC's 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 the economic assets are used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchanges take place.

In the fund financial statements, the General Fund is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities; ODOC considers 90 days as the timeframe for collectible. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest which are reported when due.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting

The General Fund is the operating fund of ODOC. It is used to account for all activities. Included in the General Fund are various grant revenues and expenditures. The grant monies are considered restricted. Because the operations of the federal and state programs are so significant to ODOC, a summary of the objectives of the more significant federal and state programs administered by ODOC is as follows:

- √ *Community Development Block Grant/States Program (CDBG)*—The objective of CDBG is the development of viable urban communities, decent housing and a suitable living environment, and expanded economic opportunities to be achieved through the undertaking of eligible activities that fulfill one or more of three broad national objectives: (1) benefiting low-and moderate-income individuals, (2) aiding in the prevention or elimination of slums or blight, and (3) meeting other communities' development needs having a particular urgency because existing conditions pose a serious and immediate threat to health or welfare of the community and other financial resources are not available to meet such needs.
- √ *CDBG ED Recovery and CD Recovery*—These are funds received by ODOC in repayment of various financial assistance agreements which were initially funded by the CDBG program. These funds are designated to be used in the same manner and under the same conditions as the CDBG program funds.

The outstanding balances of loans made to municipal authorities and cities for the funding of projects to provide for jobs to low-income individuals and to assist communities with community development projects under this program are not reflected in the financial statements. Due to the nature of the loans, the ultimate collection of the full amount of the loans cannot be determined. Therefore, in accordance with accounting principles generally accepted in the United States, the loan repayments are treated as revenue when cash payments are received. Such repayments are included as program income.

Since the inception of the program, loans of approximately \$58,007,000 have been funded as of June 30, 2012, with approximately \$25,014,000 and \$26,533,000 outstanding at June 30, 2012 and 2011, respectively. During the years ended June 30, 2012 and 2011, collection of principal and interest on loans amounted to approximately \$1,519,000 and \$1,262,000, respectively. Cumulative collections since the inception of the program approximated \$32,993,000 as of June 30, 2012. No loans were deemed uncollectible during the years ended June 30, 2012 or 2011. Cumulative loans charged-off since the inception of the program approximated \$13,306,000 as of June 30, 2012.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting, Continued

- √ *Other Loan Programs*—ODOC has other loan activities funded through the oil overcharge programs (noted below). The other loan programs are expected to be collected and, for the purpose of government-wide financial statements, are included as assets.

The other programs had outstanding loans with principal balances of approximately \$12,754,000 and \$1,993,000 at June 30, 2012 and 2011, respectively.

A summary of the loans by program funded at June 30 is as follows:

<u>Program</u>	<u>2012</u>	<u>2011</u>
SEPRF	\$ 11,027,557 *	-
EIRLF	1,048,557	1,104,414
HELP	273,282	360,272
SALP	214,953	298,704
CEEMP	95,511	137,532
Stripper Well	93,680	91,949
	<u>\$ 12,753,540</u>	<u>1,992,871</u>

* The State Energy Program Revolving Loan Fund (SEPRF) is funded through the American Recovery and Reinvestment Act of 2009. The program is to provide loans for eligible energy activities.

- √ *Weatherization Assistance Program for Low-Income Persons (“Weatherization”)*—The objective of Weatherization is to conserve energy and reduce the impact of rising costs on low-income persons, particularly the elderly and handicapped, through the installation of energy-conserving measures in their dwellings.
- √ *Community Services Block Grant (CSBG)*—The objective of CSBG programs is to provide funds to states for community-based programs that assist in removing the causes and consequences of poverty.
- √ *Emergency Solutions*—These funds are used to meet the critical and urgent needs of the homeless and to provide programs to assist the homeless, with special emphasis on elderly persons, handicapped persons, families with children, Native Americans, and veterans.

See Independent Auditors’ Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting, Continued

- √ *Stripper Well and Oil Overcharge*—These funds are used for energy-related purposes as authorized by the U.S. Department of Energy.
- √ *Workforce Investment Act (WIA)*—The objectives of WIA programs are to help Americans access the tools needed to manage their careers through information and high-quality services and to help U.S. companies find skilled workers.
- √ *Oklahoma Opportunity Fund (“Opportunity Fund”)*—The Opportunity Fund was established by the Oklahoma Legislature, with the objectives being the creation of new jobs which offer a basic health benefit plan; the maintenance of existing jobs which are at risk for termination; investment in new real property, plant, or equipment or improvement or retooling of existing plant or equipment; and additional revenues in either ad valorem, income, or sales and use taxes. During FY-2007, ODOC received \$45,000,000 in state appropriations for the Opportunity Fund, and no funds were expended during the years ended June 30, 2012 or 2011. At both June 30, 2012 and 2011, \$143,762 of funds were available for expenditure for the Opportunity Fund. Future expenditures are subject to the approval of the Oklahoma Legislature.
- √ *Oklahoma Bioenergy Center Fund (OBC Fund)*—The OBC Fund was established by the Oklahoma Legislature as a strategic partnership focusing the collective resources of contributing institutions in the field of bioenergy research to address and undertake research facing biofuels and bioenergy industry in Oklahoma and the nation; advance the research capacity in Oklahoma; and conduct research through contributing institutions and partnerships to deliver practical outcomes to enable the competitive and sustainable production of liquid biofuels in Oklahoma. During the years ended June 30, 2012 and 2011, ODOC did not receive any additional state appropriations. ODOC expended approximately \$2,044,000 and \$3,211,000 during the years ended June 30, 2012 and 2011, respectively, which is reflected as contractual expense in the statements of revenues, expenditures, and changes in fund balances—General Fund. An additional \$728,000 was also expended for other authorized purposes during the year ended June 30, 2011. At June 30, 2012 and 2011, \$1,843,062 and \$3,445,467, respectively, of funds were available for expenditure for the OBC Fund.

See Independent Auditors’ Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Fund Accounting, Continued

- √ *Rural Economic Action Plan (REAP) Fund*—The REAP Fund is a continuing fund established by the Oklahoma Legislature for rural cities and towns that do not exceed 7,000 persons. The purposes of the funds were established for, but not limited to, water quality projects, solid waste disposal, sanitary sewer construction or improvement projects, road or street construction, fire protection services, construction or improvement of telecommunication facilities or systems, and improvement of municipal energy distribution systems. During the years ended June 30, 2012 and 2011, ODOC received approximately \$11,533,000 and \$12,401,000, respectively, in state appropriations for the REAP Fund. ODOC expended approximately \$11,533,000 and \$12,401,000 during the years ended June 30, 2012 and 2011, respectively, which is reflected as subgrantee expenditures in the statements of revenues, expenditures, and changes in fund balances—General Fund. At June 30, 2012 and 2011, there were no remaining funds available for expenditures for the REAP Fund.

The American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (ARRA) was passed by Congress in February 2009 to provide a stimulus to the U.S. economy in the wake of the economic downturn. A summary of the objectives of the ARRA funds administered by ODOC is as follows:

- √ *Workforce Investment Act (WIA)*—The WIA program funds are contracted by the U.S. Department of Labor to enhance workforce development programming for low-income youth, low-income adults, and the recently unemployed. The funding will enhance the alignment of workforce with the needs of local businesses. The funding encourages training for high-growth industries, such as healthcare and jobs that support energy efficiency. The program ended June 30, 2011.
- √ *Community Development Block Grant (CDBG)*—The CDBG program funds are contracted by the U.S. Department of Housing and Urban Development to enhance public systems through the investment of federal and state resources. ODOC provides Oklahoma communities with the infrastructure, facilities, and planning required for economic growth. The program awards are based on jobs created, jobs offered to low-to-moderate income individuals, job wage in relationship to average country wage, and jobs with healthcare benefits.
- √ *State Energy Program*—The State Energy Program funds are contracted by the U.S. Department of Energy to increase energy efficiency and reduce energy costs and consumption for consumers, businesses, and government; reduce reliance on imported energy; improve the reliability of electricity and fuel supply and the delivery of energy services; and reduce the impacts of energy production and use on the government.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The American Recovery and Reinvestment Act of 2009, Continued

- √ *Community Services Block Grant (CSBG)*—The CSBG program funds are contracted by the U.S. Department of Health and Human Services to reduce poverty, revitalize low-income communities, and empower low-income individuals and families to become self-sufficient. The program ended September 30, 2010.
- √ *Homeless Prevention and Rapid Re-Housing Program (HPRP)*—The HPRP program funds are contracted by the U.S. Department of Housing and Urban Development to provide rental assistance, housing relocation, and stabilization, such as credit counseling, utility payments, and moving cost assistance.
- √ *Weatherization Assistance Program for Low-Income Persons (“Weatherization”)*—Weatherization program funds are contracted by the U.S. Department of Energy to create jobs by permanently reducing energy bills of eligible homeowners through the installation of energy-conserving measures in their dwellings.
- √ *Energy Efficiency and Conservation Block Grant (EECBG)*—EECBG program funds are contracted by the U.S. Department of Energy to reduce fossil fuel emissions in a manner that is environmentally sustainable, to maximize benefits for local and regional communities, and to improve energy efficiency in the building sector, the transportation sector, and various sectors.
- √ *Energy Efficient Appliance Rebate Program (EEARP)*—EEARP program funds are contracted by the U.S. Department of Energy to provide rebates to residential consumers for the purchase of residential Energy Star products to replace used appliances of the same type. The program ended during the year ended June 30, 2012.
- √ *Electricity Delivery and Energy Reliability, Research, Development and Analysis (“Energy Assurance”)*—Energy Assurance program funds are contracted by the U.S. Department of Energy to lead national efforts to modernize the electric grid; enhance security and reliability of the energy infrastructure; and mitigate the impact of, and facilitate recovery from, disruptions to the energy supply.
- √ *State Energy Sector Partnership and Training Grant (SESP)*—SESP program funds are contracted by the U.S. Department of Labor for training and development of eligible participants in various energy efficiency/renewable energy occupations and industries.
- √ *State Fiscal Stabilization Fund (SFSF)*—SFSF program funds are contracted by the U.S. Department of Education to support public safety and other government services, which may include assistance for elementary and secondary education and public institutions of higher education (IHE), and for modernization, renovation, or repair of public school facilities and IHE facilities. The program ended September 30, 2011.

See Independent Auditors’ Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The American Recovery and Reinvestment Act of 2009, Continued

Through the year ended June 30, 2012, the cumulative amount of ARRA funds that ODOC has been awarded approximated \$172,964,000. During the year ended June 30, 2012, ODOC expended approximately \$55,053,000 of ARRA funds for the following programs:

<u>Program Awarded</u>	<u>Cumulative Amount Awarded</u>	<u>Amount Expended During the Year Ended June 30, 2012</u>
Workforce Investment Act:		
Adult Statewide	\$ 3,650,170	(8,024)
Youth Services	8,708,036	152,755
Dislocated Workers	6,023,463	99,237
	<u>18,381,669</u>	<u>243,968</u>
CDBG	4,333,265	2,007,985
State Energy Program	46,704,000	24,676,119
SESP	6,000,000	2,509,942
CSBG	11,965,297	1,719
HPRP	8,101,391	2,267,677
Weatherization	63,435,436	19,532,901
EECBG	9,593,500	3,121,560
EEARP	3,495,000	179,545
Energy Assurance	534,197	268,528
SFSF	420,000	243,468
	<u>\$ 172,963,755</u>	<u>55,053,412</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Program Income

Program income represents repayments on the various loan programs and other income earned by subgrantees from the federal financial assistance provided.

Subgrantee Advances

ODOC does not reflect subgrantee payments as expenditures until the subgrantee reports them as expenditures and, as such, payments made to subgrantees which have not been reported as expenditures are reflected as subgrantee advances.

Subgrantee Expenditures

ODOC recognizes subgrantee expenditures when incurred as evidenced by a monthly expenditure report. Subgrantee advances represent the difference between funds advanced to subgrantees and subgrantee expenditures incurred.

Capital Lease Obligations

In 1997, ODOC entered into a capital lease obligation, as more fully described in Note 4 to the financial statements. The amount reflected in the statements of net assets is the principal balance due as of June 30, 2012 and 2011.

At July 1, 2008, the operations of the Oklahoma Capital Complex and Centennial Commemoration Commission (collectively referred to as the "Centennial Commission") were transferred to ODOC. This transfer resulted in ODOC assuming an additional capital lease obligation, as more fully described in Note 4 to the financial statements. The amount reflected in the statements of net assets is the principal balance due as of June 30, 2012 and 2011.

Compensated Absences

Full-time continuous employees earn annual vacation leave at the rate of 10 hours per month for up to 5 years of service, 12 hours per month for service of over 5 years to 10 years, 13.2 hours per month for service of over 10 years to 20 years, and 16.4 hours per month for over 20 years of service. Annual leave can only be accumulated for up to 480 hours for employees with 5 or more years of service and up to 240 hours for employees with less than 5 years of service. Annual leave is payable upon termination, resignation, retirement, or death. The statements of net assets and statements of activities account for compensated absences on an accrual basis. The amount reflected as a current liability is an estimate based on historical use.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications

Government-Wide Financial Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is ODOC’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. These classifications are defined as:

- a. Nonspendable fund balance—includes amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact.
- b. Restricted fund balance—consists of fund balance with constraints placed on the use of resources that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

ODOC has identified all federal grants and state funded programs as restricted fund balance. ODOC received state appropriations that specifically were identified within the state legislation for the use of outside agencies. These appropriations are identified as restricted fund balance.

See Independent Auditors’ Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

Fund Financial Statements, Continued

- c. Committed fund balance—the committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action of ODOC’s highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.
- d. Assigned fund balance—the assigned fund balance classification reflects amounts that are constrained by ODOC’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in unassigned fund balance.

ODOC has also received appropriations that were not specifically identified within state legislation for the use of outside agencies. The Secretary of Commerce has the authority as recommended or approved by the Governor or State Leadership to set aside a portion of these funds for the use of outside agencies. These funds are identified as assigned fund balance.

- e. Unassigned fund balance—the unassigned fund balance classification is the residual classification for the General Fund only. Unassigned fund balance essentially consists of excess funds that have not been classified in the four above fund balance categories.

It is ODOC’s policy to first use the restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. ODOC’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Equity Classifications, Continued

Fund Financial Statements, Continued

Effective July 1, 2010, ODOC implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The following table shows the fund balance classifications as shown on the governmental funds balance sheets in accordance with GASB 54 for the years ended June 30:

	<u>General Fund</u>	
	<u>2012</u>	<u>2011</u>
Fund balances:		
Restricted for:		
Federal grants	\$ 12,923,502	26,351,507
State appropriations	3,774,533	4,991,646
State funded programs	<u>5,551</u>	<u>1,501</u>
Total restricted	<u>16,703,586</u>	<u>31,344,654</u>
Assigned:		
State appropriations	<u>892,509</u>	<u>809,766</u>
Unassigned:		
State appropriations	2,298,760	1,003,366
Program income	<u>1,438,203</u>	<u>1,803,164</u>
Total unassigned	<u>3,736,963</u>	<u>2,806,530</u>
Total fund balances	<u>\$ 21,333,058</u>	<u>34,960,950</u>

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded as expenditures of the applicable funds, is used. This is an extension of the formal budgetary integration in the General Fund. Encumbrances do not represent any further constraint on the use of amounts than is already communicated by governmental fund balance classification as restricted, committed, or assigned. As of June 30, 2012 and 2011, approximately \$1,105,000 and \$261,000, respectively, of encumbrances, adjusted for accruals and negative subgrantee advances, were outstanding.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Advertising Costs

All costs associated with advertising are expensed as incurred.

Grant Revenues and Expenditures

Grant revenues are primarily expenditure driven, in that prior to requesting grant monies, expenditures are normally incurred. As noted previously, ODOC does not recognize subgrantee expenditures until the subgrantee expends the funds and reports this to ODOC. ODOC has contracts with various subgrantees throughout the state. Grants receivable represent the amount needed to fund expenditures accrued at June 30, 2012 and 2011.

As of June 30, 2012 and 2011, ODOC had approximately \$122,911,000 and \$145,973,000, respectively, of grant funds available to be drawn upon when needed. Contract commitments with subgrantees of approximately \$81,007,000 and \$109,919,000 were outstanding as of June 30, 2012 and 2011, respectively.

Reclassification of Prior Year Amounts

Certain 2011 amounts have been reclassified to make them comparable with the 2012 presentation.

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources; and recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through October 26, 2012, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(2) CASH BALANCES AND SUBGRANTEE ADVANCES

Cash Balances

Cash balances consist of cash held at the State Treasurer's office. Cash balances of ODOC are part of the State's pooled cash system and, as such, are properly collateralized.

Custodial Credit Risk—Custodial credit risk is the risk that in the event of the failure of a counterparty, ODOC will not be able to recover the value of its cash deposits. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. As a department of the State of Oklahoma, ODOC's deposits are required to be invested in fully collateralized accounts.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH BALANCES AND SUBGRANTEE ADVANCES

Cash Balances, Continued

Included in cash are investments included in the State of Oklahoma's OK INVEST Portfolio. Because these investments are controlled by the State of Oklahoma and the balances change on a daily basis, they are considered cash equivalents. The balances are overnight funds consisting of U.S. agencies, U.S. Treasury notes, tri-party repurchase agreements, mortgage-backed agencies, municipal bonds, foreign bonds, certificates of deposit, money market mutual funds, and commercial paper. As of June 30, the investment balances were as follows:

	<u>2012</u>	<u>2011</u>
U.S. agencies	\$ 1,375,373	2,166,789
Mortgage-backed agencies	1,717,062	2,152,052
U.S. Treasury notes	50,245	85,593
Municipal bonds	69,777	118,248
Foreign bonds	19,576	22,057
Tri-party repurchase agreements	-	400,337
Certificates of deposit	125,650	280,120
Money market mutual funds	532,488	652,256
Commercial paper	-	55,137
	<u>\$ 3,890,171</u>	<u>5,932,589</u>

Subgrantee Advances

ODOC does not reflect subgrantee payments as expenditures until the subgrantee reports them as expenditures and, as such, payments made to subgrantees which have not been reported as expenditures are reflected as subgrantee advances.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS

The capital assets of ODOC consist of land, building, building improvements, and furniture, fixtures, and equipment. A summary of changes in capital assets is as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2012</u>
Land, nondepreciable	\$ 150,000	-	-	150,000
Building	2,625,000	-	-	2,625,000
Building improvements— capitol dome	4,720,000	-	-	4,720,000
Furniture, fixtures, and equipment	<u>938,269</u>	<u>64,563</u>	-	<u>1,002,832</u>
Total cost	<u>8,433,269</u>	<u>64,563</u>	-	<u>8,497,832</u>
Less accumulated depreciation:				
Building	(1,060,899)	(61,337)	-	(1,122,236)
Building improvements— capitol dome	(429,090)	(143,030)	-	(572,120)
Furniture, fixtures, and equipment	<u>(616,371)</u>	<u>(106,624)</u>	-	<u>(722,995)</u>
Total accumulated depreciation	<u>(2,106,360)</u>	<u>(310,991)</u>	-	<u>(2,417,351)</u>
Capital assets, net	<u>\$ 6,326,909</u>	<u>(246,428)</u>	-	<u>6,080,481</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS, CONTINUED

	Balance at June 30, 2010	Adjustments	Additions	Disposals	Balance at June 30, 2011
Land, nondepreciable	\$ 150,000	-	-	-	150,000
Building	2,625,000	-	-	-	2,625,000
Building improvements— capitol dome	4,720,000	-	-	-	4,720,000
Furniture, fixtures, and equipment	<u>1,136,285</u>	<u>(489,196) ⁽¹⁾</u>	<u>291,180</u>	-	<u>938,269</u>
Total cost	<u>8,631,285</u>	<u>(489,196)</u>	<u>291,180</u>	-	<u>8,433,269</u>
Less accumulated depreciation:					
Building	(999,562)	-	(61,337)	-	(1,060,899)
Building improvements— capitol dome	(286,060)	-	(143,030)	-	(429,090)
Furniture, fixtures, and equipment	<u>(944,183)</u>	<u>360,956 ⁽¹⁾</u>	<u>(33,144)</u>	-	<u>(616,371)</u>
Total accumulated depreciation	<u>(2,229,805)</u>	<u>360,956</u>	<u>(237,511)</u>	-	<u>(2,106,360)</u>
Capital assets, net	<u>\$ 6,401,480</u>	<u>(128,240)</u>	<u>53,669</u>	-	<u>6,326,909</u>

⁽¹⁾ Change in capitalization policy. Effective July 1, 2010, ODOC began capitalizing only those items with a cost of \$25,000 or more. Individual items which did not meet that threshold were removed from the depreciation schedule. The prior threshold was \$5,000.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS, CONTINUED

A summary of capitalized lease assets included above, which are part of capital lease obligations is as follows as of June 30:

	2012		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Assets</u>
Land, nondepreciable	\$ 150,000	-	150,000
Building	2,625,000	(1,122,236)	1,502,764
Building improvements—			
capitol dome	4,720,000	(572,120)	4,147,880
Furniture, fixtures, and equipment	<u>385,000</u>	<u>(385,000)</u>	<u>-</u>
	<u>\$ 7,880,000</u>	<u>(2,079,356)</u>	<u>5,800,644</u>
	2011		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Assets</u>
Land, nondepreciable	\$ 150,000	-	150,000
Building	2,625,000	(1,060,899)	1,564,101
Building improvements—			
capitol dome	4,720,000	(429,090)	4,290,910
Furniture, fixtures, and equipment	<u>385,000</u>	<u>(385,000)</u>	<u>-</u>
	<u>\$ 7,880,000</u>	<u>(1,874,989)</u>	<u>6,005,011</u>

ODOC has no significant infrastructure assets.

The assets are valued at cost and are depreciated using the half-year, straight-line method over their estimated useful lives. The useful lives are as follows:

Land	N/A
Building	40 years
Building improvements—	
capitol dome	33 years
Furniture, fixtures, and equipment	5–10 years

Depreciation expense for the years ended June 30, 2012 and 2011, was \$310,991 and \$237,511, respectively.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL LEASE OBLIGATIONS

During 1997, ODOC entered into a lease agreement with the Oklahoma Capitol Improvement Authority (the “Authority”) for office space. The lease is accounted for as a capital lease. The leased asset (building and land) and related obligation are accounted for in the statements of net assets.

During 2005, the Centennial Commission, a governmental agency of the State of Oklahoma, entered into a lease agreement with the Authority for building improvements. At July 1, 2008, the rights and responsibilities of the Centennial Commission transferred to ODOC, including all property, furniture, equipment, supplies, records, current and future liabilities, fund balances, encumbrances, obligations, and indebtedness associated with the Centennial Commission. The lease is accounted for as a capital lease. The leased asset (capitol dome) and related obligation are accounted for in the statements of net assets.

The Authority issued revenue bonds to facilitate the acquisition of the building which ODOC occupies and for the payments for the improvements to the capitol dome, which is located on the State Capitol Building. The lease payments made by ODOC will repay the principal of the bonds, plus interest. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Building</u>	<u>Capitol Dome</u>	<u>Total</u>
2013	\$ 214,150	463,985	678,135
2014	212,275	466,663	678,938
2015	215,025	463,535	678,560
2016	212,400	464,390	676,790
2017	214,400	464,290	678,690
2018–2022	<u>1,063,938</u>	<u>1,864,215</u>	<u>2,928,153</u>
Minimum lease payments for capital lease	2,132,188	4,187,078	6,319,266
Less amount representing interest	<u>(437,188)</u>	<u>(687,078)</u>	<u>(1,124,266)</u>
Present value of minimum lease payments	<u>\$ 1,695,000</u>	<u>3,500,000</u>	<u>5,195,000</u>

The leases of the building and the capitol dome expire October 1, 2021, and August 1, 2020, respectively, at which time the bonds should be paid in full. ODOC is responsible for all maintenance and insurance of the building.

See Independent Auditors’ Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL LEASE OBLIGATIONS, CONTINUED

Changes in the lease obligations for the years ended June 30 were as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 5,640,000	6,075,000
Principal payments	<u>(445,000)</u>	<u>(435,000)</u>
Balance at end of year	<u>\$ 5,195,000</u>	<u>5,640,000</u>

(5) ACCRUED COMPENSATED ABSENCES

Changes in accrued compensated absences for the years ended June 30 were as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 670,053	701,379
Amount earned	530,606	530,914
Amount used	<u>(524,346)</u>	<u>(562,240)</u>
Balance at end of year	<u>\$ 676,313</u>	<u>670,053</u>

For the statements of net assets and the statements of activities, the changes in the accounts are reflected and the amounts estimated to be current are what were used during the years ended June 30, 2012 and 2011.

(6) DEFERRED REVENUE

ODOC contracts with the Public Service Company of Oklahoma (PSO) and with Oklahoma Natural Gas (ONG) for the weatherizing of homes that qualify for the PSO and ONG weatherization program. Effective January 1, 2011, ODOC renewed the contract with PSO to be on a reimbursement basis for the cost of weatherizing homes. The contract ended December 31, 2011, and was not renewed. Effective January 1, 2012, ODOC entered into a contract with ONG to promote energy efficiency for the cost of weatherizing homes. ODOC received \$250,000, the amount of the contract, up front and will recognize the revenue when weatherization improvements for the homes are made. At June 30, 2012, ODOC had recognized \$38,984 in revenue and \$211,016 is in deferred revenue. At June 30, 2011, no deferred revenue existed.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) DEFERRED REVENUE, CONTINUED

ODOC entered into an allocation agreement with the U.S. Department of Treasury for the State Small Business Credit Initiative established by the Small Business Jobs Act of 2010. The funds are to be used to spur lending to small businesses and create jobs in Oklahoma. At the completion and approval of the allocation agreement, ODOC received one-third of the funds up front and recognizes the revenue as contracts are entered into to lend the funds. At June 30, 2012, ODOC had received \$4,345,556 from the federal government, of which \$2,493,279 has not been recognized as revenue and is in deferred revenue. ODOC expends the funds as subgrantee expenses as the subgrantee requests the drawdowns.

(7) STATE APPROPRIATIONS

ODOC receives monies through appropriations from the State of Oklahoma as approved by the Oklahoma Legislature. Appropriations received for the years ended June 30, 2012 and 2011, were \$40,605,681 and \$39,306,423, respectively.

During the years ended June 30, 2012 and 2011, \$8,299 and \$44,623, respectively, of state funds were returned to the State of Oklahoma.

(8) MATCHING REQUIREMENTS

Certain of the federal grants require that the state or local government match the federal dollars expended. The required matching (in-kind) dollars have been reflected in the revenues and expenditures of the fund financial statements, as they are considered part of the grant.

(9) INDIRECT COSTS

For the years ended June 30, 2012 and 2011, ODOC had a fixed indirect cost rate (a percentage of direct salaries and wages, including applicable fringe benefits) approved by the U.S. Department of Housing and Urban Development for use in charging indirect costs. ODOC's indirect cost rate for the years ended June 30, 2012 and 2011, was 17% and 54%, respectively, which resulted in a charge of \$420,337 and \$1,585,669 to the various federal programs during 2012 and 2011, respectively.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) PENSION PLAN

Description

ODOC’s eligible staff is required to participate in the statewide and state-sponsored Oklahoma Public Employees Retirement System (OPERS). All full-time employees of ODOC are eligible to participate in OPERS. In general, OPERS provides defined retirement benefits based on members’ final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members.

OPERS has separately prepared audited financial statements which include historical trend information about OPERS. The trend information provides information about progress made in accumulating assets and paying benefits when due. Complete copies of the audited financial statements can be obtained from the Oklahoma Public Employees Retirement System, 5801 North Broadway Extension, Suite 400, Oklahoma City, OK 73118.

Funding Policy

Plan members and the agencies are required to contribute at a rate established by state law. The contribution rates for 2012, 2011, and 2010 fiscal years were 16.5%, 15.5%, and 15.5%, respectively, of all salaries for state agencies. State employees were required to contribute 3.5% of total salaries for 2012, 2011, and 2010.

<u>Fiscal Year</u>	<u>Employee Contribution</u>	<u>ODOC Required Contribution</u>	<u>Percentage Contributed</u>	<u>Percentage of Covered Payroll</u>
2012	\$ 268,000	1,206,000	100%	16.5%
2011	283,000	1,214,000	100%	15.5%
2010	292,000	1,263,000	100%	15.5%

See Independent Auditors’ Report.

(11) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

Deferred Compensation Plan

The State of Oklahoma offers its employees a Deferred Compensation Plan (the “Plan”) as authorized by Section 457 of the Internal Revenue Code (IRC), as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The supervisory authority for the management and operation of the Plan is the Board of Trustees of the Oklahoma Public Employees Retirement System (the “Board”).

The Plan is available to all State of Oklahoma employees, as well as any elected officials receiving a salary from the State of Oklahoma. Participants may direct the investment of their contributions in available investment options offered by the Plan. The minimum contribution amount is the equivalent of \$25 per month, and participants are immediately 100% vested in their respective accounts. All interest, dividends, and investment fees are allocated to participants’ accounts.

Participants may defer until future years up to the lesser of 100% of their compensation as defined by plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently \$17,000.

The Plan offers a catch-up program to participants which allows them to defer annually for the 3 years prior to their year of retirement up to twice that plan year’s deferral limit. The amount of additional contributions in excess of the normal maximum contributions to the Plan are also limited to contributions for years in which the participant was eligible but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within 3 years of retirement with no reduced benefits.

Participants age 50 or older may make additional contributions of up to \$5,500 annually, subject to certain limits.

Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant’s account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with the Plan’s provisions.

See Independent Auditors’ Report.

(11) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED

Deferred Compensation Plan, Continued

Effective January 1, 1998, the Board established a trust and a trust fund covering the Plan's assets, pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. Under the terms of the trust, the corpus or income of the trust fund may be used only for the exclusive benefit of the Plan's participants and their beneficiaries. Prior to the establishment of the trust, the Plan's assets were subject to the claims of general creditors of the State. The Board acts as trustee of the trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received, but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the Plan or to determine that the trust fund is adequate to provide the benefits payable pursuant to the Plan.

Further information may be obtained from the Plan's audited financial statements for the years ended June 30, 2012 and 2011. ODOC believes that it has no liabilities with respect to the Plan.

Deferred Savings Incentive Plan

Effective January 1, 1998, the State of Oklahoma established the Oklahoma State Employees Deferred Savings Incentive Plan (the "Savings Incentive Plan") as a money purchase pension plan pursuant to IRC Section 401(a). The Savings Incentive Plan and its related Trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant who is a state employee and is an active participant in the Plan is eligible for a contribution of the amount determined by the Oklahoma Legislature, currently the equivalent of \$25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Plan and is not voluntary.

Upon cessation of contributions to the Plan, termination of employment with the State of Oklahoma, retirement, or death, a participant will no longer be eligible for contributions from the State of Oklahoma into the Savings Incentive Plan. Participants are at all times 100% vested in their Savings Incentive Plan account. Participant contributions are not required or permitted. Qualified participants may make rollover contributions to the Savings Incentive Plan, provided such rollover contributions meet applicable requirements of the IRC. Plan participants may direct the investment of the contributions in available investment options offered by the Savings Incentive Plan. All interest, dividends, and investment fees are allocated to the participants' accounts.

Savings Incentive Plan benefits are paid to participants or beneficiaries upon termination, retirement, or death. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments or may be rolled over to a qualified plan at the option of the participant or beneficiaries.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(12) RISK MANAGEMENT

The Risk Management Division of the Division of Capital Assets Management, a Division of the Office of Management and Enterprise Services, (the “Division”) is responsible for the acquisition and administration of all insurance purchased by the State of Oklahoma or administration of any self-insurance plans and programs adopted for use by the State of Oklahoma for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The Division is authorized to settle claims of the State of Oklahoma and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided by the State of Oklahoma, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of claims owed to the State of Oklahoma incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Division is also charged with the responsibility to immediately notify the attorney general of any claims against the State of Oklahoma presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each State agency, including ODOC, their pro rata share of the premiums purchased. ODOC has no obligations to any claims submitted against ODOC.

(13) NATIVE AMERICAN CULTURAL AND EDUCATIONAL AUTHORITY (NACEA)

The objective of NACEA is to promote the history and culture of Native Americans for the mutual benefit of the state of Oklahoma and its Native American and non-Native American citizens. The operations of NACEA which flow through ODOC are included in ODOC’s General Fund.

ODOC receives state appropriations yearly for NACEA’s operations. For the years ended June 30, 2012 and 2011, ODOC received state appropriations earmarked for NACEA of approximately \$6,784,000 and \$6,822,000, respectively. For the years ended June 30, 2012 and 2011, NACEA’s expenditures, as administered by ODOC, were approximately \$6,409,000 and \$6,441,000, respectively.

See Independent Auditors’ Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) **COMMITMENTS AND CONTINGENT LIABILITIES**

Grant Programs

In the normal course of operations, ODOC participates in a number of federally assisted grant programs. These programs are subject to audits by the grantors or their representatives. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under the terms of the grant. Presently, ODOC has no such requests pending and, in the opinion of management, any such amounts would not be considered material.

In the administration of its grant programs, ODOC subcontracts with numerous subgrantees throughout the state of Oklahoma to accomplish the overall goals of grant agreements. In the administration of subgrantee activities, ODOC requires that an audit of the subgrantee's financial statements be performed by independent certified public accountants on an annual basis. While the subgrantee is held accountable for all questioned costs, ODOC is ultimately responsible to the grantor agency for the funds it receives. ODOC's policy is to require subgrantees to resolve questioned costs on a timely basis.

Leasing Agreements

ODOC leases space and various items of equipment under annual renewable operating leases. As of June 30, 2012 and 2011, there were no significant operating lease commitments outstanding.

Legal

ODOC is occasionally involved in legal proceedings in the normal course of operations. At June 30, 2012, there was no litigation outstanding.

See Independent Auditors' Report.

**STATE OF OKLAHOMA
DEPARTMENT OF COMMERCE**

OTHER REQUIRED SUPPLEMENTARY INFORMATION

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES—BUDGET TO ACTUAL
 (BUDGETARY BASIS)—GENERAL FUND

Year Ended June 30, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State appropriations	\$ 29,073,212	29,073,212	40,605,681	11,532,469
Federal grant revenues and program income	103,658,219	129,423,924	95,525,906	(33,898,018)
Other	1,296,545	1,784,891	1,265,937	(518,954)
Total revenues	<u>134,027,976</u>	<u>160,282,027</u>	<u>137,397,524</u>	<u>(22,884,503)</u>
Expenditures:				
Subgrantee expenditures	122,121,308	148,648,786	120,408,177	28,240,609
Salaries, wages, and benefits	11,788,385	13,471,507	10,303,913	3,167,594
Contractual and professional	5,739,276	6,937,652	9,033,914	(2,096,262)
Travel	1,200,484	1,496,330	737,310	759,020
Building and capitol dome leases	5,925,951	6,367,432	649,716	5,717,716
Space and equipment rental	260,739	260,739	111,107	149,632
Equipment	34,500	48,775	329,701	(280,926)
Maintenance	332,633	362,633	306,575	56,058
Miscellaneous administrative expenses	2,739,450	4,063,764	2,725,108	1,338,656
Total expenditures	<u>150,142,726</u>	<u>181,657,618</u>	<u>144,605,521</u>	<u>37,052,097</u>
Revenues (less than) in excess of expenditures	(16,114,750)	(21,375,591)	(7,207,997)	14,167,594
Budgetary fund balance— beginning of year	<u>(96,309,406)</u>	<u>(124,262,347)</u>	<u>56,004,034</u>	<u>180,266,381</u>
Budgetary fund balance— end of year	<u>\$ (112,424,156)</u>	<u>(145,637,938)</u>	<u>48,796,037</u>	<u>194,433,975</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

**COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—BUDGET TO ACTUAL
(BUDGETARY BASIS)—GENERAL FUND, CONTINUED**

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State appropriations	\$ 26,905,919	26,905,919	39,306,423	12,400,504
Federal grant revenues and program income	136,927,373	162,808,982	131,879,642	(30,929,340)
Other	1,271,346	1,490,191	2,525,540	1,035,349
Total revenues	<u>165,104,638</u>	<u>191,205,092</u>	<u>173,711,605</u>	<u>(17,493,487)</u>
Expenditures:				
Subgrantee expenditures	159,285,493	175,859,915	132,732,640	43,127,275
Salaries, wages, and benefits	11,845,008	12,155,937	10,677,559	1,478,378
Contractual and professional	3,523,520	11,086,949	10,264,809	822,140
Travel	1,202,624	1,617,624	652,860	964,764
Building and capitol dome leases	5,927,489	8,985,830	688,350	8,297,480
Space and equipment rental	508,352	609,177	133,678	475,499
Equipment	196,040	223,040	551,217	(328,177)
Maintenance	482,810	482,810	261,758	221,052
Miscellaneous administrative expenses	2,922,071	5,704,171	3,775,505	1,928,666
Total expenditures	<u>185,893,407</u>	<u>216,725,453</u>	<u>159,738,376</u>	<u>56,987,077</u>
Revenues (less than) in excess of expenditures	(20,788,769)	(25,520,361)	13,973,229	39,493,590
Budgetary fund balance— beginning of year	<u>(75,520,637)</u>	<u>(98,741,986)</u>	<u>42,030,805</u>	<u>140,772,791</u>
Budgetary fund balance— end of year	<u>\$ (96,309,406)</u>	<u>(124,262,347)</u>	<u>56,004,034</u>	<u>180,266,381</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

**COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—BUDGET TO ACTUAL
(BUDGETARY BASIS)—GENERAL FUND, CONTINUED**

Years Ended June 30, 2012 and 2011

Certain appropriations, if unexpended, may be transferred to the next fiscal year's budget for expenditures. Unexpended amounts so transferred may then be rebudgeted in the next fiscal year. Unexpended 2011 amounts transferred to 2012 and rebudgeted approximated \$1,859,000. Unexpended 2010 amounts transferred to 2011 and rebudgeted approximated \$385,000.

The budget for the General Fund includes the originally approved appropriations for expenditures as adjusted for budget reductions, supplementary appropriations, and approved transfers between budget categories.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve a portion of the applicable appropriations, is employed as an extension of the formal budgetary process of the General Fund.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

RECONCILIATION OF DIFFERENCES BETWEEN
BUDGETARY BASIS AND REPORT BASIS—GENERAL FUND

Year Ended June 30, 2012

	<u>Actual per Audit Report</u>	<u>Adjustment to Budgetary Basis</u>	<u>Actual on Budgetary Basis</u>
Revenues:			
State appropriations	\$ 40,605,681	-	40,605,681
Federal grants	93,571,676	1,954,230	95,525,906
Other	41,598,644	(40,332,707)	1,265,937
Total revenues	<u>175,776,001</u>	<u>(38,378,477)</u>	<u>137,397,524</u>
Expenditures:			
Subgrantee expenditures	120,408,177	-	120,408,177
Salaries, wages, and benefits	10,303,913	-	10,303,913
Contractual and professional	9,033,914	-	9,033,914
Travel	737,310	-	737,310
Building and capitol dome leases	649,716	-	649,716
Space and equipment rental	111,107	-	111,107
Equipment	329,701	-	329,701
Maintenance	306,575	-	306,575
Miscellaneous administrative expenses	47,523,480	(44,798,372)	2,725,108
Total expenditures	<u>189,403,893</u>	<u>(44,798,372)</u>	<u>144,605,521</u>
Revenues (less than) in excess of expenditures	(13,627,892)	6,419,895	(7,207,997)
Fund balance—July 1, 2011	<u>34,960,950</u>	<u>21,043,084</u>	<u>56,004,034</u>
Fund balance—June 30, 2012	<u>\$ 21,333,058</u>	<u>27,462,979</u>	<u>48,796,037</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

RECONCILIATION OF DIFFERENCES BETWEEN
 BUDGETARY BASIS AND REPORT BASIS—GENERAL FUND, CONTINUED

Year Ended June 30, 2011

	<u>Actual per Audit Report</u>	<u>Adjustment to Budgetary Basis</u>	<u>Actual on Budgetary Basis</u>
Revenues:			
State appropriations	\$ 39,306,423	-	39,306,423
Federal grants	130,303,836	1,575,806	131,879,642
Other	<u>18,759,554</u>	<u>(16,234,014)</u>	<u>2,525,540</u>
Total revenues	<u>188,369,813</u>	<u>(14,658,208)</u>	<u>173,711,605</u>
Expenditures:			
Subgrantee expenditures	132,732,640	-	132,732,640
Salaries, wages, and benefits	10,677,559	-	10,677,559
Contractual and professional	10,264,809	-	10,264,809
Travel	652,860	-	652,860
Building and capitol dome leases	688,350	-	688,350
Space and equipment rental	133,678	-	133,678
Equipment	551,217	-	551,217
Maintenance	261,758	-	261,758
Miscellaneous administrative expenses	<u>24,920,885</u>	<u>(21,145,380)</u>	<u>3,775,505</u>
Total expenditures	<u>180,883,756</u>	<u>(21,145,380)</u>	<u>159,738,376</u>
Excess of revenues over expenditures	7,486,057	6,487,172	13,973,229
Fund balance—July 1, 2010	<u>27,474,893</u>	<u>14,555,912</u>	<u>42,030,805</u>
Fund balance—June 30, 2011	<u>\$ 34,960,950</u>	<u>21,043,084</u>	<u>56,004,034</u>

See Independent Auditors' Report.

**STATE OF OKLAHOMA
DEPARTMENT OF COMMERCE**

**REPORTS AND SCHEDULES REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133**

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award Amount</u>	<u>Fund Balance June 30, 2011</u>	<u>Current Grant Year Revenues</u>	<u>Other Revenues</u>	<u>Current Grant Year Federal Expenditures</u>	<u>Other Expenditures</u>	<u>Fund Balance June 30, 2012</u>	
DEPARTMENT OF ENERGY										
Weatherization	81.042	*								
FY 12		DE-EE0000063	\$ 679,076	-	10,342	-	12,947	-	(2,605)	
FY 11		DE-EE0000063	1,964,590	-	1,712,880	-	1,683,467	-	29,413	
FY 10		DE-EE0000063	2,029,472	1,500	20,585	-	(13,977)	-	36,062	
FY 09		DE-EE0000063	5,150,319	-	-	-	-	-	-	
FY 08		DE-FG26-03R830008	3,399,575	245	-	-	245	-	-	
ARRA—Weatherization		DE-EE0000153	63,435,436	4,096,106	16,622,964	-	19,532,901	-	1,186,169	
State Energy Program	81.041	*								
FY 11		DE-FG26-07NT43203	558,000	-	605,590	424,841	685,126	417,965	(72,660)	
FY 10		DE-FG26-07NT43203	434,294	16,507	19,227	3,364	(556)	1,053	38,601	
FY 09		DE-FG26-07NT43203	345,000	7,051	-	9,006	9,006	-	7,051	
FY 08		DE-FG26-07NT43203	627,294	-	-	-	-	-	-	
FY 07		DE-FG26-07NT43203	582,191	-	-	-	-	-	-	
State Energy Program—Revolving Loan Fund		N/A	N/A	-	-	90,499	-	-	90,499	
ARRA—State Energy Program		DE-EE0000063	46,704,000	6,968,683	19,287,297	18,164,475	24,676,119	18,151,263	1,593,073	
Renewable Energy Research and Development	81.087									
FY 10 Wind Power		DE-EE0000539	400,000	(1,642)	55,124	848	54,526	-	(196)	
ARRA—Energy Efficiency and Conservation Block Grant	81.128	*	DE-EE0000922	9,593,500	1,733,253	2,895,718	14,167,601	3,121,560	14,156,311	1,518,701
ARRA—Electricity Delivery and Energy Reliability, Research, Development, and Analysis	81.122		DE-OE0000105	534,197	582	266,253	153	268,528	-	(1,540)
ARRA—Energy Efficiency Appliance Rebate Program	81.127	*	DE-EE0001611	3,495,000	170,176	10,874	301,238	179,545	297,732	5,011

(Continued)

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award Amount</u>	<u>Fund Balance June 30, 2011</u>	<u>Current Grant Year Revenues</u>	<u>Other Revenues</u>	<u>Current Grant Year Federal Expenditures</u>	<u>Other Expenditures</u>	<u>Fund Balance June 30, 2012</u>
DEPARTMENT OF ENERGY—									
PASSED THROUGH STATE OF									
OKLAHOMA GOVERNOR'S OFFICE									
Stripper Well Alternative Fuels	N/A	97	650,000	629,585	9,900	40,120	23,420	-	656,185
CEEMP	N/A	95	245,632	492,989	-	58,281	-	-	551,270
EIRLF	N/A	95	1,000,000	380,588	-	75,047	-	-	455,635
HELP	N/A	07	1,000,000	804,109	-	117,585	-	-	921,694
SALP	N/A	96	1,100,000	209,465	-	93,768	-	-	303,233
DEPARTMENT OF HOUSING AND									
URBAN DEVELOPMENT									
Community Development Block Grants—									
State-Administered Small Cities									
Program Cluster	14.228	*							
FY 12		B-12-DC-40-0001	13,016,213	-	73,308	91,453	97,138	91,453	(23,830)
FY 11		B-11-DC-40-0001	14,578,062	-	2,125,996	849,899	2,323,266	275,000	377,629
FY 10		B-10-DC-40-0001	17,354,448	1,248,804	6,721,318	1,667,880	8,723,582	101,607	812,813
FY 09		B-09-DC-40-0001	16,243,555	579,650	1,959,769	183,273	2,741,782	8,527	(27,617)
FY 08		B-08-DC-40-0001	15,972,200	482,010	496,628	20,047	572,518	-	426,167
FY 07		B-07-DC-40-0001	17,320,561	186,229	47,626	9,802	151,535	3,158	88,964
FY 06		B-06-DC-40-0001	17,215,512	65,307	356,044	13,477	423,828	-	11,000
FY 05		B-05-DC-40-0001	19,092,030	-	78,123	1,329	69,691	-	9,761
FY 04		B-04-DC-40-0001	20,044,319	2,250	197,271	15,264	210,235	-	4,550
FY 03		B-03-DC-40-0001	19,757,000	20,960	6,817	-	22,156	-	5,621
FY 02		B-02-DC-40-0001	21,396,000	11,497	-	-	11,006	-	491
FY 01		B-01-DC-40-0001	21,738,000	(44,133)	-	-	-	-	(44,133)
FY 00		B-00-DC-40-0001	20,878,000	-	-	-	-	-	-

(Continued)

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award Amount</u>	<u>Fund Balance June 30, 2011</u>	<u>Current Grant Year Revenues</u>	<u>Other Revenues</u>	<u>Current Grant Year Federal Expenditures</u>	<u>Other Expenditures</u>	<u>Fund Balance June 30, 2012</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, CONTINUED									
Community Development Block Grants—									
State-Administered Small Cities									
Program Cluster, Continued									
	14.228	*							
FY 99			B-99-DC-40-0001	20,668,000	-	35,609	-	35,609	-
FY 98			B-98-DC-40-0001	20,466,000	-	3,947	-	3,947	-
FY 97			B-97-DC-40-0001	20,869,000	-	2,942	-	2,942	-
FY 96			B-96-DC-40-0001	21,079,000	-	5,881	-	5,881	-
FY 95			B-95-DC-40-0001	21,567,000	-	3,567	-	3,567	-
FY 94			B-94-DC-40-0001	21,339,000	-	-	-	-	-
FY 93			B-93-DC-40-0001	19,061,000	-	190,251	-	112,894	-
CDBG—ED			N/A	N/A	3,127,942	(42,006)	(438,603)	1,756,039	-
CDBG—CD			N/A	N/A	478,137	-	(357,312)	106,740	-
CDBG—Disaster Recovery			B-08-DF-40-0001-DF1	1,793,876	-	110,410	-	103,797	-
									77,357
									891,294
									14,085
									6,613
Neighborhood Stabilization Program									
	14.228	*							
FY 11			B-11-DN-40-0001	5,000,000	(138)	18,208	-	25,954	-
FY 08			B-08-DN-40-0001	29,969,459	2,960,493	3,215,542	20,874	5,816,823	-
									(7,884)
									380,086
ARRA—Community Development Block Grant									
	14.255	*	B-09-DY-40-0001	4,333,265	132,982	1,875,464	-	2,007,985	-
									461
Emergency Solutions Grant Program									
	14.231								
FY 12			E-12-DC-40-0001	1,667,424	-	2,383	2,172	16,401	2,172
FY 11			E-11-DC-40-0001	929,475	-	633,067	762,598	710,995	762,598
FY 10			S-10-DC-40-0001	926,824	(187,788)	15,773	82,136	(172,015)	82,136
									(14,018)
									(77,928)
									-
Shelter Plus Care/Continuum of Care									
	14.238								
FY 10			OK0029C6I030802	170,004	-	-	-	-	-
									-

(Continued)

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award Amount</u>	<u>Fund Balance June 30, 2011</u>	<u>Current Grant Year Revenues</u>	<u>Other Revenues</u>	<u>Current Grant Year Federal Expenditures</u>	<u>Other Expenditures</u>	<u>Fund Balance June 30, 2012</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, CONTINUED									
EDI Special Project—NACEA	14.246	B-08-SP-OK-0664	137,200	-	137,200	-	137,200	-	-
ARRA—Homeless Prevention and Rapid Re-Housing Program	14.257 *	S-09-DY-40-0001	8,101,391	316,549	2,140,204	-	2,267,677	-	189,076
DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Community Services Block Grant	93.569								
FY 12		G12B1OKCOSR	8,062,881	-	2,453,924	-	1,880,200	-	573,724
FY 11		G11B1OKCOSR	8,096,247	496,832	4,697,491	-	5,212,371	-	(18,048)
FY 10		G10B1OKCOSR	8,326,884	48,661	535,652	-	492,345	-	91,968
ARRA—Community Services Block Grant	93.710	G-0901OKCOS2	11,965,297	(16,282)	-	-	1,719	-	(18,001)
Head Start	93.600								
FY 12		06CD0019/02	175,000	-	60,000	26,560	36,735	26,560	23,265
FY 11		06CD0019/01	175,000	-	147,029	36,954	147,029	36,954	-
FY 10		06CD0014/05	175,000	563	-	18,750	563	18,750	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES—PASSED THROUGH OKLAHOMA									
DEPARTMENT OF HUMAN SERVICES									
LIHEAP/Weatherization	93.568								
FY 12		ODHS 12 LIHEAP	1,000,000	-	-	-	-	-	-
FY 11		ODHS 11 LIHEAP	1,000,000	-	465,570	-	381,806	-	83,764
FY 10		ODHS 10 LIHEAP	1,000,000	62,664	593,014	-	649,950	-	5,728
FY 09		ODHS 09 LIHEAP	2,200,000	85	(723)	-	-	-	(638)
FY 08		ODHS 08 LIHEAP	1,000,000	642	(642)	-	-	-	-

(Continued)

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award Amount</u>	<u>Fund Balance June 30, 2011</u>	<u>Current Grant Year Revenues</u>	<u>Other Revenues</u>	<u>Current Grant Year Federal Expenditures</u>	<u>Other Expenditures</u>	<u>Fund Balance June 30, 2012</u>
DEPARTMENT OF LABOR									
Workforce Investment Act Cluster									
WIA/Adult Statewide	17.258	*							
FY 12 Workforce Adult Statewide		AA21416HB0	5,872,275	-	3,370,382	-	3,255,154	-	115,228
PY 11 Workforce Adult Statewide		AA21416FO0	493,379	-	482,353	-	472,117	-	10,236
FY 11 Workforce Adult Statewide		AA20214CX0	5,374,726	(68,462)	1,347,728	-	1,213,068	-	66,198
PY 10 Workforce Adult Statewide		AA20214AS0	1,131,106	4,575	24,978	-	8,189	-	21,364
FY 10 Workforce Adult Statewide		AA186628D	5,250,346	116,556	(21,452)	-	98,334	-	(3,230)
PY 09 Workforce Adult Statewide		AA186626X	1,102,720	(86,716)	6,762	-	(79,954)	-	-
FY 09 Workforce Adult Statewide		AA171423Y	5,833,718	156	381	-	537	-	-
PY 08 Workforce Adult Statewide		AA171422J	1,225,245	1,023	(1,167)	-	(144)	-	-
ARRA—FY 09 Workforce Adult Statewide		AA171425J	3,650,170	(6,760)	(1,264)	-	(8,024)	-	-
WIA/Youth Services	17.259	*							
PY 12 Workforce Youth Services		AA22956JP0	6,676,111	-	20,630	-	31,331	-	(10,701)
PY 11 Workforce Youth Services		AA21416EZ0	6,877,913	-	4,041,948	-	4,396,445	-	(354,497)
PY 10 Workforce Youth Services		AA20214AFO	6,970,582	29,657	886,133	-	801,326	-	114,464
PY 09 Workforce Youth Services		AA186626E	6,773,423	232,957	(10,538)	-	220,290	-	2,129
PY 08 Workforce Youth Services		AA171422F	7,526,029	-	123	-	123	-	-
ARRA-09 Workforce Youth Services		AA171425L	8,708,036	(816)	153,436	135	152,755	-	-

(Continued)

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award Amount</u>	<u>Fund Balance June 30, 2011</u>	<u>Current Grant Year Revenues</u>	<u>Other Revenues</u>	<u>Current Grant Year Federal Expenditures</u>	<u>Other Expenditures</u>	<u>Fund Balance June 30, 2012</u>
DEPARTMENT OF LABOR, CONTINUED									
Workforce Investment Act Cluster, Continued									
WIA/Dislocated Workers *									
FY 12 Workforce Dislocated Workers	17.278	AA21416HD0	5,510,019	-	1,688,906	-	1,724,147	-	(35,241)
PY 11 Workforce Dislocated Workers	17.278	AA21416FQ0	1,323,279	-	886,362	-	891,184	-	(4,822)
FY 11 Workforce Dislocated Workers	17.278	AA20214CZ0	5,006,489	26,231	2,655,869	-	2,536,472	-	145,628
PY 10 Workforce Dislocated Workers	17.278	AA20214AU0	1,889,012	16,440	299,611	-	209,093	-	106,958
FY 10 Workforce Dislocated Workers	17.260	AA186628F	4,127,593	149,760	532,186	-	645,232	-	36,714
FY 09 Workforce Dislocated Workers	17.260	AA171424A	5,247,742	(276)	(45,890)	-	(46,166)	-	-
PY 09 Workforce Dislocated Workers	17.260	AA186626Z	1,634,683	(5,360)	17,410	-	10,719	-	1,331
PY 08 Workforce Dislocated Workers	17.260	AA171422L	2,078,301	(84)	3,705	-	3,621	-	-
ARRA-09 Workforce Dislocated Workers	17.260	AA-171425P	6,023,463	97,471	1,766	-	99,237	-	-
WIA/Heroes at Home/									
Military Spouse Initiative *									
FY 11 BRAC	17.277	EM18155DE0	1,690,122	(1,068)	136,014	-	92,532	-	42,414
FY 08 BRAC	17.260	EM181554F	1,500,000	118,676	28,435	-	(23,008)	-	170,119
FY 07 BRAC	17.260	MI16376VS/XS	2,500,000	214,348	273,239	-	619,161	-	(131,574)
H-1B Technical Skills Training Grant	17.268	HG-22622-12-60-A-40	5,000,000	-	32,419	-	36,796	-	(4,377)
ARRA—State Energy Sector Partnership and Training Grant	17.275	* GJ-19904-10-60-A-40	6,000,000	(898)	2,578,388	4,281,429	2,568,638	4,281,429	8,852
Veterans Employment and Training Grant—Homeless Veterans Reintegration Program	17.805	SD-23037HV2	7,000	-	7,000	-	7,000	-	-

(Continued)

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award Amount</u>	<u>Fund Balance June 30, 2011</u>	<u>Current Grant Year Revenues</u>	<u>Other Revenues</u>	<u>Current Grant Year Federal Expenditures</u>	<u>Other Expenditures</u>	<u>Fund Balance June 30, 2012</u>
DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY—PASSED THROUGH OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY									
Brownfield's Cleanup Revolving Loan Fund	66.811	N/A	880,000	12,121	-	5,281	-	-	17,402
U.S. DEPARTMENT OF EDUCATION									
ARRA—State Fiscal Stabilization Funds 2	84.397	S397GS-160-2-11	300,000	-	243,468	-	243,468	-	-
U.S. SMALL BUSINESS ADMINISTRATION									
State Trade and Export Promotion	59.061	SBAHQ-11-IT-0004	825,733	-	521,390	85,683	445,006	85,683	76,384
U.S. DEPARTMENT OF TREASURY									
State Small Business Credit Initiative	N/A	2011SSBCIOK	13,168,350	-	1,852,277	-	671,963	-	1,180,314
INSTITUTE OF MUSEUM AND LIBRARY SERVICES									
National Endowment for Humanities— Oklahoma Humanities Council	45.129	N/A	20,000	8,631	(1,245)	-	2,304	-	5,082
National Leadership Grants	45.312								
FY 10		CM-00-10-0015-10	750,000	(667)	585,606	-	395,728	-	189,211
FY 09		CM-00-09-0027-09	285,000	10,899	94,916	-	105,815	-	-
TOTAL			<u>\$ 759,020,268</u>	<u>26,351,507</u>	<u>93,571,676</u>	<u>40,925,907</u>	<u>109,125,237</u>	<u>38,800,351</u>	<u>12,923,502</u>

* A major program as determined by the auditors.

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

(1) BASIS OF PREPARATION

The schedule of expenditures of federal awards has been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available, and expenditures are recorded when the liability is incurred.

(2) OTHER REVENUES

Other revenues consisted of the following as of June 30, 2012:

Program income	\$	1,954,229
Interest		123,990
In-kind matching		38,800,351
Other		<u>47,337</u>
	\$	<u>40,925,907</u>

(3) EXPENDITURES

Expenditures are presented in two columns: federal expenditures and other expenditures. Other expenditures consist of matching expenditures, both state and local. For the year ended June 30, 2012, subgrantees of ODOC expended approximately \$102,251,000, or 94%, of federal expenditures and approximately \$37,998,000, or 98%, of matching expenditures.

See Independent Auditors' Report.



**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***

State of Oklahoma
Department of Commerce

We have audited the financial statements of the governmental activities and the General Fund of the State of Oklahoma Department of Commerce (ODOC) as of and for the year ended June 30, 2012, which collectively comprise ODOC's basic financial statements and have issued our report thereon dated October 26, 2012. Our report includes a paragraph to emphasize the fact that the report includes only that portion of the State of Oklahoma that is attributable to the transactions of ODOC. Our report also contains an explanatory paragraph which disclaims an opinion on required supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of ODOC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ODOC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ODOC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ODOC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

(Continued)

**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, CONTINUED**

Compliance and Other Matters

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

We noted other matters that we reported to management of ODOC in a separate letter dated October 26, 2012.

This report is intended solely for the information and use of management, others within ODOC, the State of Oklahoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
October 26, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

State of Oklahoma
Department of Commerce

Compliance

We have audited the State of Oklahoma Department of Commerce's (ODOC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ODOC's major federal programs for the year ended June 30, 2012. ODOC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of ODOC's management. Our responsibility is to express an opinion on ODOC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 ODOC'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 on ODOC's compliance with those requirements.

In our opinion, ODOC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

(Continued)

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED

Internal Control Over Compliance

Management of ODOC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ODOC's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ODOC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within ODOC, the State of Oklahoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 26, 2012

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SECTION I—SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

Yes **None Noted**

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes **None Reported**

Noncompliance material to financial statements noted?

Yes **None Noted**

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes **None Noted**

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes **None Reported**

Type of auditors’ report issued on compliance for the major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes **No**

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

SECTION I—SUMMARY OF AUDITORS’ RESULTS, CONTINUED

Federal Awards, Continued

Identification of major programs:

Federal CFDA #	Name of Federal Program
	<i>Department of Energy</i>
81.042	Weatherization
81.042	ARRA—Weatherization
81.041	State Energy Program
81.041	ARRA—State Energy Program
81.128	ARRA—Energy Efficiency and Conservation Block Grant
81.127	ARRA—Energy Efficiency Appliance Rebate Program
	<i>Department of Housing and Urban Development</i>
	CDBG Cluster:
14.228	Community Development Block Grants
14.228	Neighborhood Stabilization Program
14.255	ARRA—Community Development Block Grant
14.257	ARRA—Homeless Prevention and Rapid Re-Housing Program
	<i>Department of Labor</i>
	WIA Cluster:
17.258	Workforce Adult Statewide
17.258	ARRA—Workforce Adult Statewide
17.259	Workforce Youth Services
17.259	ARRA—Workforce Youth Service
17.260/17.278	Workforce Dislocated Workers
17.260/17.277	Heroes at Home/Military Spouse Initiative
17.260	ARRA—Workforce Dislocated Workers
17.275	ARRA—State Energy Sector Partnership and Training Grant

Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

Auditee qualified as low-risk auditee? Yes No

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT

None noted.

**SECTION III—FINDINGS AND QUESTIONED COSTS—
MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None noted.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2012

The following findings 2011-1 and 2011-2 were reported in the June 30, 2011, audit report:

SIGNIFICANT DEFICIENCIES AND FINDINGS

2011-1 Reporting—Sub-award Reporting Under the Federal Funding Accountability and Transparency Act (Transparency Act)

As originally reported:

Condition

ODOC has not reported non-ARRA first tier sub-awards under the Transparency Act for the following programs: Workforce Investment Act Cluster (WIA), Community Service Block Grant (CSBG), Weatherization, and State Energy Program.

Criteria

The Federal Funding Accountability and Transparency Act, Publication L. No. 109-282, as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 addresses sub-award reporting under grants and cooperative agreements as implemented in interim final guidance by OMB in 2 CFR Part 170, effective October 1, 2010, and contracts by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010. The interim final guidance and interim rule have the same effect as final guidance and is in effect until superseded by final issuances. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements and/or contractors who award first-tier sub-awards and/or subcontracts. The Transparency Act reporting requirements do not apply to ARRA-funded awards. Recipients must evaluate the effective date for a particular award, noting award of funds are subsequent to effective date. Sub-awards made under grants awarded after the effective date with a value of \$25,000 or more, each obligating action of \$25,000 or more in federal funds is required to be reported. Grant and cooperative recipients and contractors are required to register in the Federal Funding Accountability and Transparency Sub-award Reporting System (FSRS) and report sub-award data through FSRS.

Cause

ODOC is aware of the requirement; however, due to limited guidance on the implementation from federal awarding agencies and complications with the FSRS system, they have not been able to input the information as required.

Effect

ODOC is not in compliance with the OMB Circular A-133 compliance requirement pertaining to sub-award reporting with the Transparency Act on non-ARRA funds.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

SIGNIFICANT DEFICIENCIES AND FINDINGS, CONTINUED

2011-1 Reporting—Sub-award Reporting Under the Federal Funding Accountability and Transparency Act (Transparency Act), Continued

Questioned Costs

None.

Recommendation

We recommend that ODOC obtain guidance on the implementation of the Transparency Act from federal awarding agencies and develop procedures to begin reporting.

Response

ODOC acknowledges the deficiency identified in the Weatherization Program and State Energy Program. The Transparency Act went into effect on October 1, 2010. ODOC responsible programmatic area has to date has not received compliance guidance from the U.S. Department of Energy (for Weatherization Assistance and State Energy Programs) nor the U.S. Department of Health and Human Services (for the Community Services Block Grant). For the time period of July 1, 2010–June 30, 2011, no subgrantee awards were made from either the FY2011 Weatherization Assistance Program or the FY2011 State Energy Program. During the same time frame, ODOC did award grants to subrecipients of the Community Services Block Grant. Division and agency leadership will continue to work with the Office of Community Services at the U.S. Department of Health and Human Services to obtain needed information on how to proceed to enter required data to into the Transparency Act system to ensure compliance.

As recently as October 17, 2011, Dr. James Gray from the Office of Community Services stated, “We are currently working with the Office of Grant Management to obtain further guidance on the Transparency Act reporting process for CSBG. Please know that your efforts to report in a timely matter have been duly noted.”

The Agency Management understands the importance of maintaining Federal compliance. The Agency will engage a qualified external auditor to ensure quarterly compliance in the State of Oklahoma 2012 fiscal year.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

SIGNIFICANT DEFICIENCIES AND FINDINGS, CONTINUED

2011-1 Reporting—Sub-award Reporting Under the Federal Funding Accountability and Transparency Act (Transparency Act), Continued

Response, Continued

ODOC acknowledges the deficiency identified in the Workforce Investment Act Adult Program, Workforce Investment Act Youth Program, and Workforce Investment Act Dislocated Worker Program. The Transparency Act went into effect on October 1, 2010. The Department of Labor verified that previous grants were not subject to compliance; however, grants utilizing new funding issued after May 27 are subject to Transparency Act compliance.

ODOC responsible programmatic area acknowledges non-compliance and has worked to immediately implement a structure to gain compliance.

The Agency Management understands the importance of maintaining Federal compliance. The Agency will engage a qualified external auditor to ensure quarterly compliance in the State of Oklahoma 2012 fiscal year.

2012 Follow-up

Sufficient controls surrounding FFATA reporting have been implemented to clear the finding. No issues were noted during the 2012 audit.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

SIGNIFICANT DEFICIENCIES AND FINDINGS, CONTINUED

2011-2 Workforce Investment Act Clusters—Earmarking

As originally reported:

Condition

We determined that expenditures recorded against FY 2009 WIA grant awards exceeded the 15% statewide allotted amount by approximately \$5,000.

Criteria

Federal regulations at 20 CFR section 667.130 address that a State may reserve up to 15% of the amounts allotted for each funding source, adult, dislocated worker, and youth for statewide workforce investment activities. Funds reserved under this regulation may be spent as described in 20 CFR 665.200 and 665.210, without regard to the funding source of the reserved funds.

Cause

In an effort to expend all FY 2009 grant award funds expiring June 30, 2011, expenditures exceeding the allotted 15% for statewide activities were recorded.

Effect

ODOC is not in compliance with earmarking requirements, which could result in questioned costs at the termination of the grant.

Questioned Costs

None.

Recommendation

We recommend that ODOC review expenditures recorded against the statewide allotment for FY 2009 grant awards and determine expenditures are properly recorded and amend financial and closeout reports. ODOC should also develop procedures to monitor expenditures in relation to program allotments on a regular basis.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

SIGNIFICANT DEFICIENCIES AND FINDINGS, CONTINUED

2011-2 Workforce Investment Act Clusters—Earmarking, Continued

Response

ODOC acknowledges the deficiency identified in the Workforce Investment Act Dislocated Worker Program. The audit identified a cost overrun for the 15% statewide activities. ODOC responsible programmatic area worked immediately with accounting and reviewed all related expenditures. The overrun has been corrected and will be properly corrected in required federal reports.

Additional grant activity monitoring methods have been implemented to monitor expenditures, termination periods, and proper fund close out.

The Agency Management understands the importance of maintaining Federal compliance. The Agency will engage a qualified external auditor to ensure quarterly compliance in the State of Oklahoma 2012 fiscal year.

2012 Follow-up

Adequate policies and procedures have been implemented to clear the finding. No issues were noted during the 2012 audit.