State of Oklahoma
Department of Commerce

Financial Statements

June 30, 2016 and 2015
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

FINANCIAL STATEMENTS

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FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, 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.

Office of Inspector General Report

As more fully discussed in Note 15, ODOC has received a report from the Office of Inspector General of the U.S. Department of Housing and Urban Development which questions supporting documentation of certain expenditures and obligations related to the Community Development Block Grant Disaster Recovery Program administered by ODOC. Our opinions are 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 50 through 54, and the schedule of ODOC's proportionate share of the net pension liability and the schedule of the ODOC's contributions on pages 55 and 56, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 28, 2016, 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 28, 2016

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, 2016 and 2015. It should be read in conjunction with the financial statements which begin on page 4.

Discussion of the Basic Financial Statements

The 2016 and 2015 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, 2016 and 2015.

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, 2016 and 2015.

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

	2016	2015	2014
Assets			
Current assets	$ 50,658,874	46,731,220	45,875,833
Noncurrent assets	15,108,405	15,809,641	19,304,949
Total assets	65,767,279	62,540,861	65,180,782
Deferred outflows of resources related to the pension plan	1,858,533	1,015,344	-
Liabilities			
Current liabilities	12,847,842	9,123,621	6,695,563
Noncurrent liabilities	3,878,877	4,161,391	3,867,391
Total liabilities	16,726,719	13,285,012	10,562,954
Deferred inflows of resources:			
Deferred revenue	832,916	2,305,149	4,613,995
OCIA lease restructure	261,666	196,057	-
Pension plan	2,108,125	2,742,687	-
Total deferred inflows of resources	3,202,707	5,243,893	4,613,995
Net position	$ 47,696,386	45,027,300	50,003,833

Current assets primarily consist of cash and receivables from grantors. In addition, as of June 30, 2016 and 2015, there was approximately $17,553,000 and $8,980,000, 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 $524,000 and $370,000 at June 30, 2016 and 2015, respectively, and the current portion of compensated absences of approximately $373,000 and $471,000 at June 30, 2016 and 2015, respectively. There were deferred inflows of approximately $3,203,000 and $5,244,000 as of June 30, 2016 and 2015, respectively. Noncurrent liabilities consisted of lease obligations, net of the current portion, of approximately $2,468,000 and $3,291,000 at June 30, 2016 and 2015, respectively, and accrued compensated absences, less the current portion, of approximately $184,000 and $87,000 at June 30, 2016 and 2015, respectively.

Condensed Financial Information, Continued

Government-Wide Financial Statements, Continued

Net position was composed of the net investment in capital assets of approximately $2,061,000 and $1,646,000 at June 30, 2016 and 2015, respectively. Restricted net position totaled approximately $42,108,000 and $38,137,000 at June 30, 2016 and 2015, respectively, representing the net position of the federal programs administered by ODOC; approximately $1,630,000 restricted for the Oklahoma Bioenergy Center Fund at June 30, 2015; approximately $2,825,000 and $6,725,000 restricted for the Oklahoma Quick Action Closing Fund at June 30, 2016 and 2015, respectively; and approximately $355,000 restricted for the Oklahoma Viticulture and Enology Development Fund at June 30, 2015. Unrestricted net position approximated $3,528,000 and $5,244,000 at June 30, 2016 and 2015, 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 was transferred 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, 2016 and 2015, approximately $31,304,000 and $39,119,000, respectively, was transferred to ODOC from State of Oklahoma appropriated revenues. During the year ended June 30, 2016, the State of Oklahoma declared two revenue failures due to the effect of low oil prices on state revenues. All appropriated agencies received a 7% reduction in their original appropriated amount. ODOC's portion of the reduction totaled approximately $2,356,000. Subsequent to June 30, 2016, the State determined that the reduction was larger than necessary and reallocated approximately $141,000,000 back to agencies. In September 2016, ODOC received approximately $868,000, which will be carried over into the following fiscal year. Grant programs as of June 30, 2016 and 2015, accounted for approximately $54,538,000 and $62,705,000, respectively, of expenses and approximately $63,918,000 and $57,114,000, respectively, of revenues.

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

At June 30, 2016 and 2015, the statements of net position reflect assets in excess of liabilities of approximately $47,696,000 and $45,027,000, respectively; approximately $39,283,000 and $29,427,000, respectively, of net position was restricted for grant operations. For the years ended June 30, 2016 and 2015, the statements of activities reflect a change in net position of approximately $2,669,000 and $(1,544,000), 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

	2016	2015	2014
Cash, including short-term investments	$ 24,805,004	32,298,408	28,368,887
Subgrantee advances	17,553,477	8,980,193	14,613,704
Grants receivable	8,190,619	5,208,984	2,718,021
Accounts receivable	109,774	243,635	175,221
Total assets	$ 50,658,874	46,731,220	45,875,833
Accounts payable	$ 11,951,184	8,282,836	5,678,293
Deferred inflows of resources—deferred revenue	832,916	2,305,149	4,613,995
Fund balances	37,874,774	36,143,235	35,583,545
Total liabilities, deferred inflows of resources, and fund balances	$ 50,658,874	46,731,220	45,875,833

Condensed Financial Information, Continued

Fund Financial Statements, Continued

Statements of Revenues, Expenditures, and Changes in Fund Balance

	2016	2015	2014
Revenues and other sources:			
State appropriations	$ 31,304,262	39,119,376	44,105,681
Federal grant revenues	60,421,948	53,117,373	69,750,313
In-kind revenues (match)	2,325,342	2,255,771	2,535,226
Other	2,276,432	6,058,228	1,749,916
Total revenues and other sources	96,327,984	100,550,748	118,141,136
Expenditures:			
Subgrantee expenditures	64,639,851	72,854,634	77,957,303
Salaries, wages, and benefits	7,603,040	8,984,110	10,100,868
In-kind expenditures (match)	2,325,342	2,255,771	2,535,226
Other	20,028,212	15,896,543	20,196,881
Total expenditures	94,596,445	99,991,058	110,790,278
Net increase in fund balance	$ 1,731,539	559,690	7,350,858

Grants receivable represents amounts due from federal grants for expenditures made as of June 30, 2016 and 2015. Cash includes federal grant monies held at June 30, 2016 and 2015, of $12,603,767 and $12,290,234, respectively. The fund balance at June 30, 2016 and 2015, included $29,227,154 and $18,924,929, respectively, reserved for the grant programs administered by ODOC; $1,629,762 at June 30, 2015, reserved for the Oklahoma Bioenergy Center Fund; $2,825,049 and $6,725,049 at June 30, 2016 and 2015, respectively, reserved for the Oklahoma Quick Action Closing Fund; and $355,230 at June 30, 2015, 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, 2016 and 2015, it was anticipated that ODOC would receive approximately $61,472,000 and $59,225,000, respectively, in grant revenues and expend approximately $79,525,000 and $77,936,000, respectively, in subgrantee expenditures. For the year ended June 30, 2016, grant revenue was underestimated by approximately $820,000 and the year ended June 20, 2015 overestimated by $1,204,000, while subgrantee expenditures were overestimated by approximately $14,885,000, and $5,081,000, respectively. The variance for both years ending June 30, 2016 and 2015, was largely due to spending less than anticipated for the Community Development Block Grant Disaster Recovery (CDBGDR) and Community Services Block Grant programs. No other large variances in the budget were noted, with the exception of contractual and professional expenditures, for which actual expenditures were approximately $808,000 more than budgeted for the year ended June 30, 2016, and $2,528,000 less than budgeted for the year ended June 30, 2015; salaries, wages, and benefits, for which actual expenditures were approximately $3,326,000 less than budgeted for the year ended June 30, 2016, and $995,000 more than budgeted for the year ended June 30, 2015; and miscellaneous administrative expenses, for which actual expenditures were approximately $1,928,000 more and $50,000 more than budgeted, respectively. The salary, wages, and benefits variance for the year ended June 30, 2016, was due to ODOC utilizing carryover funds for salaries and not reducing the expenditures in the current year's appropriated budget. During the year ended June 30, 2016, the Oklahoma Tourism and Recreation Department was constructively evicted from their offices and, as a result, moved into the ODOC building. The miscellaneous administrative expenses and contractual and professional variances for the year ended June 30, 2016, were due to unanticipated construction of conference rooms, parking lot, and additional changes to the building and grounds to accommodate the increased occupancy.

Description of Significant Capital Asset and Long-Term Debt Activity

As of June 30, 2016 and 2015, long-term debt of ODOC consisted of capital lease obligations and compensated absences. At June 30, 2016 and 2015, the principal amount of the capital lease obligations was approximately $2,992,000 and $3,661,000, respectively. During the years ended June 30, 2016 and 2015, principal payments of $497,525 and $355,000, respectively, were made on the debt.

Compensated absences totaled $556,713 and $557,685 at June 30, 2016 and 2015, respectively. The allocation of the portion considered long-term is as follows:

	2016	2015	2014
Total compensated absences	$ 556,713	557,685	639,661
Portion considered short-term	(372,508)	(470,785)	(512,270)
Long-term portion	$ 184,205	86,900	127,391

During the years ended June 30, 2016 and 2015, ODOC recorded approximately $255,000 and $284,000, respectively, of depreciation. There was no property added for the years ended June 30, 2016 and 2015. 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 20, 2016, the Office of Management and Enterprise Services approved ODOC's budget for the fiscal year July 1, 2016, to June 30, 2017. Overall, the total budgeted operating expenditures decreased $7,457,430 for FY-2017 and decreased $20,131,270 for FY-2016. The change in anticipated expenditures, reflected by funding source, is as follows:

Funding Source	2017 Budget Compared to 2016	2016 Budget Compared to 2015	2015 Budget Compared to 2014
State-appropriated (including appropriation budgeted in revolving funds and Special Cash and REAP funds)	$ (4,673,307)	314,488	(5,219,374)
Revolving funds (excluding appropriation budgeted in revolving funds)	(4,229,042)	4,561,956	(2,959,807)
Federal and other	1,444,919	(25,007,714)	(12,621,023)
Total budget change	$ (7,457,430)	(20,131,270)	(20,800,204)

ODOC is anticipating $31,269,422 in state-appropriated funding for FY-2017, compared to $35,942,729 in FY-2016. The $4,673,307 decrease in the "state-appropriated" category for the year ending June 30, 2017, 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 $34,839 in FY-2017—from $31,304,261 in FY-2016 to $31,269,422 in FY-2017. The decrease was due to a legislative appropriation cut.

- Carryover of appropriated funds decreased by $4,638,468 in FY-2017—from $4,638,468 in FY-2016 to $0 in FY-2017. At this time, no carryover revision has be completed but will take place sometime in late October 2016.

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 $4,770,366 in revolving fund operating expenditures for FY-2017, compared to $8,999,408 in FY-2016. The $4,229,042 decrease in the "Revolving Funds" category for the year ending June 30, 2017, is due primarily to the following:

- The ODOC Non-Appropriated Fund decreased by $473,275 in FY-2017—from $1,085,013 in FY-2016 to $611,737 in FY-2017.

- The Native American Cultural and Educational Authority Revolving Fund increased by $38,630 in FY-2017—from $419,000 in FY-2016 to $457,630 in FY-2017. Spending has increased in this fund to offset decreases in state appropriated funds.

- The Oklahoma Viticulture and Enology Revolving Fund decreased by $355,231 in FY-2017—from $355,231 in FY-2016 to $0 in FY-2017. This fund was moved to the Oklahoma Department of Agriculture in FY-2016.

- The Quick Action Closing Fund decreased by $3,900,000 in FY-2017—from $6,725,049 in FY-2016 to $2,825,049 in FY-2017. No new funds have been appropriated in the last few years although expenditures have increased.

- The Indirect Cost Fund increased by $460,835 in FY-2017—from $415,115 in FY-2016 to $875,950 in FY-2017. Spending has increased in this fund to offset decreases in state appropriated funds.

ODOC is anticipating $65,221,504 in federally funded operating expenditures for FY-2017, compared to $63,776,585 in FY-2016. The $1,444,919 increase in the "Federal and Other" category for the year ending June 30, 2017, is due primarily to the following:

- The federal pass-through and other budget including payroll increased by $1,444,919 in FY-2017—from $63,776,585 in FY-2016 to $65,221,504 in FY-2017. The increase in federal funds is due to a change in the Fair Labor Standards Act which expanded the number of employees who are potentially eligible for overtime pay. The new FLSA regulations are expected to take effect in December 2016. Funds have been budgeted in anticipation of possible salary increases or overtime payments resulting from compliance with the Act. There was also an increase in anticipated expenditures for the CDBGDR program as the lapse date for these funds is in 2018.

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

As the economic downturn continues, gross receipts to the State General Revenue Fund have shown decreases when compared to prior year activity. Continued decreases in receipts could result in additional revenue failures in FY-2017 which would cause a reduction of services.

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, 2016, ODOC had received HUD approval for Action Plan amendments totaling $83,935,469.50.

During FY-2016, the HUD Office of Inspector General (OIG) conducted an audit of the CDBGDR grant for the period of May 18, 2013, through December 31, 2015. The final audit report was released September 30, 2016, and contained a finding and several recommendations relating to the obligation and expenditure of the CDBGDR funds. HUD has 120 days from the issuance of the report to submit a management decision regarding the OIG finding. OIG reports are advisory in nature, therefore, the final determination of any potential questioned costs would be made by HUD. As such, no estimate of questioned costs can be made at this time.

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 Chief Financial Officer, Oklahoma Department of Commerce, and 900 North Stiles Avenue, Oklahoma City, OK 73104.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF NET POSITION

June 30,	*2016*	*2015*
Assets		
Current assets:		
Cash, including short-term investments	$ 24,805,004	32,298,408
Subgrantee advances	17,553,477	8,980,193
Grants receivable	8,190,619	5,208,984
Accounts receivable	109,774	243,635
Total current assets	50,658,874	46,731,220
Noncurrent assets:		
Loans receivable	10,055,779	10,501,926
Capital assets:		
Nondepreciable—land	150,000	150,000
Depreciable, net of accumulated depreciation	4,902,626	5,157,715
Capital assets, net	5,052,626	5,307,715
Total noncurrent assets	15,108,405	15,809,641
Total assets	65,767,279	62,540,861
Deferred outflows of resources:		
Deferred pension items	1,858,533	1,015,344
Liabilities		
Current liabilities:		
Accounts payable	11,951,184	8,282,836
Capital lease obligations—current portion	524,150	370,000
Compensated absences—current portion	372,508	470,785
Total current liabilities	12,847,842	9,123,621
Noncurrent liabilities:		
Capital lease obligations—less current portion	2,467,592	3,291,267
Compensated absences—less current portion	184,205	86,900
Net pension liability	1,227,080	783,224
Total noncurrent liabilities	3,878,877	4,161,391
Total liabilities	16,726,719	13,285,012
Deferred inflows of resources:		
Receipts from ONG Low Income Energy Efficiency Assistance Program	-	42,231
Receipts from State Small Business Credit Initiative program	832,916	2,262,918
Deferred gain on OCIA lease restructure	261,666	196,057
Deferred pension items	2,108,125	2,742,687
Total deferred inflows of resources	3,202,707	5,243,893

(Continued)

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

STATEMENTS OF NET POSITION, CONTINUED

June 30,	*2016*	*2015*
Net Position		
Net investment in capital assets	2,060,884	1,646,449
Restricted—grant programs	39,282,933	29,426,856
Restricted—Oklahoma Bioenergy Center Fund	-	1,629,762
Restricted—Oklahoma Quick Action Closing Fund	2,825,049	6,725,049
Restricted—Oklahoma Viticulture and Enology Development Fund	-	355,230
Unrestricted	3,527,520	5,243,954
Total net position	$ 47,696,386	45,027,300

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2016

	Expense	Revenue: Charges for Services	Revenue: Operating Grants and Contributions	Net (Expense) Revenue
Government activities:				
General government:				
Operations	$ (38,670,087)	394,606	-	(38,275,481)
Interest expense	(100,539)	-	-	(100,539)
Total general government	(38,770,626)	394,606	-	(38,376,020)
Grant programs	(54,537,718)	-	63,918,435	9,380,717
Total government activities	$ (93,308,344)	394,606	63,918,435	(28,995,303)
General revenues:				
State appropriations				31,304,262
Investment income				175,361
Other				184,766
Total general revenues				31,664,389
Change in net position				2,669,086
Net position, beginning of year				45,027,300
Net position, end of year				$ 47,696,386

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES, CONTINUED

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				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

BALANCE SHEETS—GENERAL FUND

June 30,	*2016*	*2015*
Assets		
Cash, including short-term investments	$ 24,805,004	32,298,408
Subgrantee advances	17,553,477	8,980,193
Grants receivable	8,190,619	5,208,984
Accounts receivable	109,774	243,635
Total assets	$ 50,658,874	46,731,220
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	$ 11,951,184	8,282,836
Total liabilities	11,951,184	8,282,836
Deferred inflows of resources:		
Deferred revenues	832,916	2,305,149
Fund balances:		
Restricted	32,562,112	28,987,167
Assigned	631	1,519,620
Unassigned	5,312,031	5,636,448
Total fund balances	37,874,774	36,143,235
Total liabilities, deferred inflows of resources, and fund balances	$ 50,658,874	46,731,220

(Continued)

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

BALANCE SHEETS—GENERAL FUND, CONTINUED

June 30,	*2016*	*2015*
Reconciliation of Fund Balances to Net Position		
Total fund balances from above	$ 37,874,774	36,143,235
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 $3,049,632 and $2,794,543 at June 30, 2016 and 2015, respectively	5,052,626	5,307,715
Loans receivable	10,055,779	10,501,926
Deferred outflows related to the pension are not financial resources and therefore are not reported in the funds	1,858,533	1,015,344
Certain liabilities are not due and payable in the current period and therefore not reported in the fund:		
Accrued compensated absences	(556,713)	(557,685)
Capital lease obligations	(2,991,742)	(3,661,267)
Net pension liability	(1,227,080)	(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	(261,666)	(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	(2,108,125)	(2,742,687)
Net position, per the statements of net position	$ 47,696,386	45,027,300

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,	*2016*	*2015*
Revenues:		
Federal grant revenues	$ 60,421,948	53,117,373
Program income	1,869,792	4,904,011
Interest	175,361	107,651
Other	231,279	1,046,566
In-kind revenues (match)	2,325,342	2,255,771
Total revenues	65,023,722	61,431,372
Expenditures:		
Subgrantee expenditures	64,639,851	72,854,634
Salaries, wages, and benefits	7,603,040	8,984,110
Professional	744,991	1,273,750
Travel	468,177	666,684
Debt service:		
Principal	497,525	355,000
Interest	100,539	264,560
Space rental	1,290	58,933
Equipment rental	104,451	449,327
Supplies	29,302	37,930
Equipment	161,363	28,662
Maintenance	202,174	230,649
Telephone	103,282	113,139
Postage and freight	18,452	18,284
Advertising	243,557	330,939
Printing	21,185	22,213
Contractual	8,205,560	3,340,056
Funds returned to grantor	429,631	497,484
Other	1,170,874	791,693
NACEA expenditures	7,525,859	7,417,240
In-kind expenditures (match)	2,325,342	2,255,771
Total expenditures	94,596,445	99,991,058
Deficiency of revenues over expenditures	(29,572,723)	(38,559,686)
Other funding sources:		
State appropriations	31,304,262	39,119,376
Net changes in fund balances	1,731,539	559,690
Beginning fund balances	36,143,235	35,583,545
Ending fund balances	$ 37,874,774	36,143,235

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,		*2016*	*2015*
Net changes in fund balances—General Fund	$	1,731,539	559,690
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		(255,089)	(284,208)
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		497,525	355,000
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		(746,147)	(3,211,100)
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		300,000	-
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		973	81,977
Amortization of deferred gain on OCIA lease restructure		106,390	32,676
Deferred outflows related to the pension are not financial resources and therefore are not reported in the General Fund		1,033,895	921,774
Changes in net position, per the statements of activities	$	2,669,086	(1,544,191)

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 13, are included, as they are administered by ODOC on behalf of NACEA.

As a state agency, ODOC's insurance is provided through a risk pool of state agencies. For the years ended June 30, 2016 and 2015, the premiums paid for this coverage were approximately $12,000 and $10,000, 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, 2016, with approximately $19,679,000 and $21,028,000 outstanding at June 30, 2016 and 2015, respectively. During the years ended June 30, 2016 and 2015, collection of principal and interest on loans amounted to approximately $1,350,000 and $1,273,000, respectively. Cumulative collections of principal and interest since the inception of the program approximated $37,995,000 and $36,645,000 as of June 30, 2016 and 2015, respectively. Loans of approximately $99,000 were deemed as uncollectible and written off during the year ended June 30, 2016. Loans of approximately $600 previously written-off were recovered during each of the years ended June 30, 2016 and 2015. Cumulative loans charged-off since the inception of the program approximated $13,736,000 and $13,636,000 as of June 30, 2016 and 2015, 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	2016	2015
SEPRF*	$ 8,931,859	9,607,162
EIRLF	1,110,475	868,593
Stripper Well	13,445	26,171
	$ 10,055,779	10,501,926

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

√ *Weatherization Assistance Program for Low-Income Persons ("Weatherization")*—The objective of Weatherization is to conserve energy and reduce the impact of rising costs on low-income persons, particularly the elderly and handicapped, through the installation of energy-conserving measures in their dwellings.

√ *Community Services Block Grant* (*CSBG)*—The objective of CSBG programs is to provide funds to states for community-based programs that assist in removing the causes and consequences of poverty.

√ *Emergency Solutions Grant (ESG)*—These funds are used to engage homeless individuals and families living on the street; improve the number and quality of emergency shelters for homeless individuals and families; help operate these shelters; provide essential services to shelter residents; rapidly re-house homeless individuals and families; and prevent families/individuals from being homeless.

√ *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.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting, Continued

- √ *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 year ended June 30, 2015, ODOC did not receive any additional state appropriations. There were no expenditures of the OBC Fund by ODOC during 2015. At June 30, 2015, $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. The remaining balance was made available for ODOC operations.

- √ *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.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting, Continued

- √ *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, 2016, $1,600,000 was transferred to the Quick Action Closing Fund from the Oklahoma Bioenergy Center Fund, pursuant to 2015 O.S.L. 348.104. During the year ended June 30, 2015, ODOC received no additional appropriations or interest or other proceeds. ODOC expended $5,500,000 during the year ended June 30, 2016. ODOC had no expenditures of funds during the year ended June 30, 2015. At June 30, 2016 and 2015, $2,825,049 and $6,725,049, respectively, of funds were available for expenditure for the Quick Action Closing Fund.

- √ *Oklahoma Viticulture and Enology Center 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 year ended June 30, 2016, ODOC received no additional appropriations or other proceeds and had no expenditures of funds. During the year ended June 30, 2015, ODOC received approximately $350,000 and ODOC expended $350,871. At June 30, 2016, there were no funds available from the OVEC Fund. At June 30, 2015, $355,230 of funds were available from the OVEC Fund. Effective November 1, 2015, the OVEC Fund transferred 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 $10,123,000 and $10,885,000 in state appropriations for the REAP Fund during the years ended June 30, 2016 and 2015, respectively. ODOC expended approximately $10,214,000 and $10,794,000 during the years ended June 30, 2016 and 2015, respectively, which is reflected as subgrantee expenditures in the statements of revenues, expenditures, and changes in fund balances—General Fund. At June 30, 2016, there were no remaining funds available for expenditures for the REAP fund. At June 30, 2015, there was approximately $91,000 of remaining funds available for expenditures for the REAP Fund.

See Independent Auditors' Report.

(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:

- √ *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.

During the year ended June 30, 2016, ODOC expended $26,623 of ARRA funds for the following program:

Program Awarded	Amount Expended During the Year Ended June 30, 2016
Weatherization	$ 26,623

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 6 details the contract and the 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 10 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, 2016 and 2015.

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, 2016 and 2015.

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pension Plans

Defined Benefit 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.

Defined Contribution Plan

Effective November 1, 2015, OPERS established Pathfinder, a mandatory defined contribution plan for eligible state employees who first become employed by a participating employer on or after November 1, 2015, and have no prior participation in OPERS. Under Pathfinder members will choose a contribution rate which will be matched by their employer up to 7%. During the year ended June 30, 2016, ODOC made contributions to Pathfinder of approximately $2,000.

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.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

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 were specifically identified within the state legislation for the use of outside agencies. These appropriations are identified as restricted fund balances.

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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

Fund Financial Statements, Continued

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.

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	
	2016	2015
Fund balances:		
Restricted for:		
Federal grants	$ 29,227,154	18,924,929
State appropriations	509,909	2,839,458
State funded and other restricted programs	2,825,049	7,222,780
Total restricted	32,562,112	28,987,167
Assigned:		
State appropriations	631	1,519,620
Unassigned:		
State appropriations	2,455,438	3,001,099
Program income	2,856,593	2,635,349
Total unassigned	5,312,031	5,636,448
Total fund balances	$ 37,874,774	36,143,235

(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, 2016 and 2015, approximately $2,940,000 and $1,818,000, 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, 2016 and 2015.

As of June 30, 2016 and 2015, ODOC had approximately $99,677,000 and $82,370,000, respectively, of grant funds available to be drawn upon when needed. Contract commitments with subgrantees of approximately $83,419,000 and $53,294,000 were outstanding as of June 30, 2016 and 2015, respectively.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

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. ODOC adopted GASB 72 on July 1, 2015. Adoption of this statement had no significant impact to the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). GASB 73 addresses accounting and financial reporting for pensions that do not meet the criteria for applying GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), and amends certain disclosure requirements of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* (GASB 67) and GASB 68. GASB 73 amendments include restricting additional disclosures related to 10-year schedules required by GASB 67 to be limited to factors over which the plan or government has influence, such as a change in investment policies. Amendments also address payables to a plan that are not separately financed specific liabilities, and the timing of employer recognition of revenue for the support of nonemployer contributing entities. ODOC adopted this statement on July 1, 2015. The adoption had no significant impact on ODOC's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). GASB 74 seeks to improve the usefulness of information about postemployment benefits (OPEB) other than pensions. This statement provides guidance for reporting and disclosure of defined benefit and defined contribution OPEB plans. ODOC adopted this statement July 1, 2015. ODOC has no items to be reported, and the adoption had no significant impact on ODOC's financial statements.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans* Other *Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of GASB 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that are required to 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. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB 75 is effective for fiscal years beginning after June 15, 2017. ODOC has not yet determined the complete impact of adopting GASB 75.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies accounting sources used to prepare state and local government financial statements in conformity with GAAP, and established a GAAP hierarchy of these resources. This Statement improves financial reporting by raising the category of GAAP Implementation Guides in the GAAP hierarchy, by emphasizing the importance of analogies to authoritative literature when an accounting event is not specified in authoritative GAAP, and by requiring the consideration of consistency with GASB Concept Statements when evaluating accounting treatments in non-authoritative GAAP. ODOC adopted this statement on July 1, 2015. The adoption had no significant impact on ODOC's financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 provides financial reporting and disclosure guidance to governments that have either entered into tax abatement agreements or that have revenues affected by tax abatements entered into by another government. Governments will generally use tax abatements to encourage specific economic development that benefit either the government or its citizens by forgoing certain taxes. ODOC will adopt GASB 77 effective July 1, 2016, for the June 30, 2017, reporting year. ODOC does not expect GASB 77 to have a significant impact on the financial statements.

In December 2015, GASB issued Statement No. 79, *Certain Investment Pools and Pool Participants* (GASB 79). GASB 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Specific criteria address (1) the way the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. ODOC adopted this statement effective July 1, 2015. The adoption of this statement had no significant impact on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). GASB 80 amends blending requirements for the financial statements of component units to include criteria requiring blending of a component unit organized as a not-for-profit corporation in which the primary government is the sole corporate member. ODOC will adopt GASB 80 effective July 1, 2016, for the June 30, 2017, reporting year. ODOC does not expect GASB 80 to have a significant impact on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. ODOC will adopt GASB 81 effective July, 1 2017, for the June 30, 2018, reporting year. ODOC does not expect GASB 81 to have a significant impact on the financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues* (GASB 82). GASB 82 addresses issues that arose for pension plans and participating employers when implementing GASB 67 and GASB 68. Under GASB 82, "covered payroll" will be the metric used to prepare ratios and other measures in schedules included in required supplementary information. This change replaces "covered-employee payroll," the presentation required by GASB 67 and GASB 68, since this particular data element presented operational challenges to pension plans. GASB 82 also now clarifies that a deviation, as defined by the Actuarial Standards Board, when selecting the assumptions used to determine total pension and liability related measures, is not considered to be in conformity with GASB 67 and GASB 68. And lastly, in certain circumstances, employers may make a portion or the entire employee required contributions to a pension plan on behalf of the employee. Under GASB 82, these contributions are classified as plan member contributions for GASB 67. For purposes of GASB 68, including determining an employer's proportion, those amounts should also be considered employee contributions. ODOC adopted this statement effective July 1, 2015. The adoption had no significant impact on ODOC's financial statements.

Date of Management's Review of Subsequent Events

ODOC has evaluated subsequent events through October 28, 2016, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(2) CASH BALANCES AND SUBGRANTEE ADVANCES

Cash Balances

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

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

See Independent Auditors' Report.

(2) CASH BALANCES AND SUBGRANTEE ADVANCES, CONTINUED

Cash Balances, Continued

As a key part of ODOC's activities, it holds cash and short-term investments that are measured and reported at fair value on a recurring basis. Generally accepted accounting principles establish a fair value hierarchy for the determination and measurement of fair value. This hierarchy is based on the type of valuation inputs needed to measure the fair value of an asset. The hierarchy generally is as follows:

- Level 1—Unadjusted quoted prices in active markets for identical assets.
- Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.
- Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

In addition to the above three levels, if an investment does not have a readily determined fair value, the investment can be measured using net asset value (NAV) per share (or its equivalent). Investments valued at NAV are categorized as NAV and not listed as Level 1, 2, or 3.

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 and are classified as Level 1. 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:

	2016	2015
U.S. agencies	$ 4,556,863	3,768,023
Mortgage-backed agencies	4,446,953	3,681,898
U.S. Treasury notes	144,009	108,630
Municipal bonds	191,926	130,131
Foreign bonds	96,588	72,266
Certificates of deposit	399,972	256,257
Money market mutual funds	1,219,728	1,178,234
Commercial paper	-	189,884
	$ 11,056,039	9,385,323

See Independent Auditors' Report.

(2) CASH BALANCES AND SUBGRANTEE ADVANCES, CONTINUED

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.

(3) CAPITAL ASSETS

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

	Balance at June 30, 2015	Additions	Disposals	Balance at June 30, 2016
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	(1,306,248)	(61,337)	-	(1,367,585)
Building improvements—capitol dome	(1,001,211)	(143,030)	-	(1,144,241)
Furniture, fixtures, and equipment	(487,084)	(50,722)	-	(537,806)
Total accumulated depreciation	(2,794,543)	(255,089)	-	(3,049,632)
Capital assets, net	$ 5,307,715	(255,089)	-	5,052,626

(3) CAPITAL ASSETS, CONTINUED

	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.

(3) CAPITAL ASSETS, CONTINUED

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

	2016		
	Cost	Accumulated Depreciation	Capital Assets, Net
Land, nondepreciable	$ 150,000	-	150,000
Building	2,625,000	(1,367,585)	1,257,415
Building improvements—capitol dome	4,720,000	(1,144,241)	3,575,759
	$ 7,495,000	(2,511,826)	4,983,174

	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

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, 2016 and 2015, was $255,089 and $284,208, respectively.

See Independent Auditors' Report.

(4) 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 1, 2013, ODOC's 2005 lease agreement with OCIA was restructured through a partial refunding of the Series 2005 bonds, which was accounted for in the current year. OCIA issued new bonds, Series 2013A, to accomplish the refunding over a period of 7 years. As a result, the total liability of the remaining 2005 bonds refunded and the amount of the 2013A bonds acquired was a gain on restructuring of $172,000, which was recorded as a deferred inflow of resources that will amortize 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. The refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of $641,473, which approximates the economic savings of the transaction.

During each of the years ended June 30, 2016 and 2015, ODOC recognized $24,571 of amortization on the deferred gain on lease restructuring on the OCIA 2013A lease obligation, leaving a balance of the unamortized deferred gain of $98,285. The unamortized deferred gain is included in the deferred inflows of resources in the accompanying financial statements.

(4) CAPITAL LEASE OBLIGATIONS, CONTINUED

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 each of the years ended June 30, 2016 and 2015, ODOC recognized $32,676 of amortization on the deferred gain on lease restructuring on the OCIA Series 2014B lease obligation, leaving a balance of the unamortized deferred gains of $163,381. The unamortized deferred gain is included in the deferred inflows of resources in the accompanying financial statements.

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, 2016:

Year Ending June 30,	Building	Capitol Dome	Total
2017	$ 182,299	417,947	600,246
2018	184,843	417,710	602,553
2019	183,594	420,693	604,287
2020	184,644	422,320	606,964
2021	216,482	419,145	635,627
2022	213,972	-	213,972
Minimum lease payments for capital lease	1,165,834	2,097,815	3,263,649
Less amount representing interest	(115,092)	(156,815)	(271,907)
Present value of minimum lease payments	$ 1,050,742	1,941,000	2,991,742

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.

See Independent Auditors' Report.

(4) CAPITAL LEASE OBLIGATIONS, CONTINUED

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

	2016	2015
Balance at beginning of year	$ 3,661,267	4,245,000
Principal payments	(497,525)	(355,000)
Net change due to lease restructure	(172,000)	(228,733)
Balance at end of year	$ 2,991,742	3,661,267

(5) ACCRUED COMPENSATED ABSENCES

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

	2016	2015
Balance at beginning of year	$ 557,685	639,661
Amount earned	371,536	388,809
Amount used	(372,508)	(470,785)
Balance at end of year	$ 556,713	557,685

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, 2016 and 2015.

(6) DEFERRED REVENUE

Oklahoma Natural Gas (ONG)

ODOC contracted with ONG for the weatherizing of homes that qualified for the ONG weatherization program. ONG advanced the monies for the contracts upfront and ODOC recognized the funds as deferred until all eligibility requirements were met. As of June 30, 2016, there was no deferred revenue related to the ONG contracts. As of June 30, 2015, there was $42,231 of deferred revenue related to the ONG contracts. Such amounts represented monies received for which all eligibility requirements had not been met to allow for the monies to be spent. During 2016, all eligibility requirements were met to conclude the program.

See Independent Auditors' Report.

(6) DEFERRED REVENUE, CONTINUED

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, 2016 and 2015, there was $832,916 and $2,262,918, 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.

(7) STATE APPROPRIATIONS

ODOC receives monies through appropriations from the State of Oklahoma as approved by the Oklahoma Legislature. Appropriations received for the years ended June 30, 2016 and 2015, were $31,304,262 and $39,119,376, respectively.

During the years ended June 30, 2016 and 2015, $403,008 and $417,282, respectively, of state funds were returned to the State of Oklahoma.

(8) MATCHING REQUIREMENTS

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

(9) INDIRECT COSTS

For the years ended June 30, 2016 and 2015, 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, 2016 and 2015, was 28.17% and 56.62%, respectively, which resulted in a charge of $394,606 and $1,231,431 to the various federal programs during 2016 and 2015, respectively.

(10) PENSION PLAN

Plan Description

ODOC contributes to the Oklahoma Public Employees Retirement Plan, a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (collectively referred to as "OPERS"). 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.

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.

(10) PENSION PLAN, CONTINUED

Benefits Provided, Continued

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.

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.

(10) PENSION PLAN, CONTINUED

Benefits Provided, Continued

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.

For 2016, 2015, and 2014, *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 2016, 2015, and 2014 were approximately as follows:

2016	2015	2014
$ 826,000	973,000	1,149,000

See Independent Auditors' Report.

(10) PENSION PLAN, CONTINUED

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

At June 30, 2016 and 2015, ODOC reported a liability for its proportionate share of the net pension liability. As of June 30, 2016, the net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. As of June 30, 2015, 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, 2015 and 2014. Based upon this information, ODOC's proportion for June 30, 2016 and 2015 was 0.36293084% and 0.43740178%, respectively. However, as NACEA was included with ODOC's contributions and NACEA issues its own financial statements, ODOC's percentage was adjusted to 0.34115499% and 0.40678366% for the years ended June 30, 2016 and 2015, respectively.

For the years ended June 30, 2016 and 2015, ODOC recognized pension expense (credit) of $(207,491) and $50,839, respectively. At June 30, 2016 and 2015, ODOC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	136,435
Changes of assumptions	19,090	-
Net difference between projected and actual earnings on pension plan investments	1,013,039	1,569,648
Changes in proportion	-	402,042
ODOC contributions subsequent to the measurement date	826,404	-
	$ 1,858,533	2,108,125

(10) PENSION PLAN, CONTINUED

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

2015	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
ODOC contributions subsequent to the measurement date	972,613	-
	$ 1,015,344	2,742,687

Reported deferred outflows of resources of $826,404 at June 30, 2016, 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, 2017. 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:	
2017	$ (276,732)
2018	(276,732)
2019	(276,732)
2020	(134,479)
2021	(111,321)
	$ (1,075,996)

See Independent Auditors' Report.

(10) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2015 and 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, 2015, 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.

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.

(10) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2015, 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 2114 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.

(10) 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)	$ 4,572,412	1,227,080	(1,616,984)

The above amounts vary from what is reported by OPERS in their GASB 68 allocation report, as a reduction of 6% 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.

(11) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN, DEFERRED SAVINGS INCENTIVE PLAN, AND DEFINED CONTRIBUTION 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.

(11) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN, DEFERRED SAVINGS INCENTIVE PLAN, AND DEFINED CONTRIBUTION 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, 2016 and 2015. 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).

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

Deferred Savings Incentive Plan, Continued

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

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

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

Defined Contribution Plan

Pathfinder is a mandatory contribution plan for eligible state employees who first became employed by a participating employer on or after November 1, 2015, and who have no prior participation in OPERS.

Under this plan, members choose a contribution rate, which is matched by their employer up to 7%, and members have the freedom to select and change their investments. A defined contribution plan like Pathfinder does not provide a guaranteed lifetime source of income. The amount a participant has at retirement under a defined contribution plan is dependent upon how much was contributed over his/her career, how well those investments performed, and how quickly distributions are taken in retirement.

The Pathfinder plan is one retirement plan with two components: a savings incentive 401(a) plan for mandatory contributions; and a deferred compensation 457(b) plan for additional voluntary contributions. The mandatory 401(a) plan contribution is 4.5% of the participant's annual salary, and state agency employers contribute an additional 6%. In addition, the participant can receive an additional 1% matching contribution when they make a voluntary contribution of 2.5% to the 457(b) plan. The agency contributes 16.5% to all eligible employees. The amounts not used for matching with Pathfinder are given to OPERS and do not come back to the agency.

(12) RISK MANAGEMENT

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

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

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

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

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

ODOC receives state appropriations yearly for NACEA's operations. For the years ended June 30, 2016 and 2015, ODOC received state appropriations earmarked for NACEA of approximately $6,163,000 and $6,725,000, respectively. For the years ended June 30, 2016 and 2015, NACEA's expenditures, as administered by ODOC, were approximately $7,526,000 and $7,417,000, 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 House Bill 2237. The agreement was signed by the City of Oklahoma City and the State, though execution of the terms had not yet commenced as of June 30, 2016.

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

Under the 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.

House Bill 2237 also states that, should the City and the 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.

(14) 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.

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 the 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.

(15) 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. During 2016, the Office of Inspector General (OIG) of the U.S. Department of Housing and Urban Development (HUD) performed a review of the State of Oklahoma Community Development Block Grant Disaster Recovery (CDBGDR) program administered by ODOC. On September 30, 2016, the OIG issued its report. The report notes instances of lack of adequate documentation supporting certain obligations and expenditures. The report notes lack of supporting documentation for approximately $11.7 million in obligations, which includes approximately $4.3 million of expenditures. ODOC has provided and continues to provide additional documentation to the OIG. ODOC believes it has properly complied with the requirements of HUD in relation to the CDBGDR program and will work with the OIG and HUD to resolve the matters noted in the report.

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, 2016 and 2015, 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, 2016, there was no litigation outstanding.

STATE OF OKLAHOMA
DEPARTMENT OF COMMERCE

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

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

Year Ended June 30, 2016

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance
Revenues:				
State appropriations	$ 33,660,497	31,304,262	31,304,262	-
Federal grant revenues and program income	36,261,793	61,471,793	62,291,740	819,947
Other	-	-	802,233	802,233
Total revenues	69,922,290	92,776,055	94,398,235	1,622,180
Expenditures:				
Subgrantee expenditures	55,674,485	79,525,231	64,639,851	14,885,380
Salaries, wages, and benefits	8,848,026	11,457,686	8,131,312	3,326,374
Contractual and professional	8,238,892	8,321,606	9,129,675	(808,069)
Travel	606,455	586,455	473,219	113,236
Capitol dome leases, space and equipment rental	5,979,411	5,750,192	5,262,595	487,597
Equipment	493,609	499,109	166,591	332,518
Maintenance	302,965	204,965	217,831	(12,866)
Miscellaneous administrative expenses	1,433,778	2,288,479	4,215,991	(1,927,512)
Transfers	-	85,000	-	85,000
Total expenditures	81,577,621	108,718,723	92,237,065	16,481,658
Revenues (less than) in excess of expenditures	$ (11,655,331)	(15,942,668)	2,161,170	18,103,838

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, 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

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

Year Ended June 30, 2016

	Actual per Audit Report	Adjustment to Budgetary Basis	Actual on Budgetary Basis
Revenues:			
State appropriations	$ 31,304,262	-	31,304,262
Federal grants	60,421,948	1,869,792	62,291,740
Other	4,601,774	(3,799,541)	802,233
Total revenues	96,327,984	(1,929,749)	94,398,235
Expenditures:			
Subgrantee expenditures	64,639,851	-	64,639,851
Salaries, wages, and benefits	7,603,040	528,272	8,131,312
Contractual and professional	8,950,551	179,124	9,129,675
Travel	468,177	5,042	473,219
Capitol dome leases, space and equipment rental	703,805	4,558,790	5,262,595
Equipment	161,363	5,228	166,591
Maintenance	202,174	15,657	217,831
Miscellaneous administrative expenses	11,867,484	(7,651,493)	4,215,991
Total expenditures	94,596,445	(2,359,380)	92,237,065
Revenues in excess of expenditures	$ 1,731,539	429,631	2,161,170

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, 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.

- 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 2016 and 2015 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 2015 amounts transferred to 2016 and rebudgeted approximated $4,489,000. Unexpended 2014 amounts transferred to 2015 and rebudgeted approximated $2,364,000.

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

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

See Independent Auditors' Report.

STATE OF OKLAHOMA
DEPARTMENT OF COMMERCE

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
Last 2 Fiscal Years*

	2016	2015
ODOC's proportion of the net pension liability, net of NACEA	0.34115499%	0.40678366%
ODOC's proportionate share of the net pension liability	$ 1,227,080	783,224
ODOC's covered-employee payroll	$ 5,894,624	6,965,782
ODOC's proportionate share of the net pension liability as a percentage of its covered payroll	20.82%	11.24%
OPERS' fiduciary net position as a percentage of the total pension liability	96.00%	97.90%

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

Only the last 2 fiscal years are 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 4 Fiscal Years

	2016	2015	2014	2013
Contractually required contribution, excluding NACEA	$ 826,404	972,613	1,149,354	1,160,264
Contributions in relation to the contractually required contributions	826,404	972,613	1,149,354	1,160,264
Contribution deficiency (excess)	$ -	-	-	-
ODOC's covered-employee payroll, excluding NACEA	$ 5,008,509	5,894,624	6,965,782	7,031,903
Contributions as a percentage of covered-employee payroll	16.50%	16.50%	16.50%	16.50%

Only the last 4 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**
THE UNIFORM GUIDANCE

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number		Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF ENERGY PROGRAMS					
PASSED THROUGH STATE OF OKLAHOMA GOVERNOR'S OFFICE					
State Energy Program	81.041	*			
FY 15			DE-EE0006219	$ 488,499	797,935
State Building Fund			N/A	-	249,395
				488,499	1,047,330
Weatherization	81.042				
FY 16			DE-EE0006178	124,231	163,630
FY 15			DE-EE0006178	1,815,202	1,918,637
FY 14			DE-EE0006178	18,121	18,121
FY 13			DE-EE0006178	(900)	(900)
ARRA—Weatherization			DE-EE0000153	-	26,623
				1,956,654	2,126,111
ARRA—Energy Efficiency and Conservation Block Grant	81.128		DE-EE0000922	-	-
Total Department of Energy Programs				2,445,153	3,173,441

(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, CONTINUED

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number		Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS					
Community Development Block Grants— State-Administered Small Cities Program Cluster	14.228	*			
FY 15			B-15-DC-40-0001	1,985,607	2,436,180
FY 14			B-14-DC-40-0001	5,681,378	5,681,973
FY 13			B-13-DC-40-0001	4,312,608	4,312,608
FY 12			B-12-DC-40-0001	907,690	948,170
FY 11			B-11-DC-40-0001	618,280	618,280
FY 10			B-10-DC-40-0001	441,003	441,003
FY 09			B-09-DC-40-0001	385,724	385,724
FY 08			B-08-DC-40-0001	60,900	60,900
FY 07			B-07-DC-40-0001	35,487	35,487
FY 06			B-06-DC-40-0001	235,748	235,748
FY 04			B-04-DC-40-0001	202,242	202,242
FY 03			B-03-DC-40-0001	50,547	50,547
CDBG—ED			N/A	785,672	787,320
CDBG—CD			N/A	119,231	119,231
CDBG—Disaster Recovery	14.269	*	B-13-DS-40-0001	19,298,326	20,218,261
				35,120,443	36,533,674

(Continued)

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number		Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS, CONTINUED					
Emergency Solutions Grant Program	14.231	*			
FY 15			E-15-DC-40-0001	894,002	950,789
FY 14			E-14-DC-40-0001	587,182	587,182
FY 13			E-13-DC-40-0001	7,656	7,656
FY 12			E-12-DC-40-0001	-	31
FY 11			E-11-DC-40-0001	-	414
FY 10			S-10-DC-40-0001	96,390	103,390
				1,585,230	1,649,462
ARRA—Community Development Block Grant	14.255		B-09-DY-40-0001	-	-
ARRA—Homeless Prevention and Rapid Re-Housing Program	14.257		S-09-DY-40-0001	-	-
Total Department of Housing and Urban Development Programs				36,705,673	38,183,136

(Continued)

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS				
Community Services Block Grant	93.569			
FY 16		G16B1OKCOSR	1,694,330	1,878,499
FY 15		G15B1OKCOSR	5,245,705	5,433,775
FY 14		G14B1OKCOSR	665,019	665,019
FY 13		G13B1OKCOSR	24,455	24,455
FY 12		G12B1OKCOSR	(355)	(355)
			7,629,154	8,001,393
Head Start	93.600			
FY 16		06CD4019-01-00	52,431	52,431
FY 15		06CD0019/05	112,976	112,976
			165,407	165,407
DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS—PASSED THROUGH OKLAHOMA DEPARTMENT OF HUMAN SERVICES				
LIHEAP/Weatherization	93.568			
FY 15		FFY15 Weatherization	835,433	884,228
FY 14		FFY14 Weatherization	777,825	778,075
FY 12		ODHS 12 LIHEAP	(2,393)	(2,393)
			1,610,865	1,659,910
Total Department of Health and Human Services Programs			9,405,426	9,826,710

(Continued)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF LABOR PROGRAMS				
Workforce Investment Act Cluster				
WIA/Adult Statewide	17.258			
FY 15 Workforce Adult Statewide		AA25374VG0	57,761	57,761
PY 14 Workforce Adult Statewide		AA25374TA0	71,118	71,118
FY 14 Workforce Adult Statewide		AA24113QO0	44,791	62,307
			173,670	191,186
WIA/Youth Services	17.259			
PY 14 Workforce Youth Services		AA25374TE0	93,982	93,982
PY 13 Workforce Youth Services		AA24113OQ0	95,568	217,931
			189,550	311,913
WIA/Dislocated Workers	17.278			
FY 15 Workforce Dislocated Workers		AA25374VI0	17,021	17,021
PY 14 Workforce Dislocated Workers		AA25374TC0	104,174	104,174
FY 14 Workforce Dislocated Workers		AA24113QQ0	18,436	64,994
PY 13 Workforce Dislocated Workers		AA24113OO0	8,920	9,069
			148,551	195,258
WIA Incentive Grant	17.267	PI-25822-14-55-A-40	102,963	102,963
Total Department of Labor Programs			614,734	801,320

(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, CONTINUED

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF COMMERCE				
Economic Development Administration Grant	11.307	08-79-04989	-	185,870
U.S. DEPARTMENT OF TREASURY				
State Small Business Credit Initiative	N/A	2011SSBCIOK	41,899	41,899
TOTAL			$ 49,212,885	52,212,376

* 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, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* ("Uniform Guidance"). 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's Uniform Guidance (2 CFR Part 200, Subpart E), 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.

(3) OTHER REVENUES

Other revenues consisted of the following as of June 30, 2016:

Program income	$	1,869,792
Interest		175,361
Other		47,500
In-kind matching		2,325,342
	$	4,417,995

(4) EXPENDITURES AND SUBGRANTEES

For the year ended June 30, 2016, subgrantees of ODOC expended approximately $49,213,000, or 94.26%, of federal expenditures.

See Independent Auditors' Report.

(4) EXPENDITURES AND SUBGRANTEES, CONTINUED

The schedule of expenditures of federal awards totals $52,212,376. This amount includes the U.S. Department of Treasury grant, State Small Business Credit Initiative with expenditures of $41,899 for the year ended June 30, 2016. As the Treasury grant is not considered federal assistance for the reporting requirements established by OMB Circular A-133/Uniform Guidance, it was not used in the computation of total federal assistance for the determination of major programs as defined by the Uniform Guidance. The amount of federal expenditures used to determine major programs was $52,170,477, determined as follows:

Total expenditures including Treasury grant	$	52,212,376
Less Treasury grant		(41,899)
	$	52,170,477

(5) INDIRECT COST RATE

ODOC has 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 year ended June 30, 2016, was 28.17%.

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, 2016, and the related notes to the financial statements, which collectively comprise ODOC's basic financial statements, and have issued our report thereon dated October 28, 2016. 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. In addition, our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes a paragraph to disclose results from a recent OIG report.

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 28, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on each of ODOC's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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, 2016.

(Continued)

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Finley & Cook, PLLC

Shawnee, Oklahoma
October 28, 2016

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States:	**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 2 CFR 200.561(a) of the Uniform Guidance?	**☐Yes ☑ No**

SECTION I—SUMMARY OF AUDITORS' RESULTS, CONTINUED

Federal Awards, Continued

Identification of major federal programs:

Federal CFDA Number	Name of Federal Program or Cluster
	Department of Energy
81.041	State Energy Program
	Department of Housing and Urban Development
	CDBG Cluster:
14.228	Community Development Block Grants
14.269	Community Development Block Grant Disaster Recovery
14.231	Emergency Solutions Grant Program

Dollar threshold used to distinguish between type A and type B programs: **$1,565,114**

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, 2016

There were no findings or questioned costs noted in the June 30, 2015, audit report.