State of Oklahoma
Department of Commerce

Financial Statements

June 30, 2015 and 2014
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

FINANCIAL STATEMENTS

Table of Contents

(Continued)

INDEPENDENT AUDITORS' REPORT

State of Oklahoma
Department of Commerce

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the State of Oklahoma Department of Commerce (ODOC), which is a part of the State of Oklahoma financial reporting entity, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise ODOC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of ODOC, as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matters

Department-Only Financial Statements

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, 2015 and 2014, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Pronouncements

As discussed in Notes 1 and 2 to the financial statements, in 2015 ODOC adopted new accounting guidance, Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). The implementation of GASB 68 and GASB 71 resulted in a cumulative adjustment to restate the beginning net position of ODOC as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-9, the budgetary comparison information on pages 48 through 52, and the schedule of ODOC's proportionate share of the net pension liability and the schedule of the ODOC's contributions on pages 53 and 54, respectively, 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ODOC's basic 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015, 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* in considering ODOC's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 27, 2015

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, 2015 and 2014. It should be read in conjunction with the financial statements which begin on page 4.

Discussion of the Basic Financial Statements

The 2015 and 2014 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 Position—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 position for the entire department as of June 30, 2015 and 2014.

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, 2015 and 2014.

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 position 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 position.

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 position 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.

Condensed Financial Information

Government-Wide Financial Statements

Statements of Net Position

		2015	2014	2013
Assets				
Current assets	$	46,731,220	45,875,833	39,001,343
Noncurrent assets		15,809,641	19,304,949	17,716,786
Total assets		62,540,861	65,180,782	56,718,129
Deferred outflows of resources related to the pension plan		1,015,344	-	-
Liabilities				
Current liabilities		9,123,621	6,695,563	11,509,503
Noncurrent liabilities		4,161,391	3,867,391	4,411,854
Total liabilities		13,285,012	10,562,954	15,921,357
Deferred inflows of resources:				
Deferred revenue		2,305,149	4,613,995	256,339
OCIA lease restructure		196,057	-	-
Pension plan		2,742,687	-	-
Total deferred inflows of resources		5,243,893	4,613,995	256,339
Net position	$	45,027,300	50,003,833	40,540,433

Current assets primarily consist of cash and receivables from grantors. In addition, as of June 30, 2015 and 2014, there was approximately $8,980,000 and $14,614,000, 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 and the current portion of capital lease obligations of $370,000 and $505,000 at June 30, 2015 and 2014, respectively, and the current portion of compensated absences of approximately $471,000 and $512,000 at June 30, 2015 and 2014, respectively. There were deferred inflows of approximately $5,244,000 and $4,614,000 as of June 30, 2015 and 2014, respectively. Noncurrent liabilities consisted of lease obligations, net of the current portion, of approximately $3,291,000 and $3,740,000 at June 30, 2015 and 2014, respectively, and accrued compensated absences, less the current portion, of approximately $87,000 and $127,000 at June 30, 2015 and 2014, respectively.

Condensed Financial Information, Continued

Government-Wide Financial Statements, Continued

Net position was composed of the net investment in capital assets of approximately $1,646,000 and $1,347,000 at June 30, 2015 and 2014, respectively. Restricted net position totaled approximately $38,137,000 and $43,765,000 at June 30, 2015 and 2014, respectively, representing the net position of the federal programs administered by ODOC, with approximately $144,000 restricted for the Opportunity Fund at June 30, 2014; approximately $1,630,000 restricted for the Oklahoma Bioenergy Center Fund at both June 30, 2015 and 2014, respectively; approximately $6,725,000 restricted for the Oklahoma Quick Action Closing Fund at both June 30, 2015 and 2014; and approximately $355,000 and $356,000 restricted for the Oklahoma Viticulture and Enology Development Fund at June 30, 2015 and 2014, respectively. Unrestricted net position approximated $5,244,000 and $4,892,000 at June 30, 2015 and 2014, respectively. Subsequent to June 30, 2014, the State of Oklahoma recaptured the Opportunity Fund balance pursuant to 2014 O.S.L. 420.164. Subsequent to June 30, 2015, the State of Oklahoma transferred $1,600,000 from the Oklahoma Bioenergy Center Fund to the Oklahoma Quick Action Closing Fund, pursuant to 2015 O.S.L. 348.104. The remaining balance was made available for ODOC operations. Effective November 1, 2015, the Oklahoma Viticulture and Enology Center Development Fund will transfer to the Oklahoma Department of Agriculture, Food, and Forestry.

A significant portion of the statements of activities is represented by state appropriations. For the years ended June 30, 2015 and 2014, approximately $39,119,000 and $44,106,000, respectively, was transferred to ODOC from State of Oklahoma appropriated revenues. Grant programs as of June 30, 2015 and 2014, accounted for approximately $62,705,000 and $66,930,000, respectively, of expenses and approximately $57,114,000 and $72,551,000, respectively, of revenues.

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

At June 30, 2015 and 2014, the statements of net position reflect assets in excess of liabilities of approximately $45,027,000 and $50,004,000, respectively; approximately $29,427,000 and $34,910,000, respectively, of net position was restricted for grant operations. For the years ended June 30, 2015 and 2014, the statements of activities reflect a change in net position of approximately $(1,544,000) and $9,463,000, respectively. As a result of the adoption of GASB 68 and GASB 71, the beginning net position as of July 1, 2014, was reduced approximately $3,432,000.

Condensed Financial Information, Continued

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.

Fund Financial Statements

Balance Sheets

	2015	2014	2013
Cash, including short-term investments	$ 32,298,408	28,368,887	23,510,527
Subgrantee advances	8,980,193	14,613,704	9,634,394
Grants receivable	5,208,984	2,718,021	5,804,602
Accounts receivable	243,635	175,221	51,820
Total assets	$ 46,731,220	45,875,833	39,001,343
Accounts payable	$ 8,282,836	5,678,293	10,512,317
Deferred inflows of resources— deferred revenue	2,305,149	4,613,995	256,339
Fund balances	36,143,235	35,583,545	28,232,687
Total liabilities, deferred inflows of resources, and fund balances	$ 46,731,220	45,875,833	39,001,343

Condensed Financial Information, Continued

Fund Financial Statements, Continued

Statements of Revenues, Expenditures, and Changes in Fund Balance

	2015	2014	2013
Revenues and other sources:			
State appropriations	$ 39,119,376	44,105,681	41,105,681
Federal grant revenues	53,117,373	69,750,313	68,827,586
In-kind revenues (match)	2,255,771	2,535,226	37,077,088
Other	6,058,228	1,749,916	9,995,546
Total revenues and other sources	100,550,748	118,141,136	157,005,901
Expenditures:			
Subgrantee expenditures	72,854,634	77,957,303	79,638,818
Salaries, wages, and benefits	8,984,110	10,100,868	10,604,035
In-kind expenditures (match)	2,255,771	2,535,226	37,077,088
Other	15,896,543	20,196,881	22,786,331
Total expenditures	99,991,058	110,790,278	150,106,272
Net increase in fund balance	$ 559,690	7,350,858	6,899,629

Grants receivable represents amounts due from federal grants for expenditures made as of June 30, 2015 and 2014. Cash includes federal grant monies held at June 30, 2015 and 2014, of $12,290,234 and $10,942,181, respectively. The fund balance at June 30, 2015 and 2014, included $18,924,929 and $21,197,450, respectively, reserved for the grant programs administered by ODOC; $143,762 at June 30, 2014, reserved for the Opportunity Fund; $1,629,762 at both June 30, 2015 and 2014, reserved for the Oklahoma Bioenergy Center Fund; $6,725,049 at both June 30, 2015 and 2014, reserved for the Oklahoma Quick Action Closing Fund; and $355,230 and $356,101 at June 30, 2015 and 2014, respectively, for the Oklahoma Viticulture and Enology Development 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 and subgrantee expenditures. For the years ended June 30, 2015 and 2014, it was anticipated that ODOC would receive approximately $59,225,000 and $78,088,000, respectively, in grant revenues and expend approximately $77,936,000 and $94,159,000, respectively, in subgrantee expenditures. For the years ended June 30, 2015 and 2014, grant revenue was overestimated by approximately $1,204,000 and $7,192,000, respectively, while subgrantee expenditures were overestimated by approximately $5,081,000 and $16,201,000, respectively. The variance for the year ended June 30, 2015, was largely due to spending less than anticipated for the Community Development Block Grant Disaster Recovery and Community Services Block Grant programs. The variance for the year ended June 30, 2014, was largely due to spending less than anticipated for the Quick Action Closing Fund and the State Small Business Credit Initiative. No other large variances in the budget were noted, with the exception of contractual and professional expenditures, for which actual expenditures were approximately $2,528,000 less than budgeted for the year ended June 30, 2015, and $6,858,000 less than budgeted for the year ended June 30, 2014; salaries, wages, and benefits, for which actual expenditures were approximately $995,000 more than budgeted for the year ended June 30, 2015, and $1,288,000 less than budgeted for the year ended June 30, 2014; and capitol dome leases, space and equipment rental, for which actual expenditures were approximately $292,000 more and $242,000 less than budgeted, respectively. The salary, wages, and benefits variance for the year ended June 30, 2015, was due to ODOC utilizing carryover funds that had been budgeted for professional services towards salary, wages, and benefits expenditures. The contractual and professional variance for the year ended June 30, 2015, was due to the previously discussed salary, wages, and benefits expenditures, spending less than anticipated for Workforce Services programs, and NACEA construction expenditures that had been budgeted as professional services.

Description of Significant Capital Asset and Long-Term Debt Activity

As of June 30, 2015 and 2014, long-term debt of ODOC consisted of capital lease obligations and compensated absences. At June 30, 2015 and 2014, the principal amount of the capital lease obligations was approximately $3,661,000 and $4,245,000, respectively. During the years ended June 30, 2015 and 2014, principal payments of $355,000 and $485,000, respectively, were made on the debt.

Compensated absences totaled $557,685 and $639,661 at June 30, 2015 and 2014, respectively. The allocation of the portion considered long-term is as follows:

	2015	2014	2013
Total compensated absences	$ 557,685	639,661	679,040
Portion considered short-term	(470,785)	(512,270)	(512,186)
Long-term portion	$ 86,900	127,391	166,854

During the years ended June 30, 2015 and 2014, ODOC recorded approximately $284,000 and $294,000, respectively, of depreciation. There was no property added for the years ended June 30, 2015 and 2014. 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 27, 2015, the Office of Management and Enterprise Services approved ODOC's budget for the fiscal year July 1, 2015, to June 30, 2016. Overall, the total budgeted operating expenditures decreased $20,131,270 for FY-2016 and decreased $20,800,204 for FY-2015. The change in anticipated expenditures, reflected by funding source, is as follows:

Funding Source	2016 Budget Compared to 2015	2015 Budget Compared to 2014	2014 Budget Compared to 2013
State-appropriated (including appropriation budgeted in revolving funds and Special Cash and REAP funds)	$ 314,488	(5,219,374)	1,011,368
Revolving funds (excluding appropriation budgeted in revolving funds)	4,561,956	(2,959,807)	(2,645,234)
Federal and other	(25,007,714)	(12,621,023)	(13,044,400)
Total budget change	$ (20,131,270)	(20,800,204)	(14,678,266)

ODOC is anticipating $37,745,861 in state-appropriated funding for FY-2016, compared to $37,431,373 in FY-2015. The $314,488 increase in the "state-appropriated" category for the year ending June 30, 2016, is due primarily to the following:

- Appropriations for pass-through entities and other operating including the Native American Cultural and Educational Authority (NACEA) decreased by $1,406,464 in FY-2016—from $35,066,961 in FY-2015 to $33,660,497 in FY-2016. The decrease was due to a legislative appropriation cut.

- Carryover of appropriated funds increased by $1,720,952 in FY-2016—from $2,364,412 in FY-2015 to $4,085,364 in FY-2016. As of the date of this report, NACEA has not requested that their carryover be budgeted. The majority of carryover for ODOC was budgeted in September 2015.

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 $8,515,694 in revolving fund operating expenditures for FY-2016, compared to $3,953,738 in FY-2015. The $4,561,956 increase in the "Revolving Funds" category for the year ending June 30, 2016, is due primarily to the following:

- The ODOC Non-Appropriated Fund decreased by $189,235 in FY-2016—from $1,274,248 in FY-2015 to $1,085,013 in FY-2016.

- The Native American Cultural and Educational Authority Revolving Fund decreased by $130,000 in FY-2016—from $130,000 in FY-2015 to $0 in FY-2016.

- The Quick Action Closing Fund increased by $5,225,049 in FY-2016—from $1,500,000 in FY-2015 to $6,725,049 in FY-2016.

- The Intra-Agency Reimbursement Fund decreased by $280,373 in FY-2016—from $630,774 in FY-2015 to $350,401 in FY-2016.

ODOC is anticipating $38,566,586 in federally funded operating expenditures for FY-2016, compared to $63,574,300 in FY-2015. The $25,007,714 decrease in the "Federal and Other" category for the year ending June 30, 2016, is due primarily to the following:

- The ARRA stimulus budget decreased by $150,000 in FY-2016—from $150,000 in FY-2015 to $0 in FY-2016.

- The federal pass-through and other budget including payroll decreased by $24,857,714 in FY-2016—from $63,424,300 in FY-2015 to $38,566,586 in FY-2016.

The large decrease in federal funds is due to the transfer of the Workforce Services Division ("Workforce"). Effective June 1, 2015, all Workforce staff and programs were transferred to Oklahoma State University-Oklahoma City (OSU-OKC). As of that date, ODOC no longer has responsibility for Workforce programs. A minimal amount of closeout activity occurred subsequent to June 30, 2015, to complete the transfer of program records and funds held at closeout to OSU-OKC.

Federal funds totaling approximately $173 million were 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. Several of these programs were extended through FY-2014. Stimulus funds totaling $5,179,485 were budgeted in FY-2014 compared to $150,000 budgeted for FY-2015. This decrease was due to all grant programs ending on or before June 30, 2014.

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.

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 operations could be significantly impacted by the Sequestration mandated by the Budget Control Act of 2011 which went into effect on January 1, 2013. The Sequestration 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.

During FY-2014, ODOC received $10.6 million in Community Development Block Grant Disaster Recovery Funds (CDBGDR) to address immediate unmet housing and economic revitalization needs in areas severely impacted by the tornadoes and floods of May 18 through June 2, 2013. The first tranche of $4,246,016 was made available in April 2014, with future incremental funding to be made available as funds are obligated by ODOC through Action Plan amendments submitted to the U.S. Department of Housing and Urban Development (HUD). On June 3, 2014, ODOC received notice of an additional $83.1 million in CDBGDR funds to assist with the previous disaster declaration as well as additional declarations from 2011 through 2013. As of June 30, 2015, ODOC had received HUD approval for Action Plan amendments totaling $39,725,635.

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 Comptroller, Oklahoma Department of Commerce, 900 North Stiles Avenue, Oklahoma City, OK 73104.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF NET POSITION

June 30,	*2015*	*2014*
Assets		
Current assets:		
Cash, including short-term investments	$ 32,298,408	28,368,887
Subgrantee advances	8,980,193	14,613,704
Grants receivable	5,208,984	2,718,021
Accounts receivable	243,635	175,221
Total current assets	46,731,220	45,875,833
Noncurrent assets:		
Loans receivable	10,501,926	13,713,026
Capital assets:		
Nondepreciable—land	150,000	150,000
Depreciable, net of accumulated depreciation	5,157,715	5,441,923
Capital assets, net	5,307,715	5,591,923
Total noncurrent assets	15,809,641	19,304,949
Total assets	62,540,861	65,180,782
Deferred outflows of resources:		
Deferred pension items	1,015,344	-
Liabilities		
Current liabilities:		
Accounts payable	8,282,836	5,678,293
Capital lease obligations—current portion	370,000	505,000
Compensated absences—current portion	470,785	512,270
Total current liabilities	9,123,621	6,695,563
Noncurrent liabilities:		
Capital lease obligations—less current portion	3,291,267	3,740,000
Compensated absences—less current portion	86,900	127,391
Net pension liability	783,224	-
Total noncurrent liabilities	4,161,391	3,867,391
Total liabilities	13,285,012	10,562,954
Deferred inflows of resources:		
Receipts from ONG Low Income Energy Efficiency Assistance Program	42,231	255,560
Receipts from State Small Business Credit Initiative Program	2,262,918	4,358,435
Deferred gain on OCIA lease restructure	196,057	-
Deferred pension items	2,742,687	-
Total deferred inflows of resources	5,243,893	4,613,995

(Continued)

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF NET POSITION, CONTINUED

June 30,	*2015*	*2014*
Net Position		
Net investment in capital assets	1,646,449	1,346,923
Restricted—grant programs	29,426,856	34,910,475
Restricted—Opportunity Fund	-	143,762
Restricted—Oklahoma Bioenergy Center Fund	1,629,762	1,629,762
Restricted—Oklahoma Quick Action Closing Fund	6,725,049	6,725,049
Restricted—Oklahoma Viticulture and Enology Development Func	355,230	356,101
Unrestricted	5,243,954	4,891,761
Total net position	$ 45,027,300	50,003,833

See Independent Auditors' Report.

See accompanying notes to financial statements.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2015

		Revenue		
	Expense	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
Government activities:				
General government:				
Operations	$ (37,159,288)	1,231,431	-	(35,927,857)
Interest expense	(264,560)	-	-	(264,560)
Total general government	(37,423,848)	1,231,431	-	(36,192,417)
Grant programs	(62,704,826)	-	57,113,556	(5,591,270)
Total government activities	$ (100,128,674)	1,231,431	57,113,556	(41,783,687)
General revenues:				
State appropriations				39,119,376
Investment income				107,651
Other				1,012,469
Total general revenues				40,239,496
Change in net position				(1,544,191)
Net position, beginning of year, as previously reported				50,003,833
Cumulative change in net position to adopt GASB 68 and GASB 71 (see Note 2)				(3,432,342)
Net position, beginning of year, restated				46,571,491
Net position, end of year				$ 45,027,300

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2014

		Revenue		
	Expense	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
Government activities:				
General government:				
Operations	$ (41,987,860)	1,350,594	-	(40,637,266)
Interest expense	(154,496)	-	-	(154,496)
Total general government	(42,142,356)	1,350,594	-	(40,791,762)
Grant programs	(66,929,993)	-	72,551,133	5,621,140
Total government activities	$ (109,072,349)	1,350,594	72,551,133	(35,170,622)
General revenues:				
State appropriations				44,105,681
Investment income				94,613
Other				433,728
Total general revenues				44,634,022
Change in net position				9,463,400
Net position, beginning of year				40,540,433
Net position, end of year				$ 50,003,833

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

BALANCE SHEETS—GENERAL FUND

June 30,	*2015*	*2014*
Assets		
Cash, including short-term investments	$ 32,298,408	28,368,887
Subgrantee advances	8,980,193	14,613,704
Grants receivable	5,208,984	2,718,021
Accounts receivable	243,635	175,221
Total assets	$ 46,731,220	45,875,833
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	$ 8,282,836	5,678,293
Total liabilities	8,282,836	5,678,293
Deferred inflows of resources:		
Deferred revenues	2,305,149	4,613,995
Fund balances:		
Restricted	28,987,167	31,866,145
Assigned	1,519,620	543,727
Unassigned	5,636,448	3,173,673
Total fund balances	36,143,235	35,583,545
Total liabilities, deferred inflows of resources, and fund balances	$ 46,731,220	45,875,833

(Continued)

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

BALANCE SHEETS—GENERAL FUND, CONTINUED

June 30,		*2015*	*2014*
Reconciliation of Fund Balances to Net Position			
Total fund balances from above	$	36,143,235	35,583,545
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 $2,794,543 and $2,510,335 at June 30, 2015 and 2014, respectively		5,307,715	5,591,923
Loans receivable		10,501,926	13,713,026
Deferred outflows related to the pension are not financial resources and therefore are not reported in the funds		1,015,344	-
Certain liabilities are not due and payable in the current period and therefore not reported in the fund:			
Accrued compensated absences		(557,685)	(639,661)
Capital lease obligations		(3,661,267)	(4,245,000)
Net pension liability		(783,224)	-
Deferred inflows related to the OCIA lease restructure are not due and payable in the current period and therefore are not reported in the fund		(196,057)	-
Deferred inflows related to the pension are not due and payable in the current period and therefore are not reported in the fund		(2,742,687)	-
Net position, per the statements of net position	$	45,027,300	50,003,833

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

Years Ended June 30,	*2015*	*2014*
Revenues:		
Federal grant revenues	$ 53,117,373	69,750,313
Program income	4,904,011	1,502,171
Interest	107,651	94,613
Other	1,046,566	153,132
In-kind revenues (match)	2,255,771	2,535,226
Total revenues	61,431,372	74,035,455
Expenditures:		
Subgrantee expenditures	72,854,634	77,957,303
Salaries, wages, and benefits	8,984,110	10,100,868
Professional	1,273,750	1,140,405
Travel	666,684	649,634
Debt service:		
Principal	355,000	485,000
Interest	264,560	154,496
Space rental	58,933	57,398
Equipment rental	449,327	334,392
Supplies	37,930	68,496
Equipment	28,662	82,481
Maintenance	230,649	235,966
Telephone	113,139	180,203
Postage and freight	18,284	15,782
Advertising	330,939	393,770
Printing	22,213	38,993
Contractual	3,340,056	8,407,943
Funds returned to grantor	497,484	21,107
Other	791,693	1,218,826
NACEA expenditures	7,417,240	6,711,989
In-kind expenditures (match)	2,255,771	2,535,226
Total expenditures	99,991,058	110,790,278
Deficiency of revenues over expenditures	(38,559,686)	(36,754,823)
Other funding sources:		
State appropriations	39,119,376	44,105,681
Net changes in fund balances	559,690	7,350,858
Beginning fund balances	35,583,545	28,232,687
Ending fund balances	$ 36,143,235	35,583,545

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

Years Ended June 30,	*2015*	*2014*
Net changes in fund balances—General Fund	$ 559,690	7,350,858
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	(284,208)	(293,924)
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	355,000	485,000
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	(3,211,100)	(935,343)
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	-	2,817,430
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	81,977	39,379
Amortization of deferred gain on OCIA lease restructure	32,676	-
Deferred outflows related to the pension are not financial resources and therefore are not reported in the General Fund	921,774	-
Changes in net position, per the statements of activities	$ (1,544,191)	9,463,400

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

(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 administrating 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 14, 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, 2015 and 2014, the premiums paid for this coverage were approximately $10,000 and $9,000, respectively.

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation

Government-Wide Financial Statements

The statements of net position 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 position 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 position 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 position 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 positions 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 position 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.

(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 $57,674,000 have been funded as of June 30, 2015, with approximately $21,028,000 and $22,634,000 outstanding at June 30, 2015 and 2014, respectively. During the years ended June 30, 2015 and 2014, collection of principal and interest on loans amounted to approximately $1,273,000 and $1,200,000, respectively. Cumulative collections of principal and interest since the inception of the program approximated $36,645,000 and $35,373,000 as of June 30, 2015 and 2014, respectively. Loans of approximately $600 previously written-off were recovered during the year ended June 30, 2015. Loans of approximately $333,000 were deemed as uncollectible and written-off during the year ended June 30, 2014. Cumulative loans charged-off since the inception of the program approximated $13,636,000 and $13,637,000 as of June 30, 2015 and 2014, respectively.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting, Continued

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

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

Program	2015	2014
SEPRF*	$ 9,607,162	12,597,050
EIRLF	868,593	931,696
HELP	-	91,227
SALP**	-	43,638
CEEMP	-	7,568
Stripper Well	26,171	41,847
	$ 10,501,926	13,713,026

* 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.

** Subsequent to June 30, 2014, the grantor allowed ODOC to change SALP from a loan program to a direct grant program.

√ *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.

(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. Effective June 1, 2015, these programs were transferred to Oklahoma State University-Oklahoma City.

- √ *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 year ended June 30, 2015 or 2014. At June 30, 2014, $143,762 of funds were available for expenditure for the Opportunity Fund. Subsequent to June 30, 2014, the State of Oklahoma recaptured the Opportunity Fund balance pursuant to 2014 O.S.L. 420.164.

- √ *Oklahoma Bioenergy Center (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, 2015 and 2014, ODOC did not receive any additional state appropriations. There were no expenditures of the OBC Fund by ODOC during 2015 and 2014. At both June 30, 2015 and 2014, $1,629,762 of funds were available for expenditure for the OBC Fund. Subsequent to June 30, 2015, $1,600,000 was transferred from the OBC Fund to the Oklahoma Quick Action Closing Fund, pursuant to 2015 O.S.L. 348.104.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting, Continued

- √ *Community Development Block Grant Disaster Recovery (CDBGDR)* – The objective of these funds is to support long-term disaster recovery efforts in eligible designated disaster areas with demonstrated "unmet need." Outside of requirements specifically related to the geographic areas where funds must be expended, CDBGDR expenditures have the same national objectives as CDBG program funds.

  CDBGDR funds were distributed in two allocations from the U.S. Department of Housing and Urban Development. The first allocation of $10,600,000 may only be expended in areas of Oklahoma directly impacted by the tornadoes of May 18 through June 2, 2013. Of the $10,600,000 allocation, 30.4% must be expended in Cleveland County.

  ODOC received notice of a second allocation of $83,100,000 on June 3, 2014. The second allocation may only be expended in areas of Oklahoma designated as Presidentially Declared Disaster areas between 2011 and 2013. A minimum of $41,200,000 must be expended in Cleveland and Creek Counties.

- √ *Workforce Investment Act Dislocated Workers National Emergency Grant–Disaster Recovery Emergency (DRE)*—The objective of the DRE program is to provide temporary employment on projects for the clean-up, demolition, repair, renovation, and reconstruction of destroyed public structures, facilities, and lands within communities affected by the tornadoes of May 18 through June 2, 2013. Funds may also be used to provide temporary employment in humanitarian assistance jobs. The award provides for up to $10,000,000 in funding. As of June 30, 2015, $5,000,000 had been awarded. Effective June 1, 2015, this program was transferred to Oklahoma State University-Oklahoma City.

- √ *Quick Action Closing Fund*—The Quick Action Closing 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 real property, plant, or equipment; or improvements in ad valorem, income, or sales and use taxes. During the year ended June 30, 2015, ODOC received no additional appropriations or interest or other proceeds. During the year ended June 30, 2014, ODOC received $3,000,000 from state appropriations in 2014 and interest or other proceeds earned on investments of the EDGE Fund made prior to July 1, 2013. ODOC had no expenditures of funds during the year ended June 30, 2015. ODOC expended $3,000,000 during the year ended June 30, 2014. At both June 30, 2015 and 2014, $6,725,049 of funds were available for expenditure for the Quick Action Closing Fund.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting, Continued

- √ *Oklahoma Viticulture and Enology Development Revolving (OVEC) Fund*—The OVEC Fund was established by the Oklahoma Legislature for the purpose of establishing a Viticulture and Enology Center on the campus of Redlands Community College; developing viticulture related and enology related education programs; developing technologies, strategies, or practices that aid in the production of grapes and wine in Oklahoma; and increasing the positive economic impact of the Oklahoma wine industry in the State. During the years ended June 30, 2015 and 2014, ODOC received approximately $350,000 and $356,000, respectively, and ODOC expended $350,871 and $346,749, respectively. At June 30, 2015 and 2014, $355,230 and $356,101, respectively, of funds were available from the OVEC Fund. Effective November 1, 2015, the OVEC Fund will transfer to the Oklahoma Department of Agriculture, Food, and Forestry.

- √ *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, expenditures designed to increase employment, construction or improvement of telecommunication facilities or systems, and improvement of municipal energy distribution systems, community buildings, courthouses, town halls, senior nutrition centers, meeting rooms, or similar public facilities. ODOC received approximately $10,885,000 and $11,533,000 in state appropriations for the REAP Fund during the years ended June 30, 2015 and 2014, respectively. ODOC expended approximately $10,794,000 and $11,725,000 during the years ended June 30, 2015 and 2014, respectively, which is reflected as subgrantee expenditures in the statements of revenues, expenditures, and changes in fund balances—General Fund. At June 30, 2015, there was approximately $91,000 of remaining funds available for expenditures for the REAP Fund. At June 30, 2014, there was no remaining funds available for expenditures for the REAP Fund.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 presently administered by ODOC is as follows:

- √ *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. The program ended during the year ended June 30, 2014.

- √ *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. The program ended during the year ended June 30, 2014.

- √ *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. The program ended during the year ended June 30, 2014.

During the year ended June 30, 2015, ODOC expended $74,939 of ARRA funds for the following programs:

Program Awarded	Amount Expended During the Year Ended June 30, 2015
Weatherization	$ 80,202
EECBG	(5,263)
	$ 74,939

See Independent Auditors' Report.

(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. Such amounts are subject to be refunded to ODOC, if not expended, or if expended improperly.

Subgrantee Expenditures

ODOC recognizes subgrantee expenditures when incurred as evidenced by a monthly expenditure report, signifying eligibility requirements for the expenditures have been met. Subgrantee advances represent the difference between funds advanced to subgrantees and subgrantee expenditures incurred.

Deferred Inflows and Outflows of Resources

Fund Financial Statements

Deferred inflows of resources represents the portion of monies received from a contract with Oklahoma Natural Gas (ONG) and an allocation agreement with the U.S. Department of Treasury for which all eligibility requirements have not been met. Note 7 details the contract and allocation agreement.

Government-Wide Financial Statements

Deferred inflows and outflows of resources represent amounts associated with pension differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions. Note 11 details the components of these items.

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 position is the principal balance due as of June 30, 2015 and 2014.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Lease Obligations, Continued

At July 1, 2008, the operations of the Oklahoma Capitol 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 position is the principal balance due as of June 30, 2015 and 2014.

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 position 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.

Pension Plan

ODOC participates in a cost-sharing, multiple-employer defined benefits pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement Plan and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Reclassification of Prior Year Amounts

Certain amounts for 2014 have been reclassified to make them comparable with the 2015 presentation.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications

Government-Wide Financial Statements

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

a. Net invested in capital assets—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 position—consists of net position 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 position—all other net position 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 position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position 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 balances 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 certain state funded programs as restricted fund balances. 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 balances.

(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 Executive Director 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 balances 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 requires 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.

(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 fund balance sheets in accordance with GASB 54 for the years ended June 30:

	General Fund	
	2015	2014
Fund balances:		
Restricted for:		
Federal grants	$ 18,924,929	21,197,450
State appropriations	2,839,458	3,586,722
State funded and other restricted programs	7,222,780	7,081,973
Total restricted	28,987,167	31,866,145
Assigned:		
State appropriations	1,519,620	543,727
Unassigned:		
State appropriations	3,001,099	1,279,544
Program income	2,635,349	1,894,129
Total unassigned	5,636,448	3,173,673
Total fund balances	$ 36,143,235	35,583,545

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, 2015 and 2014, approximately $1,818,000 and $19,000, respectively, of encumbrances, adjusted for accruals and negative subgrantee advances, were outstanding.

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, 2015 and 2014.

As of June 30, 2015 and 2014, ODOC had approximately $82,370,000 and $83,779,000, respectively, of grant funds available to be drawn upon when needed. Contract commitments with subgrantees of approximately $53,294,000 and $48,677,000 were outstanding as of June 30, 2015 and 2014, respectively.

Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. ODOC adopted this statement effective July 1, 2014. The adoption of GASB 68 resulted in the restatement of beginning net assets of ODOC.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 establishes accounting and financial reporting standards related to governmental combinations and disposals of government operations. Generally, governmental combinations include mergers, acquisitions and transfers of operations. This statement improves financial reporting by providing guidance for business combinations in the governmental environment. ODOC adopted this statement July 1, 2014. Presently, ODOC has no items to be reported, and the adoption had no significant impact on the financial statements of ODOC.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68. ODOC adopted this statement on July 1, 2014. The adoption of GASB 71 resulted in the restatement of the beginning net assets of ODOC.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. ODOC will adopt GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 will require additional and/or revised disclosures in the financial statements.

In August 2015, GASB issued statement No. 77, *Tax Abatement Disclosures*. The primary objective of GASB 77 is to require state and local governments to disclose information about property and other tax abatement agreements. This statement is effective for financial statements for periods beginning December 15, 2015. ODOC has not determined the effects, if any, of implementing GASB 77.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Date of Management's Review of Subsequent Events

ODOC has evaluated subsequent events through October 27, 2015, 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) RESTATEMENT OF BEGINNING NET POSITION

The beginning net position of ODOC has been restated to effect the implementation of GASB 68 and GASB 71. GASB 68 denotes that during implementation if restatement of all prior years presented is not practical, the cumulative effect of applying GASB 68 should be reported as a restatement of beginning net position for the earliest period restated. As such, the beginning net position as of July 1, 2014, is being restated, as all information needed to restate the year ended June 30, 2014, is not available.

The cumulative adjustment to the July 1, 2014, beginning net position consists of the following:

Beginning July 1, 2014, net position, as previously reported	$ 50,003,833
Adjustments:	
Record ODOC's proportionate share of the net pension liability of OPERS	(4,581,697)
Record the 2014 contributions by ODOC to OPERS as deferred outflows	1,149,355
Net effect of restatement	(3,432,342)
Beginning net position, as restated	$ 46,571,491

(3) 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.

(3) CASH BALANCES AND SUBGRANTEE ADVANCES, CONTINUED

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, 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:

	2015	2014
U.S. agencies	$ 3,768,023	2,840,085
Mortgage-backed agencies	3,681,898	2,542,994
U.S. Treasury notes	108,630	73,698
Municipal bonds	130,131	94,968
Foreign bonds	72,266	48,630
Certificates of deposit	256,257	160,688
Money market mutual funds	1,178,234	298,874
Commercial paper	189,884	130,267
	$ 9,385,323	6,190,204

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.

(4) 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:

	Balance at June 30, 2014	Additions	Disposals	Balance at June 30, 2015
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	607,258	-	-	607,258
Total cost	8,102,258	-	-	8,102,258
Less accumulated depreciation:				
Building	(1,244,911)	(61,337)	-	(1,306,248)
Building improvements—capitol dome	(858,181)	(143,030)	-	(1,001,211)
Furniture, fixtures, and equipment	(407,243)	(79,841)	-	(487,084)
Total accumulated depreciation	(2,510,335)	(284,208)	-	(2,794,543)
Capital assets, net	$ 5,591,923	(284,208)	-	5,307,715

See Independent Auditors' Report.

(4) CAPITAL ASSETS, CONTINUED

	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
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	992,258	-	(385,000)	607,258
Total cost	8,487,258	-	(385,000)	8,102,258
Less accumulated depreciation:				
Building	(1,183,573)	(61,338)	-	(1,244,911)
Building improvements—capitol dome	(715,151)	(143,030)	-	(858,181)
Furniture, fixtures, and equipment	(702,687)	(89,556)	385,000	(407,243)
Total accumulated depreciation	(2,601,411)	(293,924)	385,000	(2,510,335)
Capital assets, net	$ 5,885,847	(293,924)	-	5,591,923

See Independent Auditors' Report.

(4) 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:

	2015		
	Cost	Accumulated Depreciation	Capital Assets, Net
Land, nondepreciable	$ 150,000	-	150,000
Building	2,625,000	(1,306,248)	1,318,752
Building improvements—capitol dome	4,720,000	(1,001,211)	3,718,789
	$ 7,495,000	(2,307,459)	5,187,541

	2014		
	Cost	Accumulated Depreciation	Capital Assets, Net
Land, nondepreciable	$ 150,000	-	150,000
Building	2,625,000	(1,244,911)	1,380,089
Building improvements—capitol dome	4,720,000	(858,181)	3,861,819
	$ 7,495,000	(2,103,092)	5,391,908

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—capital dome	33 years
Furniture, fixtures, and equipment	5–10 years

Depreciation expense for the years ended June 30, 2015 and 2014, was $284,208 and $293,924, respectively.

See Independent Auditors' Report.

(5) CAPITAL LEASE OBLIGATIONS

During 1997, ODOC entered into a lease agreement with the Oklahoma Capitol Improvement Authority (OCIA) 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 position.

During 2005, the Centennial Commission, a governmental agency of the State of Oklahoma, entered into a lease agreement with OCIA 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 position.

OCIA issued revenue bonds to facilitate the acquisition of the building which ODOC occupies (Bond Series 2004A) and for the payments for the improvements to the capitol dome (Bond Series 2005), which is located on the State Capitol Building. The lease payments made by ODOC will repay the principal of the bonds, plus interest.

On July 23, 2014, ODOC's remaining 2004A lease agreement with OCIA was restructured through a partial refunding of the Series 2004A bonds. OCIA issued new bonds, Series 2014B, to accomplish the refunding over a period of 7 years. As a result, the total liability of the remaining 2004A bonds refunded and the amount of the 2014B bonds acquired was a gain on restructuring of $228,733, which was recorded as a deferred inflow of resources that will be amortized over a period of 7 years. The restructured lease agreement with OCIA secures OCIA's bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. ODOC's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of $375,356, which approximates the economic savings of the transaction.

During the year ended June 30, 2015, ODOC recognized $32,676 of amortization on the deferred gain on lease restructuring on OCIA Series 2014B lease obligation, leaving a balance of the unamortized deferred gain of $196,057. The unamortized deferred gain is included in the deferred inflows of resources in the accompanying financial statements.

(5) CAPITAL LEASE OBLIGATIONS, CONTINUED

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, 2015:

Year Ending June 30,	Building	Capitol Dome	Total
2016	$ 164,572	464,390	628,962
2017	182,299	464,290	646,589
2018	184,843	463,590	648,433
2019	183,594	466,927	650,521
2020	184,644	468,915	653,559
2021–2022	430,454	464,783	895,237
Minimum lease payments for capital lease	1,330,406	2,792,895	4,123,301
Less amount representing interest	(139,139)	(322,895)	(462,034)
Present value of minimum lease payments	$ 1,191,267	2,470,000	3,661,267

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

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

	2015	2014
Balance at beginning of year	$ 4,245,000	4,730,000
Principal payments	(355,000)	(485,000)
Net change due to lease restructure	(228,733)	-
Balance at end of year	$ 3,661,267	4,245,000

See Independent Auditors' Report.

(6) ACCRUED COMPENSATED ABSENCES

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

		2015	2014
Balance at beginning of year	$	639,661	679,040
Amount earned		388,809	472,891
Amount used		(470,785)	(512,270)
Balance at end of year	$	557,685	639,661

For the statements of net position 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, 2015 and 2014.

(7) DEFERRED REVENUE

Oklahoma Natural Gas (ONG)

ODOC contracts with ONG for the weatherizing of homes that qualify for the ONG weatherization program. ONG advances the monies for the contracts upfront and ODOC recognizes the funds as deferred until all eligibility requirements are met. As of June 30, 2015 and 2014, there was $42,231 and $255,560, respectively, of deferred revenue related to the ONG contracts. Such amounts represent monies received for which all eligibility requirements had not been met to allow for the monies to be spent.

U.S. Department of Treasury

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. As of June 30, 2015 and 2014, there was $2,262,918 and $4,358,435, respectively, of deferred revenue related to the program. The funds are classified as deferred because not all eligibility requirements to spend the monies have been met.

(8) 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, 2015 and 2014, were $39,119,376 and $44,105,681, respectively.

During the years ended June 30, 2015 and 2014, $417,282 and $1,986, respectively, of state funds were returned to the State of Oklahoma.

(9) 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.

(10) INDIRECT COSTS

For the years ended June 30, 2015 and 2014, 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 Labor for use in charging indirect costs. ODOC's indirect cost rate for the years ended June 30, 2015 and 2014, was 56.62% and 58.95%, respectively, which resulted in a charge of $1,231,431 and $1,350,594 to the various federal programs during 2015 and 2014, respectively.

(11) PENSION PLAN

Plan Description

ODOC contributes to the Oklahoma Public Employees Retirement Plan (OPERS), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). OPERS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901–943, as amended, assigns the authority for management and operation of OPERS to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 200, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008, or can be obtained at www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2014-OPERS.pdf.

(11) PENSION PLAN, CONTINUED

Benefits Provided

OPERS provides members with full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have 6 or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of 10 years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having 8 years of credited service whose disability status has been certified as being within 1 year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

For state, county, and local agency employees, benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

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

(11) PENSION PLAN, CONTINUED

Benefits Provided, Continued

Members become eligible to vest fully upon termination of employment after attaining 8 years of credited service, or the members' contributions may be withdrawn upon termination of employment.

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

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least 6 years of participating elected service and was married at least 3 years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, OPERS will pay a $5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional $200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to OPERS. In April 2001, limited benefit payments began for qualified retired members.

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board of Trustees of the System based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

(11) PENSION PLAN, CONTINUED

Contributions, Continued

For 2015, 2014, and 2013, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Contributions to OPERS by ODOC for 2015, 2014, and 2013 were approximately as follows:

2015	2014	2013
$ 973,000	1,149,000	1,160,000

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

At June 30, 2015, ODOC reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. ODOC's proportion of the net pension liability was based on ODOC's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2014. Based upon this information, ODOC's proportion was 0.43740178%. However, as NACEA was included with ODOC's contributions and as NACEA issues its own financial statements, ODOC's percentage was adjusted to 0.40678366%.

(11) PENSION PLAN, CONTINUED

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

For the year ended June 30, 2015, ODOC recognized pension expense of $50,839. At June 30, 2015, ODOC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	247,215
Changes of assumptions	42,731	-
Net difference between projected and actual earnings on pension plan investments	-	2,495,472
Changes in proportion and differences between Fund contributions and proportionate share of contributions	-	-
ODOC contributions subsequent to the measurement date	972,613	-
	$ 1,015,344	2,742,687

See Independent Auditors' Report.

(11) PENSION PLAN, CONTINUED

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

Reported deferred outflows of resources of $972,613 related to pensions resulting from ODOC contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30:	
2016	$ (564,217)
2017	(564,217)
2018	(564,217)
2019	(508,212)
2020	(499,093)
	$ (2,699,956)

Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2014, using the following actuarial assumptions:

Investment return:	7.5% compounded annually net of investment expense and including inflation
Salary increases:	4.5% to 8.4% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	3.0%
Payroll growth:	4.0% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

The actuarial assumptions used in the July 1, 2014, valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

See Independent Auditors' Report.

(11) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	3.5%	1.5%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected through 2113 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

(11) PENSION PLAN, CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer calculated using the discount rate of 7.5%, as well as what ODOC's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ 4,648,832	783,224	(2,570,655)

The above amounts vary from what is reported by OPERS in their GASB 68 allocation report, as a reduction of 7% was made to each caption to adjust for NACEA being reported separately from ODOC.

Pension Plan Fiduciary Net Position

Detailed information about OPERS' fiduciary net position is available in the separately issued financial report of OPERS, which can be located at www.opers.ok.gov.

(12) 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.

See Independent Auditors' Report.

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

Deferred Compensation Plan, Continued

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 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.

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, 2015 and 2014. 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.

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

Deferred Savings Incentive Plan, Continued

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.

(13) 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.

(14) 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, 2015 and 2014, ODOC received state appropriations earmarked for NACEA of approximately $6,725,000 and $6,784,000, respectively. For the years ended June 30, 2015 and 2014, NACEA's expenditures, as administered by ODOC, were approximately $7,417,000 and $6,712,000, respectively.

House Bill 2237, which was signed into law May 15, 2015, allows for the transfer of responsibility for operation and maintenance of the American Indian Cultural Center and Museum (AICCM) and NACEA's unimproved property to the City of Oklahoma City, contingent upon the City of Oklahoma City and the State executing a final agreement by January 15, 2016, containing certain minimum provisions listed in HB 2237.

Should the City of Oklahoma City and the State come to an agreement, all unimproved property will transfer to Oklahoma City for the purpose of commercial redevelopment, and an AICCM Completion Revolving Fund will be created for the deposit of all non-state and non-federal donations, contributions, gifts, and bequests for the purpose of completing the AICCM. The bill also authorizes the OCIA to issue obligations for funding the completion of the AICCM upon the certification of the director of OMES that at least $10,000,000 has been deposited into the Completion Revolving Fund.

Upon completion of the AICCM, NACEA will terminate and all functions and assets other than unexpended funds for operational expenses or debt service will transfer to a public trust.

HB 2237 also states that, should the City and State come to an agreement, no further appropriations will be made to NACEA for the purpose of operating the AICCM, however, appropriations will be made to NACEA or a successor state entity for the purpose of paying debt service or other obligations for the benefit of NACEA.

(15) TRANSFER OF WORKFORCE SERVICES DIVISION

As of June 1, 2015, the Workforce Services Division ("Workforce") was transferred from ODOC to the Oklahoma State University-Oklahoma City (OSU-OKC) by Oklahoma Governor Mary Fallin. As of that date, ODOC ceased to have responsibility for the staff or programs managed by the staff of Workforce. Certain Workforce programs were identified as major programs for the current audit period and were tested through June 1, 2015.

(15) TRANSFER OF WORKFORCE SERVICES DIVISION, CONTINUED

As noted in the prior year report, ODOC was monitored by the U.S. Department of Labor (DOL), and a report was issued February 12, 2015, that identified several findings and questioned costs totaling $310,899, with the majority of such questioned costs relating to expenditures of a subrecipient. ODOC performed additional monitoring of the identified subrecipient and researched the questioned costs identified by the DOL. ODOC issued a monitoring report on April 21, 2015, with identified questioned costs totaling $201,912 as opposed to the $310,899 by DOL. Prior to the resolution of the amount of questioned costs and the questioned costs themselves, this program was transferred with Workforce to OSU-OKC on June 1, 2015. Therefore, all responsibility for resolving the identified questioned costs with the DOL was also transferred to OSU-OKC as of that date. ODOC has no responsibility going forward over the programs managed by Workforce.

(16) 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, 2015 and 2014, 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, 2015, there was no litigation outstanding.

STATE OF OKLAHOMA
DEPARTMENT OF COMMERCE

REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2015

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance
Revenues:				
State appropriations	$ 39,119,376	39,119,376	39,119,376	-
Federal grant revenues and program income	61,119,251	59,225,030	58,021,384	(1,203,646)
Other	370,000	611,250	2,399,051	1,787,801
Total revenues	100,608,627	98,955,656	99,539,811	584,155
Expenditures:				
Subgrantee expenditures	79,672,851	77,935,790	72,854,634	5,081,156
Salaries, wages, and benefits	10,806,058	8,632,660	9,627,454	(994,794)
Contractual and professional	12,001,177	7,269,195	4,740,953	2,528,242
Travel	1,004,130	818,056	694,532	123,524
Capitol dome leases, space and equipment rental	6,385,990	6,368,283	6,659,971	(291,688)
Equipment	39,103	27,054	37,290	(10,236)
Maintenance	344,183	327,614	236,551	91,063
Miscellaneous administrative expenses	2,850,170	3,580,759	3,631,251	(50,492)
Total expenditures	113,103,662	104,959,411	98,482,636	6,476,775
Revenues (less than) in excess of expenditures	$ (12,495,035)	(6,003,755)	1,057,175	7,060,930

See Independent Auditors’ Report.
See accompanying notes to required supplementary information.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

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

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance
Revenues:				
State appropriations	$ 44,105,681	44,105,681	44,105,681	-
Federal grant revenues and program income	70,199,831	78,088,191	70,896,250	(7,191,941)
Other	1,072,319	1,347,164	1,933,934	586,770
Total revenues	115,377,831	123,541,036	116,935,865	(6,605,171)
Expenditures:				
Subgrantee expenditures	86,440,513	94,158,665	77,957,303	16,201,362
Salaries, wages, and benefits	11,804,737	12,039,158	10,750,828	1,288,330
Contractual and professional	14,696,874	16,458,433	9,600,710	6,857,723
Travel	973,692	1,029,192	667,699	361,493
Capitol dome leases, space and equipment rental	6,435,008	6,491,008	6,249,415	241,593
Equipment	54,000	104,000	106,285	(2,285)
Maintenance	195,700	205,700	246,999	(41,299)
Miscellaneous administrative expenses	2,050,028	2,290,618	3,984,661	(1,694,043)
Total expenditures	122,650,552	132,776,774	109,563,900	23,212,874
Revenues (less than) in excess of expenditures	$ (7,272,721)	(9,235,738)	7,371,965	16,607,703

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

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

Year Ended June 30, 2015

	Actual per Audit Report	Adjustment to Budgetary Basis	Actual on Budgetary Basis
Revenues:			
State appropriations	$ 39,119,376	-	39,119,376
Federal grants	53,117,373	4,904,011	58,021,384
Other	8,313,999	(5,914,948)	2,399,051
Total revenues	100,550,748	(1,010,937)	99,539,811
Expenditures:			
Subgrantee expenditures	72,854,634	-	72,854,634
Salaries, wages, and benefits	8,984,110	643,344	9,627,454
Contractual and professional	4,613,806	127,147	4,740,953
Travel	666,684	27,848	694,532
Capitol dome leases, space and equipment rental	1,127,820	5,532,151	6,659,971
Equipment	28,662	8,628	37,290
Maintenance	230,649	5,902	236,551
Miscellaneous administrative expenses	11,484,693	(7,853,442)	3,631,251
Total expenditures	99,991,058	(1,508,422)	98,482,636
Revenues in excess of expenditures	$ 559,690	497,485	1,057,175

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

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

Year Ended June 30, 2014

	Actual per Audit Report	Adjustment to Budgetary Basis	Actual on Budgetary Basis
Revenues:			
State appropriations	$ 44,105,681	-	44,105,681
Federal grants	69,750,313	1,145,937	70,896,250
Other	4,285,142	(2,351,208)	1,933,934
Total revenues	118,141,136	(1,205,271)	116,935,865
Expenditures:			
Subgrantee expenditures	77,957,303	-	77,957,303
Salaries, wages, and benefits	10,100,868	649,960	10,750,828
Contractual and professional	9,548,348	52,362	9,600,710
Travel	649,634	18,065	667,699
Capitol dome leases, space and equipment rental	1,031,286	5,218,129	6,249,415
Equipment	82,481	23,804	106,285
Maintenance	235,966	11,033	246,999
Miscellaneous administrative expenses	11,184,392	(7,199,731)	3,984,661
Total expenditures	110,790,278	(1,226,378)	109,563,900
Revenues in excess of expenditures	$ 7,350,858	21,107	7,371,965

See Independent Auditors' Report.
See accompanying notes to required supplementary information.

- In preparing its budget, ODOC is allowed to budget estimated revenues, expenditures, and available cash on-hand. The budgeted expenditures in excess of revenues for 2015 and 2014 were budgeted to be funded with available cash on-hand.

- 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 2014 amounts transferred to 2015 and rebudgeted approximated $2,364,000. Unexpended 2013 amounts transferred to 2014 and rebudgeted approximated $1,956,000.

- 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.

STATE OF OKLAHOMA
DEPARTMENT OF COMMERCE

SUPPLEMENTARY INFORMATION REQUIRED BY GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 68

Exhibit I

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF ODOC'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Public Employees Retirement System

Current Fiscal Year

	2015
ODOC's proportion of the net pension liability, net of NACEA	0.40678366%
ODOC's proportionate share of the net pension liability	$ 783,224
ODOC's covered-employee payroll	$ 6,965,782
ODOC's proportionate share of the net pension liability as a percentage of its covered payroll	11.24%
OPERS' fiduciary net position as a percentage of the total pension liability	97.90%

* The amounts presented for each fiscal year were determined as of June 30th of the prior year.

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

See Independent Auditors' Report.

Exhibit II

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF ODOC'S CONTRIBUTIONS
Oklahoma Public Employees Retirement System

Last 3 Fiscal Years

	2015	2014	2013
Contractually required contribution, excluding NACEA	$ 972,613	1,149,354	1,160,264
Contributions in relation to the contractually required contributions	972,613	1,149,354	1,160,264
Contribution deficiency (excess)	$ -	-	-
ODOC's covered-employee payroll, excluding NACEA	$ 5,894,624	6,965,782	7,031,903
Contributions as a percentage of covered-employee payroll	16.50%	16.50%	16.50%

Only the last 3 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

STATE OF OKLAHOMA
DEPARTMENT OF COMMERCE

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Grant Title	Federal CFDA Number	Grant Number	Grant Award Amount	Fund Balance June 30, 2014	Current Grant Year Revenues	Other Revenues	Current Grant Year Federal Expenditures	Other Expenditures	Transfers	Fund Balance June 30, 2015
DEPARTMENT OF ENERGY										
Weatherization	81.042 *									
FY 15		DE-EE0006178	$ 2,166,950	-	115,213	-	141,485	-	-	(26,272)
FY 14		DE-EE0006178	2,020,640	-	2,131,655	-	2,106,067	-	-	25,588
FY 13		DE-EE0006178	2,023,225	2,523	(2,523)	-	(140)	-	-	140
FY 12		DE-EE0000063	679,076	1,241	(2,592)	-	(1,351)	-	-	-
FY 11		DE-EE0000063	1,964,590	-	521	-	521	-	-	-
FY 10		DE-EE0000063	2,029,472	-	(3,635)	-	(1,885)	-	-	(1,750)
FY 09		DE-EE0000063	5,150,319	-	-	-	-	-	-	-
ARRA—Weatherization		DE-EE0000153	63,435,436	80,202	-	-	80,202	-	-	-
State Energy Program	81.041 *									
FY 14		DE-EE0006219	559,490	-	375,695	216,251	380,978	216,251	-	(5,283)
FY 13		DE-EE0006219	523,580	(112,490)	199,212	21,349	86,722	21,349	-	-
FY 12		DE-FG26-07NT43203	421,000	(9,596)	9,596	514	-	514	-	-
FY 11		DE-FG26-07NT43203	838,000	-	-	-	-	-	-	-
FY 10		DE-FG26-07NT43203	184,294	-	-	-	-	-	-	-
FY 09		DE-FG26-07NT43203	354,215	-	-	-	-	-	-	-
State Energy Program—Revolving Loan Fund		N/A	N/A	2,017,680	-	3,339,994	2,800	-	-	5,354,874
Renewable Energy Research and Development	81.087									
FY 10 Wind Power		DE-EE0000539	400,000	3,977	-	-	-	-	-	3,977
ARRA—Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000922	9,593,500	1,380	19,551	33,043	(5,263)	33,043	-	26,194

(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, 2015

Grant Title	Federal CFDA Number	Grant Number	Grant Award Amount	Fund Balance June 30, 2014	Current Grant Year Revenues	Other Revenues	Current Grant Year Federal Expenditures	Other Expenditures	Transfers	Fund Balance June 30, 2015
DEPARTMENT OF ENERGY— PASSED THROUGH STATE OF OKLAHOMA GOVERNOR'S OFFICE										
Stripper Well Alternative Fuels	N/A	97	650,000	729,471	-	29,816	-	-	-	759,287
CEEMP	N/A	95	245,632	666,985	-	19,929	-	-	-	686,914
EIRLF	N/A	95	1,000,000	606,751	-	76,247	300,000	-	-	382,998
HELP	N/A	07	1,000,000	1,156,708	-	114,609	-	-	-	1,271,317
SALP	N/A	96	1,100,000	494,303	-	49,590	-	-	(500,000)	43,893
State Building Fund		N/A	-	-	-	-	33,383	-	500,000	466,617
DEPARTMENT OF ENERGY— PASSED THROUGH INDIAN NATIONAL COUNCIL OF GOVERNMENTS										
Clean Cities Implementation Initiative to Advance Alternative Fuel Markets	81.086	N/A	30,000	-	-	-	-	-	-	-
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT										
Community Development Block Grants— State-Administered Small Cities Program Cluster	14.228 *									
FY 15		B-15-DC-40-0001	12,656,192	-	-	-	-	-	-	-
FY 14		B-14-DC-40-0001	13,115,124	-	4,959,273	861,742	4,233,733	283,872	-	1,303,410
FY 13		B-13-DC-40-0001	13,497,021	1,815,370	5,376,568	17,785	5,950,407	-	-	1,259,316
FY 12		B-12-DC-40-0001	13,016,213	2,976,345	1,190,346	226,505	3,820,899	-	-	572,297
FY 11		B-11-DC-40-0001	14,578,062	851,727	606,237	25,648	1,405,281	-	-	78,331
FY 10		B-10-DC-40-0001	17,354,448	619,970	234,021	283,938	754,864	-	-	383,065
FY 09		B-09-DC-40-0001	16,243,555	111,688	267,340	7,187	396,335	-	-	(10,120)
FY 08		B-08-DC-40-0001	15,972,200	177,058	309,931	9,331	487,685	-	-	8,635
FY 07		B-07-DC-40-0001	17,320,561	(384)	117,749	(61,200)	21,061	-	-	35,104
FY 06		B-06-DC-40-0001	17,215,512	36,903	727,959	(395,917)	366,206	-	-	2,739
FY 05		B-05-DC-40-0001	19,092,030	122,608	134,449	(122,108)	134,449	-	-	500
FY 04		B-04-DC-40-0001	20,044,319	-	9,901	-	9,901	-	-	-

(Continued)

See Independent Auditors' Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Grant Title	Federal CFDA Number		Grant Number	Grant Award Amount	Fund Balance June 30, 2014	Current Grant Year Revenues	Other Revenues	Current Grant Year Federal Expenditures	Other Expenditures	Transfers	Fund Balance June 30, 2015
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, CONTINUED											
Community Development Block Grants—State-Administered Small Cities Program Cluster, Continued	14.228	*									
FY 03			B-03-DC-40-0001	19,757,000	50,547	-	-	-	-	-	50,547
FY 02			B-02-DC-40-0001	21,396,000	491	-	1,036	1,036	-	-	491
FY 01			B-01-DC-40-0001	21,738,000	-	110,579	-	110,579	-	-	-
FY 00			B-00-DC-40-0001	20,878,000	-	-	-	-	-	-	-
FY 99			B-99-DC-40-0001	20,668,000	-	-	-	-	-	-	-
FY 98			B-98-DC-40-0001	20,466,000	-	2,000	1,485	3,485	-	-	-
FY 97			B-97-DC-40-0001	20,869,000	7,000	3,525	-	10,525	-	-	-
CDBG—ED			N/A	N/A	1,649,353	-	(70,587)	1,264,469	-	-	314,297
CDBG—CD			N/A	N/A	477,282	495,030	161,212	973,193	-	-	160,331
CDBG—Disaster Recovery	14.269	*	B-13-DS-40-0001	4,246,016	-	2,054,379	-	1,534,199	-	-	520,180
Neighborhood Stabilization Program	14.228	*									
FY 11			B-11-DN-40-0001	5,000,000	290,976	823	-	291,799	-	-	-
FY 08			B-08-DN-40-0001	29,969,459	845,426	630	13,561	797,250	-	-	62,367
ARRA—Community Development Block Grant	14.255		B-09-DY-40-0001	4,333,265	49	-	-	-	-	-	49
Emergency Solutions Grant Program	14.231										
FY 15			E-15-DC-40-0001	1,563,557	-	-	-	-	-	-	-
FY 14			E-14-DC-40-0001	1,471,628	(2,827)	856,227	902,067	879,953	902,067	-	(26,553)
FY 13			E-13-DC-40-0001	1,268,344	49,855	419,164	549,116	468,363	549,116	-	656
FY 12			E-12-DC-40-0001	1,667,424	(1,336)	-	(3,819)	-	(3,819)	-	(1,336)
FY 11			E-11-DC-40-0001	1,452,305	11,405	8,705	38,832	19,683	38,832	-	427
FY 10			S-10-DC-40-0001	926,824	106	-	-	-	-	-	106
FY 09			S-09-DC-40-0001	924,420	2,500	-	-	-	-	-	2,500
ARRA—Homeless Prevention and Rapid Re-Housing Program	14.257		S-09-DY-40-0001	8,101,391	2,827	-	-	-	-	-	2,827

(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, 2015

Grant Title	Federal CFDA Number	Grant Number	Grant Award Amount	Fund Balance June 30, 2014	Current Grant Year Revenues	Other Revenues	Current Grant Year Federal Expenditures	Other Expenditures	Transfers	Fund Balance June 30, 2015
DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Community Services Block Grant	93.569									
FY 15		G15B1OKCOSR	7,872,109	-	1,895,513	-	1,724,377	-	-	171,136
FY 14		G14B1OKCOSR	7,954,932	392,921	5,199,356	-	5,395,568	-	-	196,709
FY 13		G13B1OKCOSR	7,561,949	109,621	420,208	-	504,487	-	-	25,342
FY 12		G12B1OKCOSR	8,062,881	(1,821)	1,619	-	(374)	-	-	172
FY 11		G11B1OKCOSR	8,096,247	(80,084)	-	-	-	-	-	(80,084)
FY 10		G10B1OKCOSR	8,326,884	93,293	-	-	-	-	-	93,293
Head Start	93.600									
FY 15		06CD0019/05	175,000	-	54,551	-	54,551	-	-	-
FY 14		06CD0019/04	190,539	-	132,409	52,831	132,409	52,831	-	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES—PASSED THROUGH OKLAHOMA DEPARTMENT OF HUMAN SERVICES										
LIHEAP/Weatherization	93.568 *									
FY 14		ODHS 14 LIHEAP	1,500,000	-	793,288	-	717,829	-	-	75,459
FY 13		ODHS 13 LIHEAP	1,500,000	268,042	382,039	-	650,081	-	-	-
FY 12		ODHS 12 LIHEAP	3,450,000	31,570	(21,185)	-	7,228	-	-	3,157
FY 11		ODHS 11 LIHEAP	1,000,000	(11,457)	(1,273)	-	(3,436)	-	-	(9,294)
FY 10		ODHS 10 LIHEAP	1,000,000	10,052	-	-	-	-	-	10,052

(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, 2015

Grant Title	Federal CFDA Number	Grant Number	Grant Award Amount	Fund Balance June 30, 2014	Current Grant Year Revenues	Other Revenues	Current Grant Year Federal Expenditures	Other Expenditures	Transfers	Fund Balance June 30, 2015
DEPARTMENT OF LABOR										
Workforce Investment Act Cluster										
WIA/Adult Statewide	17.258 *									
FY 15 Workforce Adult Statewide		AA25374VG0	5,619,194	-	3,331,094	-	3,278,577	-	-	52,517
PY 14 Workforce Adult Statewide		AA25374TA0	428,075	-	409,155	-	338,037	-	-	71,118
FY 14 Workforce Adult Statewide		AA24113QO0	5,636,193	487,115	2,567,998	-	2,992,806	-	-	62,307
PY 13 Workforce Adult Statewide		AA24113OM0	138,390	-	505	-	505	-	-	-
FY 13 Workforce Adult Statewide		AA22956LX0	5,809,594	(28,681)	33,653	-	5,089	-	-	(117)
PY 12 Workforce Adult Statewide		AA22956JL0	479,868	39	616	-	655	-	-	-
FY 12 Workforce Adult Statewide		AA21416HB0	5,872,275	(6,841)	5,106	-	(1,735)	-	-	-
WIA/Youth Services	17.259 *									
PY 14 Workforce Youth Services		AA25374TE0	6,258,954	(8,097)	4,246,105	-	4,144,086	-	-	93,922
PY 13 Workforce Youth Services		AA24113OQ0	5,982,158	109,247	2,184,277	47,500	2,136,077	-	-	204,947
PY 12 Workforce Youth Services		AA22956JP0	6,676,111	15,987	29	-	16,016	-	-	-
PY 11 Workforce Youth Services		AA21416EZ0	6,877,913	(5,088)	4,891	-	(197)	-	-	-
WIA/Dislocated Workers	17.278 *									
FY 15 Workforce Dislocated Workers		AA25374VI0	4,649,137	-	1,924,588	-	1,929,467	-	-	(4,879)
PY 14 Workforce Dislocated Workers		AA25374TC0	767,940	-	734,463	-	630,716	-	-	103,747
FY 14 Workforce Dislocated Workers		AA24113QQ0	4,719,052	169,259	3,010,819	-	3,114,657	-	-	65,421
PY 13 Workforce Dislocated Workers		AA24113OO0	511,808	29,907	120,494	-	141,332	-	-	9,069
FY 13 Workforce Dislocated Workers		AA22956LZ0	4,963,628	(3,888)	158,295	-	154,474	-	-	(67)
PY 12 Workforce Dislocated Workers		AA22956JN0	855,003	(2,751)	14,764	-	12,013	-	-	-
FY 12 Workforce Dislocated Workers		AA21416HD0	5,510,019	24,837	(27,012)	-	(2,175)	-	-	-
PY 11 Workforce Dislocated Workers		AA21416FQ0	1,323,279	10,174	(10,187)	-	(13)	-	-	-
WIA/Heroes at Home/Military Spouse Initiative										
National Emergency Grant										
FY 11 BRAC	17.277	EM18155DE0	1,690,122	(1)	-	-	(1)	-	-	-

(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, 2015

Grant Title	Federal CFDA Number		Grant Number	Grant Award Amount	Fund Balance June 30, 2014	Current Grant Year Revenues	Other Revenues	Current Grant Year Federal Expenditures	Other Expenditures	Transfers	Fund Balance June 30, 2015
DEPARTMENT OF LABOR, CONTINUED											
WIA/Dislocated Workers/National Emergency Grant Disaster Recovery Employment FY 13	17.277	*	EM-24380-13-60-A-40	5,000,000	372,025	959,082	-	1,331,107	-	-	-
Workforce Data Quality Initiative Grant	17.261		MI-23215-12-60-A-40	1,000,000	(2,524)	62,896	-	60,851	-	-	(479)
WIA Incentive Grant	17.267		PI-25822-14-55-A-40	911,238	-	428,973	-	326,090	-	-	102,883
H-1B Technical Skills Training Grant	17.268	*	HG-22622-12-60-A-40	5,000,000	(5,233)	1,216,570	-	1,212,296	-	-	(959)
DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY—PASSED THROUGH OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY											
Brownfield's Cleanup Revolving Loan Fund	66.811		N/A	880,000	38,190	-	705,731	-	-	-	743,921
DEPARTMENT OF COMMERCE											
Economic Development Administration Grant	11.307		08-79-04989	600,000	-	60,628	161,715	67,628	161,715	-	(7,000)
U.S. DEPARTMENT OF TREASURY											
State Small Business Credit Initiative	N/A		2011SSBCIOK	13,168,350	3,452,481	2,095,517	-	2,319,104	-	-	3,228,894
INSTITUTE OF MUSEUM AND LIBRARY SERVICES											
National Endowment for Humanities—Oklahoma Humanities Council	45.129		N/A	20,000	5,082	-	-	-	-	-	5,082
TOTAL				$ 651,210,131	21,197,450	53,117,373	7,314,933	60,449,056	2,255,771	-	18,924,929

* A major program as determined by the auditors.

See Independent Auditors' Report.
See accompanying notes to Schedule of Expenditures of Federal Awards.

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of ODOC under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of ODOC, it is not intended to and does not present the financial position or changes in financial position of ODOC.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. ODOC had no significant amount of awards after December 26, 2014.

(3) OTHER REVENUES

Other revenues consisted of the following as of June 30, 2015:

Program income	$ 4,904,011
Interest	107,651
In-kind matching	2,255,771
Other	47,500
	$ 7,314,933

(4) EXPENDITURES AND SUBGRANTEES

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, 2015, subgrantees of ODOC expended approximately $55,831,000, or 92.36%, of federal expenditures and approximately $1,532,000, or 67.91%, of matching expenditures.

See Independent Auditors' Report.

(4) EXPENDITURES AND SUBGRANTEES, CONTINUED

The schedule of expenditures and federal awards totals $60,449,056. This amount includes the U.S. Department of Treasury grant, State Small Business Credit Initiative with expenditures of $2,319,104 for the year ended June 30, 2015. As the Treasury grant is not considered federal assistance for the reporting requirements established by OMB Circular A-133 it was not used in the computation of total federal assistance for the determination of major programs as defined by OMB Circular A-133. The amount of federal expenditures used to determine major programs was $58,129,952 determined as follows:

Total expenditures including Treasury grant	$	60,449,056
Less Treasury grant		(2,319,104)
	$	58,129,952

See Independent Auditors' Report.

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the governmental activities and the General Fund of the State of Oklahoma Department of Commerce (ODOC), which is a part of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise ODOC's basic financial statements, and have issued our report thereon dated October 27, 2015. Our report includes an explanatory paragraph to emphasize the fact that the financial statements include only that portion of the State of Oklahoma that is attributable to transactions of ODOC. Our report also includes an explanatory paragraph noting the adoption of Governmental Accounting Standards Board Statements No. 68 and 71 by ODOC, requiring the restatement of beginning net position. In addition, our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ODOC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ODOC's internal control. Accordingly, we do not express an opinion on the effectiveness of ODOC's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ODOC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ODOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 27, 2015

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

State of Oklahoma
Department of Commerce

Report on Compliance for Each Major Federal Program

We have audited the State of Oklahoma Department of Commerce's (ODOC), which is a part of the State of Oklahoma financial reporting entity, 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, 2015. ODOC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of ODOC's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of ODOC's compliance.

Opinion on Each Major Federal Program

In our opinion, ODOC complied in all material respects, with the types of 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, 2015.

(Continued)

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED

Report on Internal Control Over Compliance

Management of ODOC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ODOC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 27, 2015

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	**Unmodified**
Internal control over financial reporting:	
Material weakness(es) identified?	☐ **Yes** ☑ **No**
Significant deficiency(ies) identified?	☐ **Yes** ☑**None Reported**
Noncompliance material to financial statements noted?	☐ **Yes** ☑ **No**

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	☐ **Yes** ☑ **No**
Significant deficiency(ies) identified?	☐ **Yes** ☑ **None Reported**
Type of auditors' report issued on compliance for the major federal programs:	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	☐**Yes** ☑ **No**

SECTION I—SUMMARY OF AUDITORS' RESULTS, CONTINUED

Federal Awards, Continued

Identification of major federal programs:

Federal CFDA #	Name of Federal Program or Cluster
	Department of Energy
81.041	**State Energy Program**
81.042	**Weatherization**
	Department of Health and Human Services
93.568	**Low-Income Home Energy Assistance Program**
	Department of Housing and Urban Development
	CDBG Cluster:
14.228	**Community Development Block Grants**
14.228	**Neighborhood Stabilization Program**
14.269	**Community Development Block Grant Disaster Recovery**
	Department of Labor
	Workforce Investment Act Cluster:
17.258	**WIA Adult Program**
17.259	**WIA Youth Activities**
17.278	**WIA Dislocated Worker Formula Grant**
17.277	**WIA Dislocated Workers National Emergency Grant**
17.268	**H-1B Technical Skills Training Grant**

Dollar threshold used to distinguish between type A and type B programs: **$1,743,899**

Auditee qualified as low-risk auditee? ☑ **Yes** ☐ **No**

SECTION II—FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2015

There were no findings or questioned costs noted in the June 30, 2014, audit report.