

# **State of Oklahoma Department of Commerce**

## *Financial Statements*

June 30, 2019 and 2018  
(With Independent Auditors' Report Thereon)



# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## FINANCIAL STATEMENTS

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# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## FINANCIAL STATEMENTS

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## **INDEPENDENT AUDITORS' REPORT**

State of Oklahoma  
Department of Commerce

### **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, 2019 and 2018, 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)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **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, 2019 and 2018, 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, 2019 and 2018, or the changes in its financial position for the years then ended in accordance 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, during 2016 ODOC received a report from the Office of Inspector General of the U.S. Department of Housing and Urban Development which questions adequate supporting documentation for 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-8, the budgetary comparison information on pages 58 through 61, and the schedule of ODOC's proportionate share of the net pension liability—Oklahoma Public Employees Retirement System, the schedule of ODOC's contributions—Oklahoma Public Employees Retirement System, the schedule of ODOC's proportionate share of the net OPEB liability—Oklahoma Public Employees Health Insurance Subsidy Plan, the schedule of ODOC's contributions—Oklahoma Public Employees Health Insurance Subsidy Plan, and the schedule of ODOC's changes in total OPEB liability and related ratios—Implicit Rate Subsidy of Health Insurance OPEB Liability on pages 63 through 67 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 for the year ended June 30, 2019, 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 21, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ODOC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ODOC's internal control over financial reporting and compliance.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
October 21, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis of the State of Oklahoma Department of Commerce's (ODOC) financial performance provides an overview of ODOC's financial activity for the years ended June 30, 2019 and 2018. It should be read in conjunction with the financial statements which begin on page 4.

### **Discussion of the Basic Financial Statements**

The 2019 and 2018 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 ODOC as of June 30, 2019 and 2018.

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, 2019 and 2018.

#### *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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### Condensed Financial Information

#### *Government-Wide Financial Statements*

#### Statements of Net Position

	June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017*</u>
<b>Assets</b>			
Current assets	\$ 38,162,787	48,696,992	52,603,858
Noncurrent assets	<u>10,310,345</u>	<u>11,073,300</u>	<u>11,892,838</u>
Total assets	<u>48,473,132</u>	<u>59,770,292</u>	<u>64,496,696</u>
 Deferred outflows of resources related to the pension and OPEB	 <u>1,133,816</u>	 <u>1,721,280</u>	 <u>3,409,765</u>
<b>Liabilities</b>			
Current liabilities	5,143,209	6,899,976	10,463,291
Noncurrent liabilities	<u>1,468,021</u>	<u>3,146,806</u>	<u>4,397,922</u>
Total liabilities	<u>6,611,230</u>	<u>10,046,782</u>	<u>14,861,213</u>
 Deferred inflows of resources:			
OCIA lease restructure	24,571	49,143	73,714
Pension plan and OPEB liabilities	<u>561,572</u>	<u>453,344</u>	<u>1,417,880</u>
Total deferred inflows of resources	<u>586,143</u>	<u>502,487</u>	<u>1,491,594</u>
 Net position	 <u>\$ 42,409,575</u>	 <u>50,942,303</u>	 <u>51,553,654</u>

\*Not restated for the implementation of GASB 75.

Current assets primarily consist of cash and receivables from grantors. In addition, as of June 30, 2019 and 2018, there was approximately \$1,397,000 and \$4,652,000, 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, building improvements, furniture, fixtures, and equipment. Also included in noncurrent assets are certain loans which ODOC has made for which repayment is expected. There were deferred outflows of approximately \$1,134,000 and \$1,721,000 as of June 30, 2019 and 2018, respectively. Current liabilities were primarily composed of accounts payable and the current portion of capital lease obligations of \$402,000 and \$388,000 at June 30, 2019 and 2018, respectively, and the current portion of compensated absences of approximately \$446,000 and \$337,000 at June 30, 2019 and 2018, respectively. There were deferred inflows of approximately \$586,000 and \$502,000 as of June 30, 2019 and 2018, respectively. Noncurrent liabilities consisted of lease obligations, net of the current portion, of \$412,000 and \$814,000 at June 30, 2019 and 2018, respectively, and accrued compensated absences, less the current portion, of approximately \$111,000 and \$202,000 at June 30, 2019 and 2018, respectively. Noncurrent liabilities also included the net pension liability and net OPEB liability.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **Condensed Financial Information, Continued**

#### *Government-Wide Financial Statements, Continued*

Net position was composed of the net investment in capital assets of approximately \$3,517,000 and \$3,336,000 at June 30, 2019 and 2018, respectively. Restricted net position totaled approximately \$32,637,000 and \$41,881,000 at June 30, 2019 and 2018, respectively, representing the net position of the federal programs administered by ODOC; approximately \$14,572,000 restricted for the construction of the American Indian Cultural Center and Museum at June 30, 2018; approximately \$9,328,000 and \$975,000, restricted for the Oklahoma Quick Action Closing Fund at June 30, 2019 and 2018, respectively and approximately \$216,000 restricted for the Aerospace Commerce Economic Services (ACES) program at June 30, 2019. Unrestricted net position was approximately \$6,256,000 and \$5,725,000 at June 30, 2019 and 2018, respectively. At July 1, 2018, the responsibilities of the Native American Cultural and Educational Authority (NACEA) transferred to the Office of Management and Enterprise Services (OMES), including all future liabilities and fund balances. Consequently, unencumbered funds totaling approximately \$15,000,000 were transferred from ODOC to OMES. Approximately \$292,000 remained with ODOC to pay FY-2018 encumbrances. The final remaining balance of \$67,661 was transferred to OMES in November 2018.

A significant portion of the statements of activities is represented by state appropriations. For the years ended June 30, 2019 and 2018, approximately \$34,519,000 and \$30,062,000, respectively, was transferred to ODOC from State of Oklahoma appropriated revenues. Grant programs as of June 30, 2019 and 2018, accounted for approximately \$38,631,000 and \$49,213,000, respectively, of expenses and approximately \$35,041,000 and \$45,909,000, respectively, of revenues.

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

At June 30, 2019 and 2018, the statements of net position reflect assets in excess of liabilities of approximately \$42,409,000 and \$50,942,000, respectively; approximately \$23,093,000 and \$26,333,000, respectively, of net position was restricted for grant operations. For the years ended June 30, 2019 and 2018, the statements of activities reflect a change in net position of approximately \$(8,533,000) and \$(203,000), respectively.

#### *Analysis of Balances and Transactions of Individual Funds*

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

## Condensed Financial Information, Continued

### *Fund Financial Statements*

		<b><u>Balance Sheets</u></b>		
		June 30,		
		<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash, including short-term investments	\$	34,347,611	40,797,019	38,385,720
Subgrantee advances		1,397,046	4,652,418	8,255,872
Grants receivable		2,322,672	3,186,883	5,710,881
Accounts receivable		95,458	60,672	251,385
Total assets	\$	<u>38,162,787</u>	<u>48,696,992</u>	<u>52,603,858</u>
Accounts payable	\$	4,295,050	6,174,674	9,720,462
Fund balances		<u>33,867,737</u>	<u>42,522,318</u>	<u>42,883,396</u>
Total liabilities, deferred inflows of resources, and fund balances	\$	<u>38,162,787</u>	<u>48,696,992</u>	<u>52,603,858</u>

## **Statements of Revenues, Expenditures, and Changes in Fund Balance**

		Year Ended June 30,		
		<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues and other sources:				
State appropriations	\$	34,518,833	30,061,882	31,918,960
Federal grant revenues		32,340,315	42,750,093	62,390,007
In-kind revenues (match)		2,488,969	2,631,779	2,394,868
Other		1,397,968	5,800,170	16,717,034
Total revenues and other sources		<u>70,746,085</u>	<u>81,243,924</u>	<u>113,420,869</u>
Expenditures:				
Subgrantee expenditures		48,595,697	58,471,763	85,706,320
Salaries, wages, and benefits		8,203,486	7,961,125	7,830,255
In-kind expenditures (match)		2,488,969	2,631,779	2,394,868
Other		20,112,514	12,540,335	12,480,804
Total expenditures		<u>79,400,666</u>	<u>81,605,002</u>	<u>108,412,247</u>
Net (decrease) increase in fund balance	\$	<u>(8,654,581)</u>	<u>(361,078)</u>	<u>5,008,622</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **Condensed Financial Information, Continued**

#### *Fund Financial Statements, Continued*

Grants receivable represents amounts due from federal grants for expenditures made as of June 30, 2019 and 2018. Cash includes federal grant monies held at June 30, 2019 and 2018, of \$15,716,703 and \$15,156,643, respectively. The fund balance at June 30, 2019 and 2018, included \$17,113,749 and \$19,798,297, respectively, reserved for the grant programs administered by ODOC and \$9,327,868 and \$975,049, respectively, reserved for the Oklahoma Quick Action Closing Fund. The fund balance also included \$216,098 reserved for the ACES program at June 30, 2019.

### **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, 2019 and 2018, it was anticipated that ODOC would receive approximately \$49,204,000 and \$63,160,000, respectively, in grant revenues and expend approximately \$61,556,000 and \$76,199,000, respectively, in subgrantee expenditures. For the years ended June 30, 2019 and 2018, grant revenue was overestimated by approximately \$16,096,000 and \$19,275,000, respectively, while subgrantee expenditures were overestimated by approximately \$12,960,000 and \$17,727,000, respectively. The variance for the years ended June 30, 2019 and 2018, was due to an overestimate of anticipated Community Development Block Grant Disaster Recovery (CDBGDR) expenditures. Other large variances in the budget were contractual and professional expenditures, for which actual expenditures were approximately \$886,000 more than budgeted for the year ended June 30, 2019, and \$2,485,000 more than budgeted for the year ended June 30, 2018; salaries, wages, and benefits, for which actual expenditures were approximately \$1,325,000 less than budgeted for the year ended June 30, 2019, and \$1,117,000 more than budgeted for the year ended June 30, 2018; and miscellaneous administrative expenses, for which actual expenditures were approximately \$11,342,000 and \$14,315,000 less than budgeted, for the years ended June 30, 2019 and 2018, respectively. The majority of the variance in contractual and professional expenditures for the year ended June 30, 2019, was in large part due to auditing services for the CDBGDR Grant, unanticipated partnerships for the ACES program, and budgeted state pass-through being coded in the budget as pass-through instead of contractual expenditures. The salaries, wages, and benefits variance was due to FY-2018 carryover funds budgeted as salaries, wages, and benefits in order to expend the carryover prior to the statutory lapse date. The miscellaneous administrative expenses variance for the year ended June 30, 2019, was due to budgeting \$9,925,049 in the Quick Action Closing fund and only expending \$1,000,000 in FY-2019 due to slower than anticipated execution of contracts. The miscellaneous administrative expenses variance for the year ended June 30, 2018, was largely due to \$12,000,000 budgeted by NACEA in anticipation of resuming construction of the American Indian Cultural Center and Museum. As of June 30, 2018, no additional construction had taken place. Effective July 1, 2018, responsibility for NACEA was transferred to OMES.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **Description of Significant Capital Asset and Long-Term Debt Activity**

As of June 30, 2019 and 2018, long-term debt of ODOC consisted of capital lease obligations and compensated absences. At June 30, 2019 and 2018, the principal amount of the capital lease obligations was \$814,000 and \$1,202,000, respectively. During the years ended June 30, 2019 and 2018, principal payments of \$388,000 and \$374,000, respectively, were made on the debt.

Compensated absences totaled \$557,480 and \$539,351 at June 30, 2019 and 2018, respectively. The allocation of the portion considered long-term is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total compensated absences	\$ 557,480	539,351	607,243
Portion considered short-term	<u>(446,159)</u>	<u>(337,302)</u>	<u>(368,829)</u>
Long-term portion	<u>\$ 111,321</u>	<u>202,049</u>	<u>238,414</u>

During the years ended June 30, 2019 and 2018, ODOC recorded approximately \$207,000 and \$212,000, respectively, of depreciation. There were no capital asset additions for the year ended June 30, 2019 or 2018. ODOC had no large amounts of infrastructure assets, and capital assets are 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 21, 2019, OMES approved ODOC's budget for the fiscal year July 1, 2019, to June 30, 2020. Overall, the total budgeted operating expenditures increased \$2,037,285 for FY-2020 and decreased \$28,684,549 for FY-2019. The change in anticipated expenditures, reflected by funding source, is as follows:

<u>Funding Source</u>	<u>2020 Budget Compared to 2019</u>	<u>2019 Budget Compared to 2018</u>	<u>2018 Budget Compared to 2017</u>
State-appropriated (including appropriation budgeted in revolving funds and Special Cash and REAP funds)	\$ 10,206,102	(429,177)	655,011
Revolving funds (excluding appropriation budgeted in revolving funds)	(193,321)	(12,100,006)	(13,508,679)
Federal and other	<u>(7,975,496)</u>	<u>(16,155,366)</u>	<u>(3,642,558)</u>
Total budget change	<u>\$ 2,037,285</u>	<u>(28,684,549)</u>	<u>(16,496,226)</u>

## **MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED**

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

ODOC is anticipating \$48,310,385 in state-appropriated funding for FY-2020, compared to \$38,104,283 in FY-2019. The \$10,206,102 increase in the “state-appropriated” category for the year ending June 30, 2020, is due primarily to the following:

- Budgeted appropriations for operating costs, increased by \$2,486,462 in FY-2020—from \$15,392,016 in FY-2019 to \$17,878,478 in FY-2020. Appropriation increases for the ACES program, Automotive program, and the Rural Business and Resource Center in Seminole contributed to the majority of the increase.
- Carryover of appropriated funds increased by \$651,352 in FY-2020—from \$2,653,738 in FY-2019 to \$3,305,090 in FY-2020. The second carryover revision was not posted until late September.
- The Rural Economic Action Plan (REAP) Fund increased by \$3,000,000 in FY-2020—from \$10,133,480 in FY-2019 to \$13,133,480 in FY-2020. There was an increase of \$2,993,337 in the appropriation in FY-2020 and there will be a carryover amount in FY-2019 to FY-2020 of \$6,663 due to a returned FY-2017 revenue failure that was not expended in FY-2019.
- The Quick Action Closing Fund increased by \$4,074,951 in FY-2020—from \$9,925,049 in FY-2019 to \$14,000,000 in FY-2020. New funds of \$14,000,000 were appropriated in FY-2020.

ODOC is anticipating \$1,401,225 in revolving fund operating expenditures for FY-2020, compared to \$1,594,546 for FY-2019. The \$193,321 decrease in the “Revolving Funds” category for the year ending June 30, 2020, is due primarily to the following:

- The ODOC Non-Appropriated Fund decreased by \$358,572 in FY-2020—from \$664,741 in FY-2019 to \$306,169 in FY-2020. The EDA grant ended in FY-2019.
- The Oklahoma Main Street Program Revolving Fund decreased by \$8,793 in FY-2020—from \$10,750 in FY-2019 to \$1,957 in FY-2020.
- The Indirect Cost Fund increased by \$174,044 in FY-2020—from \$919,055 in FY-2019 to \$1,093,099 in FY-2020.

ODOC is anticipating \$39,373,794 in federally funded operating expenditures for FY-2020, compared to \$47,349,290 in FY-2019. The \$7,975,496 decrease in the “Federal and Other” category for the year ending June 30, 2020, is due primarily to the following:

- The federal pass-through and other budget including payroll decreased by \$7,975,496 in FY-2020—from \$47,349,290 in FY-2019 to \$39,373,794 in FY-2020. The decrease in federal funds is due to a decrease in anticipated expenditures for the CDBGDR program as the program draws to a close.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

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

During FY-2018, the State began to see an increase in gross receipts to the State General Revenue Fund. Throughout the fiscal year, receipts exceeded the prior year gross collections as the state's economy grew. The additional revenue allowed for a \$5,637,515 increase in ODOC's FY-2019 state appropriation. The increased appropriation was primarily designated for state employee pay raises, the REAP, and the Quick Action Closing Fund. The Legislature also created the ACES Program, which was funded using \$445,000 of the increase. An additional appropriation of \$5,000,000 was made to the Quick Action Closing Fund in March 2019.

During FY-2014, ODOC received \$10.6 million in CDBGDR funds 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, 2018, ODOC had received HUD approval for Action Plan amendments totaling \$93,700,000.

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 subsequently performed a monitoring visit during FY-2017 as required by the program and to better evaluate the OIG finding. The monitoring report, which was issued April 13, 2017, contained eight findings. HUD performed a second monitoring visit in May 2018. Six of the eight original findings were closed; however, the monitoring resulted in four new findings and one concern. ODOC prepared a response to the findings in October 2018. Following ODOC's response, one finding was closed. HUD performed a third monitoring visit in September 2019. At this time, ODOC has not received a final report resulting from this monitoring. As such, no estimate of questioned costs can be made at this time.

In July 2019, the Governor announced that the Oklahoma Office of Workforce Development (OOWD) will transition from Oklahoma State University-Oklahoma City to ODOC. The OOWD is primarily responsible for the administration of the U.S. Department of Labor (DOL) Workforce Innovation and Opportunity Act (WIOA) program. The effective date of the transition is expected to be January 1, 2020. At that date, all OOWD employees will transition to ODOC along with all current DOL grants administered by OOWD. The total balance of funds to be transferred to ODOC has not been determined 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, 900 North Stiles Avenue, Oklahoma City, OK 73104.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2019</i>	<i>2018</i>
<b>Assets</b>		
Current assets:		
Cash, including short-term investments	\$ 34,347,611	40,797,019
Subgrantee advances	1,397,046	4,652,418
Grants receivable	2,322,672	3,186,883
Accounts receivable	95,458	60,672
Total current assets	<u>38,162,787</u>	<u>48,696,992</u>
Noncurrent assets:		
Loans receivable	5,979,383	6,535,050
Capital assets:		
Nondepreciable—land	70,000	70,000
Depreciable, net of accumulated depreciation	<u>4,260,962</u>	<u>4,468,250</u>
Capital assets, net	<u>4,330,962</u>	<u>4,538,250</u>
Total noncurrent assets	<u>10,310,345</u>	<u>11,073,300</u>
Total assets	<u>48,473,132</u>	<u>59,770,292</u>
<b>Deferred Outflows of Resources</b>		
Deferred amounts related to the pension and OPEB	<u>1,133,816</u>	<u>1,721,280</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	4,295,050	6,174,674
Capital lease obligations—current portion	402,000	388,000
Compensated absences—current portion	<u>446,159</u>	<u>337,302</u>
Total current liabilities	<u>5,143,209</u>	<u>6,899,976</u>
Noncurrent liabilities:		
Capital lease obligations—less current portion	412,000	814,000
Compensated absences—less current portion	111,321	202,049
Net pension liability—amount due in more than 1 year	610,141	1,711,428
Net OPEB liability—amount due in more than 1 year	<u>334,559</u>	<u>419,329</u>
Total noncurrent liabilities	<u>1,468,021</u>	<u>3,146,806</u>
Total liabilities	<u>6,611,230</u>	<u>10,046,782</u>
<b>Deferred Inflows of Resources</b>		
Deferred gain on OCIA lease restructure	24,571	49,143
Deferred amounts related to the pension and OPEB	<u>561,572</u>	<u>453,344</u>
Total deferred inflows of resources	<u>586,143</u>	<u>502,487</u>

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

(Continued)

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF NET POSITION, CONTINUED

<i>June 30,</i>	<i>2019</i>	<i>2018</i>
<b>Net Position</b>		
Net investment in capital assets	3,516,962	3,336,250
Restricted—AICCM completion revolving fund	-	14,572,192
Restricted—grant programs	23,093,132	26,333,347
Restricted—Oklahoma Quick Action Closing Fund	9,327,868	975,049
Restricted—ACES	216,098	-
Unrestricted	<u>6,255,515</u>	<u>5,725,465</u>
Total net position	<u>\$ 42,409,575</u>	<u>50,942,303</u>

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



STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2019

		Revenue		
	<u>Expense</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Government activities:				
General government:				
Operations	\$ (40,583,385)	521,872	-	(40,061,513)
Interest expense	(37,617)	-	-	(37,617)
Total general government	<u>(40,621,002)</u>	<u>521,872</u>	<u>-</u>	<u>(40,099,130)</u>
Grant programs	<u>(38,631,275)</u>	<u>-</u>	<u>35,041,178</u>	<u>(3,590,097)</u>
Total government activities	<u>\$ (79,252,277)</u>	<u>521,872</u>	<u>35,041,178</u>	<u>(43,689,227)</u>
General revenues:				
State appropriations				34,518,833
Investment income				349,881
Other				<u>287,785</u>
Total general revenues				<u>35,156,499</u>
Change in net position				<u>(8,532,728)</u>
Net position, beginning of year				<u>50,942,303</u>
Net position, end of year				<u>\$ 42,409,575</u>

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2018

		Revenue		
	<u>Expense</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Government activities:				
General government:				
Operations	\$ (32,098,033)	523,550	-	(31,574,483)
Interest expense	(50,286)	-	-	(50,286)
Total general government	<u>(32,148,319)</u>	<u>523,550</u>	<u>-</u>	<u>(31,624,769)</u>
Grant programs	<u>(49,212,748)</u>	<u>-</u>	<u>45,909,217</u>	<u>(3,303,531)</u>
Total government activities	<u>\$ (81,361,067)</u>	<u>523,550</u>	<u>45,909,217</u>	<u>(34,928,300)</u>
General revenues:				
State appropriations				30,061,882
Investment income				243,454
Other				<u>4,419,690</u>
Total general revenues				<u>34,725,026</u>
Change in net position				<u>(203,274)</u>
Net position, beginning of year, restated (see Note 1)				<u>51,145,577</u>
Net position, end of year				<u>\$ 50,942,303</u>

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

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**BALANCE SHEETS—GENERAL FUND**

<i>June 30,</i>	<i>2019</i>	<i>2018</i>
<b>Assets</b>		
Cash, including short-term investments	\$ 34,347,611	40,797,019
Subgrantee advances	1,397,046	4,652,418
Grants receivable	2,322,672	3,186,883
Accounts receivable	<u>95,458</u>	<u>60,672</u>
Total assets	<u>\$ 38,162,787</u>	<u>48,696,992</u>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Accounts payable	\$ <u>4,295,050</u>	<u>6,174,674</u>
Total liabilities	<u>4,295,050</u>	<u>6,174,674</u>
Fund balances:		
Restricted	26,664,378	35,999,974
Assigned	732,319	389,164
Unassigned	<u>6,471,040</u>	<u>6,133,180</u>
Total fund balances	<u>33,867,737</u>	<u>42,522,318</u>
Total liabilities and fund balances	<u>\$ 38,162,787</u>	<u>48,696,992</u>

(Continued)

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

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

**BALANCE SHEETS—GENERAL FUND, CONTINUED**

<i>June 30,</i>	<i>2019</i>	<i>2018</i>
<b>Reconciliation of Fund Balances to Net Position</b>		
Total fund balances from above	\$ 33,867,737	42,522,318
Amounts reported in the statements of net position 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 \$3,691,296 and \$3,484,008 at June 30, 2019 and 2018, respectively	4,330,962	4,538,250
Loans receivable	5,979,383	6,535,050
Deferred outflows related to the pension and OPEB are not financial resources and therefore are not reported in the funds		
	1,133,816	1,721,280
Certain liabilities are not due and payable in the current period and therefore not reported in the fund:		
Accrued compensated absences	(557,480)	(539,351)
Capital lease obligations	(814,000)	(1,202,000)
Net pension liability	(610,141)	(1,711,428)
Net OPEB liability	(334,559)	(419,329)
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		
	(24,571)	(49,143)
Deferred inflows related to the pension and OPEB are not due and payable in the current period and therefore are not reported in the fund		
	<u>(561,572)</u>	<u>(453,344)</u>
Net position, per the statements of net position	<u>\$ 42,409,575</u>	<u>50,942,303</u>

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

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

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

<i>Years Ended June 30,</i>	<i>2019</i>	<i>2018</i>
Revenues:		
Federal grant revenues	\$ 32,340,315	42,750,093
Program income	767,561	1,135,146
Interest	349,881	243,454
Other	280,526	4,421,570
In-kind revenues (match)	2,488,969	2,631,779
Total revenues	<u>36,227,252</u>	<u>51,182,042</u>
Expenditures:		
Subgrantee expenditures	48,595,697	58,471,763
Salaries, wages, and benefits	8,203,486	7,961,125
Professional	616,088	(163,700)
Travel	523,192	395,386
Debt service:		
Principal	399,267	385,251
Interest	26,350	39,035
Space rental	14,642	11,332
Equipment rental	31,480	51,957
Supplies	47,286	39,095
Equipment	20,061	25,019
Maintenance	151,003	221,414
Telephone	85,433	83,697
Postage and freight	9,674	14,595
Advertising	140,347	141,225
Printing	12,906	13,616
Contractual	2,025,837	3,830,287
Funds returned to grantor	15,491,291	1,797
Other	293,729	527,146
NACEA expenditures	223,928	6,923,183
In-kind expenditures (match)	2,488,969	2,631,779
Total expenditures	<u>79,400,666</u>	<u>81,605,002</u>
Deficiency of revenues over expenditures	(43,173,414)	(30,422,960)
Other funding sources:		
State appropriations	<u>34,518,833</u>	<u>30,061,882</u>
Net changes in fund balances	(8,654,581)	(361,078)
Beginning fund balances	<u>42,522,318</u>	<u>42,883,396</u>
Ending fund balances	<u>\$ 33,867,737</u>	<u>42,522,318</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

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

<i>Years Ended June 30,</i>	<i>2019</i>	<i>2018</i>
Net changes in fund balances—General Fund	\$ (8,654,581)	(361,078)
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	<u>(207,288)</u>	<u>(211,736)</u>
	<u>(207,288)</u>	<u>(211,736)</u>
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of net position:		
Capital lease obligation principal payments	388,000	374,000
Repayment of certain loans is revenue in the governmental funds, but the repayment reduces long-term assets (loans) on the statements of net position:		
Loan principal repayments	(555,667)	(607,801)
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	(18,129)	67,892
Amortization of deferred gain on OCIA lease restructure	24,571	24,571
Deferred outflows related to the pension and OPEB benefits are not financial resources and therefore are not reported in the General Fund	<u>490,366</u>	<u>510,878</u>
Changes in net position, per the statements of activities	<u>\$ (8,532,728)</u>	<u>(203,274)</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS

**June 30, 2019 and 2018**

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### **(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The State of Oklahoma Department of Commerce (ODOC) complies with accounting principles generally accepted in the United States. Accounting principles generally accepted in the United States include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

#### **Reporting Entity**

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

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

The financial statements include only the activities of ODOC and are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma that is attributable to the transactions of ODOC. In addition, certain activities of the Native American Cultural and Educational Authority (NACEA), as discussed in Note 13, are included, as they are administered by ODOC on behalf of NACEA. Effective July 1, 2018, the administration of the activities of the NACEA were reassigned to the State of Oklahoma's Office of Management & Enterprise Services (OMES).

As a state agency, ODOC's insurance is provided through a risk pool of state agencies. For the years ended June 30, 2019 and 2018, the premiums paid for this coverage were approximately \$12,000 and \$13,000, respectively.

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

See Independent Auditors' Report.

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

**Basis of Presentation**

***Government-Wide Financial Statements***

The statements of net 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 Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

***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.



STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(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.

See Independent Auditors' Report.

(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 \$57,574,000 have been funded through June 30, 2019, with approximately \$16,780,000 and \$17,613,000 outstanding at June 30, 2019 and 2018, respectively. During the years ended June 30, 2019 and 2018, collection of principal and interest on loans amounted to approximately \$833,000 and \$986,000, respectively. Cumulative collections of principal and interest since the inception of the program approximated \$40,794,000 and \$39,961,000 as of June 30, 2019 and 2018, respectively. Loans of approximately \$21,600 were deemed as uncollectible and written-off during the year ended June 30, 2019. Loans of approximately \$500 previously written-off were recovered during each of the years ended June 30, 2019 and 2018. Cumulative loans charged-off since the inception of the program approximated \$13,756,000 and \$13,735,000 as of June 30, 2019 and 2018, respectively.

See Independent Auditors' Report.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

#### Fund Accounting, Continued

- √ *Other Loan Programs*—ODOC has other loan activities funded through the oil overcharge programs 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:

<u>Program</u>	<u>2019</u>	<u>2018</u>
SEPRF*	\$ 5,070,375	5,576,107
EIRLF	908,541	958,476
Stripper Well	<u>467</u>	<u>467</u>
	<u>\$ 5,979,383</u>	<u>6,535,050</u>

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

- √ *Weatherization Assistance Program for Low-Income Persons ("Weatherization")*—The objective of Weatherization is to conserve energy and reduce the impact of rising costs on low-income persons, particularly the elderly and handicapped, through the installation of energy-conserving measures in their dwellings.
- √ *Community Services Block Grant (CSBG)*—The objective of CSBG programs is to provide funds to states for community-based programs that assist in removing the causes and consequences of poverty.
- √ *Emergency Solutions 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.

See Independent Auditors' Report.

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

**Fund Accounting, Continued**

- √ *Community Development Block Grant Disaster Recovery (CDBG-DR)*—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, CDBG-DR expenditures have the same national objectives as CDBG program funds.

CDBG-DR 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.

- √ *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. ODOC received \$9,000,000 in state appropriations for the Quick Action Closing Fund during the year ended June 30, 2019. ODOC expended \$850,000 and \$1,850,000 during the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, \$9,327,868 and \$975,049, respectively, of funds were available for expenditure for the Quick Action Closing Fund.
- √ *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 \$10,127,000 and \$9,194,000 in state appropriations for the REAP Fund during the years ended June 30, 2019 and 2018, respectively. ODOC expended approximately \$11,506,000 and \$9,188,000 during the years ended June 30, 2019 and 2018, respectively, which is reflected as subgrantee expenditures in the statements of revenues, expenditures, and changes in fund balances—General Fund. There were approximately \$6,700 of funds available for expenditure for the REAP Fund as of June 30, 2019 and 2018.

See Independent Auditors’ Report.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

#### Program Income

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

#### Subgrantee Advances

ODOC does not reflect subgrantee payments as expenditures until the subgrantee reports them as expenditures and, as such, payments made to subgrantees which have not been reported as expenditures are reflected as subgrantee advances. Such amounts are subject to be refunded to ODOC if not expended or if expended improperly.

#### Subgrantee Expenditures

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

#### Deferred Inflows and Outflows of Resources

##### *Government-Wide Financial Statements*

Deferred outflows and inflows of resources represent amounts associated with pension and other postemployment benefits (OPEB), as applicable, for differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, deferred gain from the Oklahoma Capitol Improvement Authority (OCIA) lease restructure, and changes in assumptions. Notes 4, 9, and 10 detail 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, 2019 and 2018.

At July 1, 2008, the operations of the Oklahoma Capitol Complex and the 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, 2019 and 2018.

See Independent Auditors' Report.

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

**Compensated Absences**

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

**Pension Plans**

*Defined Benefit Plan*

ODOC participates in a cost-sharing, multiple-employer defined benefit 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 years ended June 30, 2019 and 2018, ODOC made contributions to Pathfinder of approximately \$53,000 and \$28,000, respectively.

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

**Other Postemployment Employee Benefits**

ODOC participates in the OPERS Health Insurance Subsidy Plan (HISP), a cost-sharing, multiple-employer defined benefit public employee health insurance subsidy retirement plan which is administered by OPERS.

ODOC participates in the Oklahoma Employees Group Insurance Division's (EGID) health insurance plan, which is a non-trusted single-employer plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the health insurance plan before retiring.

ODOC follows the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) in recording the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense.

**Equity Classifications**

*Government-Wide Financial Statements*

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

- a. Net investment in capital assets—consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, 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 “net investment in capital assets.”

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.

(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. ODOC had no fund balance classified as nonspendable at June 30, 2019 or 2018.
- 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. ODOC had no committed fund balance at June 30, 2019 or 2018.
- 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.

See Independent Auditors' Report.



STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

*Fund Financial Statements, Continued*

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	
	<u>2019</u>	<u>2018</u>
Fund balances:		
Restricted for:		
Federal grants	\$ 17,113,749	19,798,297
State appropriations	6,663	654,436
State funded and other restricted programs	9,543,966	15,547,241
Total restricted	<u>26,664,378</u>	<u>35,999,974</u>
Assigned:		
State appropriations	<u>732,319</u>	<u>389,164</u>
Unassigned:		
State appropriations	3,217,999	2,775,951
Program income	3,253,041	3,357,229
Total unassigned	<u>6,471,040</u>	<u>6,133,180</u>
Total fund balances	<u>\$ 33,867,737</u>	<u>42,522,318</u>

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(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, 2019 and 2018, approximately \$794,000 and \$1,028,000, 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, 2019 and 2018.

As of June 30, 2019 and 2018, ODOC had approximately \$67,932,000 and \$56,064,000, respectively, of grant funds available to be drawn upon when needed. Contract commitments with subgrantees of approximately \$31,685,000 and \$39,468,000 were outstanding as of June 30, 2019 and 2018, respectively.

**Recent Accounting Pronouncements**

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonably estimable for the incurrence of such a liability. ODOC adopted this statement on July 1, 2018. The adoption of this statement did not have a significant impact on the financial statements.

See Independent Auditors' Report.

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

**Recent Accounting Pronouncements, Continued**

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. ODOC will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. ODOC does not expect GASB 84 to have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. ODOC has not determined the impact of GASB 87 on the financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 provides certain clarifications regarding debt as a liability and identifies additional required disclosures related to debt, including direct borrowings and direct placements of debt. ODOC will adopt GASB 88 on July 1, 2019, for the June 30, 2020, reporting year. ODOC does not expect GASB 88 to have a significant impact on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. ODOC will adopt GASB 89 on July 1, 2020, for the June 30, 2021, reporting year. ODOC does not expect GASB 89 to significantly impact the financial statements.

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

**Recent Accounting Pronouncements, Continued**

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests* (GASB 90), an amendment of GASB Statements No. 14 and No. 61. GASB 90 seeks to improve the consistency and comparability of financial reporting for majority equity interests, or situations where an entity would hold a majority share of equity or have a measurable right to resources of a legally separate entity. Under GASB 90, specific guidance is also provided for governments engaged in fiduciary activities when reporting equity interests. ODOC will adopt GASB 90 on July 1, 2019, for the June 30, 2020, reporting year. ODOC does not expect GASB 90 to significantly impact the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB 91). The objective of GASB 91 is to provide a single method of reporting for conduit debt obligations issued and eliminate diversity in practice regarding 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. ODOC will adopt GASB 91 on July 1, 2021, for the June 30, 2022, reporting year. ODOC does not expect GASB 91 to have a significant impact the financial statements.

**Date of Management's Review of Subsequent Events**

ODOC has evaluated subsequent events through October 21, 2019, 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 of Oklahoma'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.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(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 which are 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:

	<u>2019</u>	<u>2018</u>
U.S. agencies	\$ 4,732,656	6,559,218
Mortgage-backed agencies	6,137,556	5,687,108
U.S. Treasury notes	2,456,171	65,065
Municipal bonds	27,144	87,002
Foreign bonds	63,272	52,060
Certificates of deposit	337,725	541,231
Money market mutual funds	<u>1,520,182</u>	<u>1,405,221</u>
	<u>\$ 15,274,706</u>	<u>14,396,905</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) **CAPITAL ASSETS**

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

	Balance at June 30, 2018	Additions	Disposals	Balance at June 30, 2019
Land, nondepreciable	\$ 70,000	-	-	70,000
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	<u>8,022,258</u>	<u>-</u>	<u>-</u>	<u>8,022,258</u>
Less accumulated depreciation:				
Building	(1,490,259)	(61,337)	-	(1,551,596)
Building improvements— capitol dome	(1,430,301)	(143,030)	-	(1,573,331)
Furniture, fixtures, and equipment	<u>(563,448)</u>	<u>(2,921)</u>	<u>-</u>	<u>(566,369)</u>
Total accumulated depreciation	<u>(3,484,008)</u>	<u>(207,288)</u>	<u>-</u>	<u>(3,691,296)</u>
Capital assets, net	<u>\$ 4,538,250</u>	<u>(207,288)</u>	<u>-</u>	<u>4,330,962</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS, CONTINUED

	Balance at June 30, 2017	Additions	Disposals	Balance at June 30, 2018
Land, nondepreciable	\$ 70,000	-	-	70,000
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	<u>8,022,258</u>	<u>-</u>	<u>-</u>	<u>8,022,258</u>
Less accumulated depreciation:				
Building	(1,428,922)	(61,337)	-	(1,490,259)
Building improvements— capitol dome	(1,287,271)	(143,030)	-	(1,430,301)
Furniture, fixtures, and equipment	<u>(556,079)</u>	<u>(7,369)</u>	<u>-</u>	<u>(563,448)</u>
Total accumulated depreciation	<u>(3,272,272)</u>	<u>(211,736)</u>	<u>-</u>	<u>(3,484,008)</u>
Capital assets, net	<u>\$ 4,749,986</u>	<u>(211,736)</u>	<u>-</u>	<u>4,538,250</u>

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets, Net</u>
<u>2019</u>			
Building improvements— capitol dome	<u>\$ 4,720,000</u>	<u>(1,573,331)</u>	<u>3,146,669</u>
<u>2018</u>			
Building improvements— capitol dome	<u>\$ 4,720,000</u>	<u>(1,430,301)</u>	<u>3,289,699</u>

ODOC has no significant infrastructure assets.

See Independent Auditors' Report.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (3) CAPITAL ASSETS, CONTINUED

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

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

Depreciation expense for the years ended June 30, 2019 and 2018, was \$207,288 and \$211,736, respectively.

### (4) CAPITAL LEASE OBLIGATIONS

During 1997, ODOC entered into a lease agreement with the 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.

See Independent Auditors' Report.



**(4) CAPITAL LEASE OBLIGATIONS, CONTINUED**

During the years ended June 30, 2019 and 2018, ODOC recognized \$24,571 of amortization for each year on the deferred gain on lease restructuring on the OCIA 2013A lease obligation, leaving a balance of the unamortized deferred gain of \$24,571 and \$49,143, respectively. The unamortized deferred gain is included in the deferred inflows of resources in the accompanying financial statements.

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.

In December 2016, ODOC defeased the remaining Series 2014B debt service principal balance of \$891,591. ODOC transferred \$881,835 in carryover funds to the Oklahoma State Treasurer. These funds and an additional \$64,441 from the OCIA Sinking Fund were used to purchase state and local government series U.S. Treasury obligations. The proceeds of these obligations will be used to satisfy the scheduled interest and principal payments through the maturity of the defeased debt. ODOC chose to defease the debt with carryover funds to reduce the future budgeted debt expenses in future fiscal years.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL LEASE OBLIGATIONS, CONTINUED

The escrow requirements for the defeased debt are as follows:

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service Payments</u>	<u>Escrow Requirements</u>
January 1, 2019	\$ -	4,082	4,082	4,082
July 1, 2019	176,481	4,082	180,563	180,563
January 1, 2020	-	14,265	14,265	14,265
July 1, 2020	187,952	14,265	202,217	202,217
January 1, 2021	-	10,515	10,515	10,515
July 1, 2021	<u>192,941</u>	<u>10,515</u>	<u>203,456</u>	<u>203,456</u>
	<u>\$ 557,374</u>	<u>57,724</u>	<u>615,098</u>	<u>615,098</u>

As of June 30, 2019, payments on the defeased debt were current.

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, 2019:

<u>Year Ending June 30,</u>	<u>Capitol Dome</u>
2020	\$ 422,320
2021	<u>419,145</u>
Minimum lease payments for capital lease	841,465
Less amount representing interest	<u>(27,465)</u>
Present value of minimum lease payments	<u>\$ 814,000</u>

The lease of the capitol dome expires July 1, 2020, at which time the bond should be paid in full.

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

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 1,202,000	1,576,000
Principal payments	<u>(388,000)</u>	<u>(374,000)</u>
Balance at end of year	<u>\$ 814,000</u>	<u>1,202,000</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(5) **ACCRUED COMPENSATED ABSENCES**

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

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 539,351	607,243
Amount earned	464,288	269,410
Amount used	<u>(446,159)</u>	<u>(337,302)</u>
Balance at end of year	<u>\$ 557,480</u>	<u>539,351</u>

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, 2019 and 2018.

(6) **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, 2019 and 2018, were \$34,518,833 and \$30,061,882, respectively.

During the years ended June 30, 2019 and 2018, \$15,203,209 and \$1,691, respectively, of state funds were returned/transferred to the State of Oklahoma. During the year ended June 30, 2019, \$15,202,569 of the funds returned were transferred to OMES in relation to the reassignment of the activities of NACEA from ODOC to OMES.

(7) **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.

(8) **INDIRECT COSTS**

For the years ended June 30, 2019 and 2018, 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, 2019 and 2018, was 46.47% and 48.96%, respectively, which resulted in a charge of \$529,129 and \$521,670 to the various federal programs during 2019 and 2018, respectively.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(9) **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 OPERS (the “Board”). OPERS 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, 5400 N. Grand Boulevard, Suite 400, Oklahoma City, Oklahoma 73112 or by calling 1-800-733-9008, or can be obtained at <https://www.opers.org/pubs-archive/financial/cafr/2019-06-24-2018-CAFR.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.

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.

**(9) PENSION PLAN, CONTINUED**

**Benefits Provided, Continued**

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.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (9) 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.

Benefits are established and may be amended by the State Legislature.

#### Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board of Trustees of OPERS 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 2019, 2018, and 2017, *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 2019, 2018, and 2017, were approximately as follows:

<u>2019</u>	<u>2018</u>	<u>2017</u>
\$ <u>747,000</u>	<u>769,000</u>	<u>785,000</u>

See Independent Auditors' Report.

(9) **PENSION PLAN, CONTINUED**

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

At June 30, 2019 and 2018, ODOC reported a liability for its proportionate share of the net pension liability. As of June 30, 2019, the net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. As of June 30, 2018, the net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2018 and 2017. Based upon this information, ODOC's proportion for June 30, 2019 and 2018, was 0.31282374% and 0.31654233%, respectively.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) PENSION PLAN, CONTINUED

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

For the years ended June 30, 2019 and 2018, ODOC recognized pension expense of \$317,352 and \$264,160, respectively. At June 30, 2019 and 2018, ODOC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2019</u>		
Differences between expected and actual experience	\$ -	343,623
Changes in assumptions	262,393	-
Net difference between projected and actual earnings on pension plan investments	-	99,807
Changes in proportion	12,813	-
ODOC contributions subsequent to the measurement date	<u>746,884</u>	<u>-</u>
	<u>\$ 1,022,090</u>	<u>443,430</u>
<u>2018</u>		
Differences between expected and actual experience	\$ -	306,052
Changes in assumptions	759,774	-
Net difference between projected and actual earnings on pension plan investments	76,453	-
Changes in proportion	-	48,530
ODOC contributions subsequent to the measurement date	<u>768,771</u>	<u>-</u>
	<u>\$ 1,604,998</u>	<u>354,582</u>

See Independent Auditors' Report.



# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (9) PENSION PLAN, CONTINUED

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

Reported deferred outflows of resources of \$746,884 at June 30, 2019, 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, 2020. 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:	
2020	\$ 373,840
2021	(88,216)
2022	(362,101)
2023	<u>(91,747)</u>
	<u>\$ (168,224)</u>

#### **Actuarial Methods and Assumptions**

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2018 and 2017, using the following actuarial assumptions:

Investment return:	7.00% per year, compounded annually, net of investment expense and including inflation
Salary increases:	3.50% to 9.50% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years).
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75% per year
Payroll growth:	3.50% 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, 2018 and 2017, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

See Independent Auditors' Report.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### (9) PENSION PLAN, CONTINUED

#### Actuarial Methods and Assumptions, Continued

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

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

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
<u>2019</u>		
U.S. large cap equity	38.0%	3.8%
U.S. small cap equity	6.0%	4.9%
Non-U.S. equity	24.0%	9.2%
U.S. fixed income	<u>32.0%</u>	1.5%
	<b><u>100.0%</u></b>	
<u>2018</u>		
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	<u>3.5%</u>	1.5%
	<b><u>100.0%</u></b>	

See Independent Auditors' Report.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (9) PENSION PLAN, CONTINUED

#### Discount Rate

The discount rate used to measure the total pension liability was 7.00% for both 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected 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.

#### 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 7.00% for both 2019 and 2018, 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 or 1 percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<u>2019</u>			
Net pension liability (asset)	<u>\$ 3,914,798</u>	<u>610,141</u>	<u>(2,190,374)</u>
<u>2018</u>			
Net pension liability (asset)	<u>\$ 5,058,196</u>	<u>1,711,428</u>	<u>(1,122,500)</u>

#### 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](http://www.opers.ok.gov).

See Independent Auditors' Report.

**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS**

***HEALTH INSURANCE SUBSIDY OPEB***

**Description**

ODOC participates in the HISP, a cost-sharing, multiple-employer defined benefit public employee health insurance subsidy retirement plan which is administered by OPERS. The HISP is classified as an “other postemployment employee benefit.”

**Benefits Provided**

HISP provides a health insurance premium subsidy for retirees of OPERS who elect to maintain health insurance with EGID or other qualified insurance plan provided by the employers. The HISP subsidy is capped at \$105 per month per retiree. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

**Contributions**

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. An actuarially determined portion of the total contribution to OPERS are set aside to finance the cost of the benefits of the HISP in accordance with provisions of the Internal Revenue Code.

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. Only employers contribute to the HISP. For 2019, state agency employers contributed 16.5% on all salary.

Contributions to OPERS for the HISP by ODOC were approximately \$58,000 for both years ended June 30, 2019 and 2018.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***HEALTH INSURANCE SUBSIDY OPEB, CONTINUED***

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to OPEB**

At June 30, 2019, ODOC reported an asset for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of July 1, 2018. ODOC's proportion of the net OPEB asset 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, 2018. Based upon this information, ODOC's proportion was 0.31282374%.

For the years ended June 30, 2019 and 2018, ODOC recognized OPEB (income) expense related to the HISP of \$(52,307) and \$90,540, respectively. At June 30, 2019 and 2018, ODOC reported deferred outflows of resources and deferred inflows of resources related to the HISP from the following sources:

	<u>2019</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ -	63,649
Changes in assumptions		23,729	-
Net difference between projected and actual earnings on OPEB investments		-	37,540
Changes in proportion		-	890
ODOC contributions subsequent to the measurement date		<u>57,988</u>	<u>-</u>
		<u>\$ 81,717</u>	<u>102,079</u>
	<u>2018</u>		
Differences between expected and actual experience		\$ -	44,690
Changes in assumptions		29,531	-
Net difference between projected and actual earnings on OPEB investments		-	39,124
ODOC contributions subsequent to the measurement date		<u>58,353</u>	<u>-</u>
		<u>\$ 87,884</u>	<u>83,814</u>

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***HEALTH INSURANCE SUBSIDY OPEB, CONTINUED***

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to OPEB, Continued**

Reported deferred outflows of resources of \$57,988 related to OPEB resulting from ODOC's contributions subsequent to the measurement date will be recognized as a decrease/increase of the net OPEB liability in the year ending June 30, 2020. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2019, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2020	\$ (20,227)
2021	(20,227)
2022	(20,227)
2023	(10,446)
2024	<u>(7,223)</u>
	<u>\$ (78,350)</u>

**Actuarial Methods and Assumptions**

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2018 and 2017:

Investment return:	7.00% per year, compounded annually, net of investment expense and including inflation
Salary increases:	3.50% to 9.50% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years).
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75% per year
Payroll growth:	3.50% per year
Actuarial cost method:	Entry age
Select period for the termination	10 years
Health care trend rate	Not applicable based on how OPERS is structured and benefit payments are made.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***HEALTH INSURANCE SUBSIDY OPEB, CONTINUED***

**Actuarial Methods and Assumptions, Continued**

The actuarial assumptions used in the July 1, 2018 and 2017, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2019 and 2018, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
<u>2019</u>		
U.S. large cap equity	38.0%	3.8%
U.S. small cap equity	6.0%	4.9%
Non-U.S. equity	24.0%	9.2%
U.S. fixed income	<u>32.0%</u>	1.5%
	<b><u>100.0%</u></b>	
<u>2018</u>		
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	<u>3.5%</u>	1.5%
	<b><u>100.0%</u></b>	

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***HEALTH INSURANCE SUBSIDY OPEB, CONTINUED***

**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.00% for both 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from 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 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determined does not use a municipal bond rate.

**Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate**

The following presents the net OPEB liability of ODOC calculated using the discount rate of 7.00% for both 2019 and 2018, as well as what ODOC's net OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<u>June 30, 2019</u>			
Net OPEB liability (asset)	<u>\$ 64,453</u>	<u>(40,482)</u>	<u>(130,739)</u>
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<u>June 30, 2018</u>			
Net OPEB liability (asset)	<u>\$ 143,212</u>	<u>36,257</u>	<u>(55,695)</u>

**OPEB 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](http://www.opers.ok.gov).

See Independent Auditors' Report.



**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY***

**Description**

ODOC participates in the EGID's health insurance plan, which is a non-trusted single-employer plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the health insurance plan before retiring.

In conjunction with providing the postretirement medical benefits through the health insurance plan, the State of Oklahoma determined that an OPEB liability existed in relation to an implicit rate subsidy. The State of Oklahoma calculated the implicit rate subsidy of health insurance plan OPEB liability (IRSHIP OPEB liability) for all state agencies that participate in the EGID health insurance plan and whose payroll is processed through the State of Oklahoma's payroll system. ODOC met these criteria and therefore was one of the agencies included in the State of Oklahoma's calculation.

The IRSHIP provides members with postretirement medical benefits until age 65 if the retiree and spouse pay the full active premium. Participation in the health insurance plan can elect to enroll in special coverage, and surviving spouses may continue in the plan until age 65. Contributions to the health insurance plan are made by both participants and ODOC on a "pay as you go" basis. ODOC's contributions for the years ended June 30, 2019 and 2018, were approximately \$30,000 and \$28,000, respectively.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to OPEB**

At June 30, 2019 and 2018, ODOC reported a liability for its proportionate share of the net IRSHIP OPEB liability. The net IRSHIP OPEB liability was measured as of June 30, 2018 and 2017, and the total IRSHIP OPEB liability used to calculate the net IRSHIP OPEB liability was determined by an actuarial valuation as of July 1, 2019 and 2018. ODOC's proportion of the net IRSHIP OPEB liability was based on ODOC's active employees as of July 1, 2018 and 2017, to all active employees of the State agencies included in the State of Oklahoma's calculation. Based upon this information, ODOC's proportion was 0.25652250% and 0.25796740% at June 30, 2019 and 2018, respectively.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED***

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to OPEB, Continued**

For the years ended June 30, 2019 and 2018, ODOC recognized OPEB (income) expense of \$(8,527) and \$22, 720, respectively. At June 30, 2019 and 2018, ODOC reported deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2019</u>		
Differences between expected and actual experience	\$ -	2,496
Changes in assumptions	-	11,820
Changes in proportion	-	1,747
ODOC contributions subsequent to the measurement date	<u>30,009</u>	<u>-</u>
	<u>\$ 30,009</u>	<u>16,063</u>
<u>2018</u>		
Changes in assumptions	\$ -	14,948
ODOC contributions subsequent to the measurement date	<u>28,398</u>	<u>-</u>
	<u>\$ 28,398</u>	<u>14,948</u>

Reported deferred outflows of resources of \$30,009 related to OPEB resulting from ODOC's contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2020. Deferred inflows of resources and deferred outflows of resources related to the IRSHIP OPEB liability as of June 30, 2019, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2020	\$ (7,652)
2021	(5,351)
2022	(1,902)
2023	<u>(1,158)</u>
	<u>\$ (16,063)</u>

See Independent Auditors' Report.

**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED***

**Actuarial Methods and Assumptions**

The total IRSHIP OPEB liability was determined based on actuarial valuations prepared as of July 1, 2018 and 2017:

- Investment return—Not applicable, as the health insurance plan is unfunded and benefits are not paid from a qualifying trust
- Mortality rates—RP-2006 Combined Healthy Mortality Table, with a fully generational projection using Scale MP-2017
- Salary scale, retirement rate, withdrawal rate, and disability rate actuarial assumptions are based on rates for the various retirement systems that the health insurance plan's participants are in, including—
  - Oklahoma Public Employees Retirement System
  - Oklahoma Law Enforcement Retirement System
  - Teachers' Retirement System of Oklahoma
  - Uniform Retirement System of Justices & Judges
  - Oklahoma Department of Wildlife Conservation Defined Benefit Pension Plan
- Plan participation—40% of retired employees are assumed to participate in the health insurance plan.
- Marital assumptions—Male participants: 25% who elect coverage are assumed to have a spouse who will receive coverage

Female participants: 15% who elect coverage are assumed to have a spouse who will receive coverage

Males are assumed to be 3 years older than their spouses

- Plan entry date is the date of hire
- Actuarial cost method—Entry age normal based upon salary
- Healthcare trend rate—7.10% decreasing to 4.60%

At July 1, 2018, ODOC had 94 participants in the plan, consisting of 86 active participants and 8 retirees or surviving spouses.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

***IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED***

**Discount Rate**

The discount rate used to measure the total OPEB liability was 3.87% and 3.58% for June 30, 2019 and 2018, respectively. The discount rate was determined using the Bond Buyer GO 20-Bond Municipal Bond Index.

**Changes in the Net OPEB Liability**

The following table reports the components of changes in the net OPEB liability as of and for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 383,072	408,077
Changes for the year:		
Service cost	13,313	15,271
Interest expense	13,613	11,602
Actual experience	(5,334)	-
Changes in assumptions	(1,384)	(19,101)
Benefits paid	(28,239)	(32,777)
Net changes	<u>(8,031)</u>	<u>(25,005)</u>
Balance at end of year	<u>\$ 375,041</u>	<u>383,072</u>

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and the Healthcare Trend Rate**

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*—The following presents the net IRSHIP OPEB liability of ODOC calculated using the discount rate of 3.87% and 3.58% for 2019 and 2018, respectively, as well as what ODOC's net IRSHIP OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
<u>June 30, 2019</u>			
Net OPEB liability	<u>\$ 400,187</u>	<u>375,041</u>	<u>357,031</u>
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
<u>June 30, 2018</u>			
Net OPEB liability	<u>\$ 408,876</u>	<u>383,072</u>	<u>359,042</u>

See Independent Auditors' Report.

**(10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED*****IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED*****Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and  
the Healthcare Trend Rate, Continued**

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate*—The following presents the net OPEB liability at June 30, 2019 and 2018, calculated using the healthcare trend rate of 7.10% decreasing to 4.60% for both years, as well as what the liability would be if it were calculated using a healthcare trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease in Healthcare Trend Rate (6.10% decreasing to <u>3.60%</u> )	Current Healthcare Trend Rate (7.10% decreasing to <u>4.60%</u> )	1% Increase in Healthcare Trend Rate (8.10% decreasing to <u>5.60%</u> )
<u>2019</u>			
Net OPEB liability	\$ <u>341,278</u>	<u>375,041</u>	<u>414,232</u>
	1% Decrease in Healthcare Trend Rate (6.10% decreasing to <u>3.60%</u> )	Current Healthcare Trend Rate (7.10% decreasing to <u>4.60%</u> )	1% Increase in Healthcare Trend Rate (8.10% decreasing to <u>5.60%</u> )
<u>2018</u>			
Net OPEB liability	\$ <u>351,585</u>	<u>383,072</u>	<u>419,541</u>

A copy of the actuarial valuations for the IRSHIP OPEB liability can be obtained at the following link:

<http://omes.ok.gov/sites/g/files/gmc316/f/ActuarialValuationReport2019.pdf>

**(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.

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 IRS.

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.

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

**Deferred Compensation Plan, Continued**

Effective January 1, 1998, the Board established a trust and a trust fund covering the Plan's assets, pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. Under the terms of the trust, the corpus or income of the trust fund may be used only for the exclusive benefit of the Plan's participants and their beneficiaries. Prior to the establishment of the trust, the Plan's assets were subject to the claims of general creditors of the State of Oklahoma. 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, 2019 and 2018. ODOC believes that it has no liabilities with respect to the Plan.

**Deferred Savings Incentive Plan**

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

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

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

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

See Independent Auditors' Report.

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

**Defined Contribution Plan**

Pathfinder is a mandatory defined 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.

See Independent Auditors' Report.



## STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### **(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 operation. Since the responsibilities of NACEA were transferred to the Office of Management and Enterprise Services (OMES) at July 1, 2018, ODOC did not receive any state appropriations earmarked for NACEA for the year ended June 30, 2019. ODOC received state appropriations earmarked for NACEA of approximately \$5,972,000 for the year ended June 30, 2018. For the years ended June 30, 2019 and 2018, NACEA's expenditures, as administered by ODOC, were approximately \$234,000 and \$6,923,000, 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 of Oklahoma 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 of Oklahoma.

Under the agreement, all unimproved property will transfer to the City of Oklahoma City for the purpose of commercial redevelopment, and an AICCM Completion Revolving Fund was 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.

On August 29, 2017, the State of Oklahoma signed a Memorandum of Understanding with the American Indian Cultural Center Foundation, the City of Oklahoma City, and AICCM Land Development, LLC, a wholly owned subsidiary of the Chickasaw Nation, which details the participation of each party in reviewing construction plans and agreements for the completion of the AICCM. In addition, City of Oklahoma City staff and members of the Chickasaw Nation have been working together to reach an agreement that will allow for the sale and purchase of undeveloped real property surrounding the AICCM and for operation of the AICCM after construction.

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 of Oklahoma City and the State of Oklahoma 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.

At July 1, 2018, the responsibilities of NACEA transferred to OMES, including all future liabilities and fund balances.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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**(14) TAX ABATEMENTS**

While ODOC does not have tax assessment authority, it does perform certain administrative procedures for the following tax abatement programs:

- **Oklahoma Quality Jobs Program**—was established by the Legislature (68 O.S. § 3601) to provide an incentive for companies to expand or relocate jobs to Oklahoma. Companies meeting certain statutory requirements can receive a rebate up to 5% of new taxable payroll for up to 10 years. The requirements include creating jobs within a qualifying industry as noted by the North American Industry Classification System (NAICS) description; paying wages on the newly created jobs equal to the average county wage or state threshold wage, whichever is lower; achieving \$2,500,000 in new annual taxable payroll within 3 years; and offering basic health insurance to employees within 180 days of employment. Companies can receive up to a 6% rebate if at least 10% of new payroll is comprised of qualified military veterans.

Under certain circumstances, some program requirements may be amended or waived.

A company that participates in the Oklahoma Quality Jobs Program but fails to maintain a business presence in the state of Oklahoma within 3 years of start date must repay all program benefits that they received and may not re-apply for the program for 1 year following dismissal.

- **Small Employer Quality Jobs Program**—was established by the Legislature (68 O.S. § 3901) to provide appropriate incentives to support the creation of quality jobs, particularly for small businesses, in basic industries in the state of Oklahoma. Companies applying for the Small Employer Quality Jobs Program must have 90 employees or less at the time of application to the program. Rebates under the program are received for up to 7 years. Program requirements include creating a minimum number of new jobs based on the population of the community where the company is located; having 35% out-of-state sales for the first two years and subsequently 60% out-of-state sales; paying the newly created jobs at 110% of the average county wage; and offering basic health insurance within 180 days of employment (the employee must not pay more than 50% of the premium).

Benefits are not payable until the company has attained both the minimum number of new jobs and the required average wage.

The Oklahoma Quality Jobs Act and the Oklahoma Small Employer Quality Jobs Act offer specific benefits for companies locating in certain economically distressed geographic areas.

For the Oklahoma Quality Jobs Program, companies locating in “Automatic 5% Counties” may qualify for a 5% net benefit rate. Within “Opportunity Zones,” in addition to a 5% net benefit rate, average wage requirements may be waived in the Oklahoma Quality Jobs Program. Other thresholds will still need to be met in order for a company to qualify for the Oklahoma Quality Jobs Program.

See Independent Auditors’ Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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**(14) TAX ABATEMENTS, CONTINUED**

- **21<sup>st</sup> Century Quality Jobs Program**—was established by the Legislature (68 O.S. § 3911) to provide appropriate incentives to attract growth industries and sectors to Oklahoma in the 21<sup>st</sup> century through a policy of rewarding businesses with a highly skilled, knowledge-based workforce. The program allows a net benefit rate of up to 10% of payroll for up to 10 years and requires at least 10 full-time jobs at an annual average wage of the lesser of \$95,243 (the state wage, which is indexed every year) or 300% of the county's average wage. Out-of-state sales for the company must be at least 50% for most participants. The program targets industries such as knowledge-based industries, including professional, scientific, and technical services; music, film, and performing arts; and specialty hospitals.

ODOC does not grant rebates, but assists the Oklahoma Tax Commission with certain administrative functions for the programs. Further details as to the actual amounts of tax abatements and companies involved can be obtained from the June 30, 2019, financial statements of the State of Oklahoma.

**(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 (CDBG-DR) 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 CDBG-DR program and will work with the OIG and HUD to resolve the matters noted in the report. HUD subsequently performed a monitoring visit during FY-2017 as required by the program and to better evaluate the OIG finding. The monitoring report, which was issued April 13, 2017, contained eight findings. HUD performed a second monitoring visit in May 2018. Six of the eight original findings were closed; however, the monitoring resulted in five new findings. ODOC prepared a response to the findings in October 2018. Following ODOC's response, one finding was closed. The remaining four findings remain open pending HUD's review, which will take place in September 2019.

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.

See Independent Auditors' Report.

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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**(15) COMMITMENTS AND CONTINGENT LIABILITIES, CONTINUED**

**Leasing Agreements**

ODOC leases space and various items of equipment under annual renewable operating leases. As of June 30, 2019 and 2018, 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, 2019, there was no litigation outstanding.

See Independent Auditors' Report.

**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, 2019*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Revenues:				
State appropriations	\$ 29,518,833	37,179,233	34,518,833	(2,660,400)
Federal grant revenues and program income	48,404,340	49,204,340	33,107,876	(16,096,464)
Other	<u>345,831</u>	<u>369,831</u>	<u>1,159,536</u>	<u>789,705</u>
Total revenues	<u>78,269,004</u>	<u>86,753,404</u>	<u>68,786,245</u>	<u>(17,967,159)</u>
Expenditures:				
Subgrantee expenditures	60,899,175	61,555,838	48,595,697	12,960,141
Salaries, wages, and benefits	8,757,820	9,528,550	8,203,486	1,325,064
Contractual and professional	1,414,069	1,755,469	2,641,925	(886,456)
Travel	621,878	665,096	523,192	141,904
Capitol dome leases and space and equipment rental	637,692	637,692	471,739	165,953
Equipment	12,500	12,500	20,061	(7,561)
Maintenance	226,006	226,006	168,399	57,607
Miscellaneous administrative expenses	<u>5,778,910</u>	<u>12,666,968</u>	<u>1,325,036</u>	<u>11,341,932</u>
Total expenditures	<u>78,348,050</u>	<u>87,048,119</u>	<u>61,949,535</u>	<u>25,098,584</u>
Revenues less than expenditures	<u>\$ (79,046)</u>	<u>(294,715)</u>	<u>6,836,710</u>	<u>(7,131,425)</u>

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, 2018*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Revenues:				
State appropriations	\$ 24,037,931	30,331,223	30,061,882	(269,341)
Federal grant revenues and program income	63,160,364	63,160,364	43,885,239	(19,275,125)
Other	468,254	628,783	5,186,693	4,557,910
Total revenues	<u>87,666,549</u>	<u>94,120,370</u>	<u>79,133,814</u>	<u>(14,986,556)</u>
Expenditures:				
Subgrantee expenditures	75,971,300	76,198,629	58,471,763	17,726,866
Salaries, wages, and benefits	8,032,566	7,046,313	8,163,278	(1,116,965)
Contractual and professional	1,798,269	2,164,664	4,649,708	(2,485,044)
Travel	654,012	750,497	395,360	355,137
Capitol dome leases and space and equipment rental	648,532	6,117,139	5,366,421	750,718
Equipment	16,000	206,938	25,019	181,919
Maintenance	188,621	343,979	225,462	118,517
Miscellaneous administrative expenses	3,515,458	16,511,652	2,196,085	14,315,567
Total expenditures	<u>90,824,758</u>	<u>109,339,811</u>	<u>79,493,096</u>	<u>29,846,715</u>
Revenues less than expenditures	<u>\$ (3,158,209)</u>	<u>(15,219,441)</u>	<u>(359,282)</u>	<u>(14,860,159)</u>

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, 2019*

	<u>Actual per Audit Report</u>	<u>Adjustment to Budgetary Basis</u>	<u>Actual on Budgetary Basis</u>
Revenues:			
State appropriations	\$ 34,518,833	-	34,518,833
Federal grant revenues	32,340,315	767,561	33,107,876
Other	<u>3,886,937</u>	<u>(2,727,401)</u>	<u>1,159,536</u>
Total revenues	<u>70,746,085</u>	<u>(1,959,840)</u>	<u>68,786,245</u>
Expenditures:			
Subgrantee expenditures	48,595,697	-	48,595,697
Salaries, wages, and benefits	8,203,486	-	8,203,486
Contractual and professional	2,641,925	-	2,641,925
Travel	523,192	-	523,192
Debt service on capitol dome leases and space and equipment rental	471,739	-	471,739
Equipment	20,061	-	20,061
Maintenance	151,003	17,396	168,399
Miscellaneous administrative expenses	<u>18,793,563</u>	<u>(17,468,527)</u>	<u>1,325,036</u>
Total expenditures	<u>79,400,666</u>	<u>(17,451,131)</u>	<u>61,949,535</u>
Revenues (less than) in excess of expenditures	<u>\$ (8,654,581)</u>	<u>15,491,291</u>	<u>6,836,710</u>

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, 2018*

	<u>Actual per Audit Report</u>	<u>Adjustment to Budgetary Basis</u>	<u>Actual on Budgetary Basis</u>
Revenues:			
State appropriations	\$ 30,061,882	-	30,061,882
Federal grant revenues	42,750,093	1,135,146	43,885,239
Other	8,431,949	(3,245,256)	5,186,693
Total revenues	<u>81,243,924</u>	<u>(2,110,110)</u>	<u>79,133,814</u>
Expenditures:			
Subgrantee expenditures	58,471,763	-	58,471,763
Salaries, wages, and benefits	7,961,125	202,153	8,163,278
Contractual and professional	3,666,587	983,121	4,649,708
Travel	395,386	(26)	395,360
Debt service on capitol dome leases and space and equipment rental	487,575	4,878,846	5,366,421
Equipment	25,019	-	25,019
Maintenance	221,414	4,048	225,462
Miscellaneous administrative expenses	10,376,133	(8,180,048)	2,196,085
Total expenditures	<u>81,605,002</u>	<u>(2,111,906)</u>	<u>79,493,096</u>
Revenues (less than) in excess of expenditures	<u>\$ (361,078)</u>	<u>1,796</u>	<u>(359,282)</u>

See Independent Auditors' Report.

See accompanying notes to required supplementary information.

## STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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*Years Ended June 30, 2019 and 2018*

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- 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 2019 and 2018 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 2018 amounts transferred to 2019 and rebudgeted approximated \$2,660,000. Unexpended 2017 amounts transferred to 2018 and rebudgeted approximated \$2,615,000.
- 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  
STATEMENTS NO. 68 AND NO. 75**

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE****SCHEDULE OF ODOC'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY****Oklahoma Public Employees Retirement System****Last 5 Fiscal Years<sup>(1)</sup>**

	<u>2019</u>	<u>2018</u>	<u>2017<sup>(2)</sup></u>	<u>2016<sup>(2)</sup></u>	<u>2015<sup>(2)</sup></u>
ODOC's proportion of the net pension liability	0.31282374%	0.31654233%	0.29806652%	0.34115499%	0.40678366%
ODOC's proportionate share of the net pension liability	\$ 610,141	1,711,428	2,957,508	1,227,080	783,224
ODOC's covered payroll	\$ 4,659,218	4,758,673	5,008,509	5,894,624	6,965,782
ODOC's proportionate share of the net pension liability as a percentage of its covered payroll	13.10%	35.96%	59.05%	20.82%	11.24%
OPERS' fiduciary net position as a percentage of the total pension liability	97.96%	94.28%	89.48%	96.00%	97.90%

<sup>(1)</sup> The amounts presented for each fiscal year were determined as of June 30 of the prior year.

<sup>(2)</sup> The amounts presented were net of NACEA.

Only the last 5 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE****SCHEDULE OF ODOC'S CONTRIBUTIONS  
Oklahoma Public Employees Retirement System****Last 7 Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>	<u>2013*</u>
Contractually required contribution	\$ 688,896	710,531	785,181	826,404	972,613	1,149,354	1,160,264
Contributions in relation to the contractually required contributions	<u>688,896</u>	<u>710,531</u>	<u>785,181</u>	<u>826,404</u>	<u>972,613</u>	<u>1,149,354</u>	<u>1,160,264</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
ODOC's covered payroll	\$4,517,351	4,659,218	4,758,673	5,008,509	5,894,624	6,965,782	7,031,903
Contributions as a percentage of covered payroll	15.25%	15.25%	16.50%	16.50%	16.50%	16.50%	16.50%

\* The amounts presented were net of NACEA.

Only the last 7 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE****SCHEDULE OF ODOC'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY****Oklahoma Public Employees Health Insurance Subsidy Plan****Last 2 Fiscal Years\***

	<u>2019</u>	<u>2018</u>
ODOC's proportion of the net OPEB (asset) liability	0.31282374%	0.31654233%
ODOC's proportionate share of the net OPEB (asset) liability	\$ (40,482)	36,257
ODOC's covered payroll	4,659,218	4,758,673
ODOC's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	(0.87)%	0.76%
OPERS' fiduciary net position as a percentage of the total OPEB liability	103.94%	96.50%

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

Only the last 2 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE****SCHEDULE OF ODOC'S CONTRIBUTIONS****Oklahoma Public Employees Health Insurance Subsidy Plan****Last 2 Fiscal Years**

	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 57,988	58,353
Contributions in relation to the contractually required contributions	<u>57,988</u>	<u>58,353</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
ODOC's covered payroll	\$ 4,639,040	4,659,218
Contributions as a percentage of covered payroll	1.25%	1.25%

Only the last 2 fiscal years is presented because 10-year data is not readily available.

See Independent Auditors' Report.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE****SCHEDULE OF ODOC'S CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
Implicit Rate Subsidy of Health Insurance OPEB Liability****Last 2 Fiscal Years**

	<u>2019</u>	<u>2018</u>
Total OPEB liability:		
Service cost	\$ 13,313	15,271
Interest	13,613	11,602
Actual experience	(5,334)	-
Changes in assumptions	(1,384)	(19,101)
Benefits paid	<u>(28,239)</u>	<u>(32,777)</u>
Net change in total OPEB liability	(8,031)	(25,005)
 Total OPEB liability—beginning	 <u>383,072</u>	 <u>408,077</u>
Total OPEB liability—ending	<u>\$ 375,041</u>	<u>383,072</u>
 Covered-employee payroll	 \$ 4,659,218	 4,758,683
 Total OPEB liability as a percentage of covered-employee payroll	 8.05%	 8.05%

Only the last 2 fiscal years are presented because 10-year data is not readily available.

The discount rate used for 2019 is 3.87% and the discount rate used for 2018 was 3.58%.

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, 2019*

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number/ Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>DEPARTMENT OF ENERGY PROGRAMS— PASSED THROUGH STATE OF OKLAHOMA GOVERNOR'S OFFICE</b>				
State Energy Program	81.041			
FY 18		DE-EE0007488	\$ 762,798	1,029,847
FY 17		DE-EE0007488	(568)	(568)
			<u>762,230</u>	<u>1,029,279</u>
Weatherization	81.042*			
FY 19		DE-EE0007944	41,561	133,807
FY 18		DE-EE0007944	2,527,034	2,701,592
FY 17		DE-EE0007944	(9,818)	(9,818)
			<u>2,558,777</u>	<u>2,825,581</u>
<b>Total Department of Energy Programs</b>			<u>3,321,007</u>	<u>3,854,860</u>

(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, 2019*

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number/ Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS</b>				
Community Development Block Grants— State-Administered Small Cities Program Cluster	14.228*			
FY 19		B-19-DC-40-0001	-	45,778
FY 18		B-18-DC-40-0001	1,987,163	2,504,711
FY 17		B-17-DC-40-0001	4,955,873	4,961,215
FY 16		B-16-DC-40-0001	1,649,741	1,655,830
FY 15		B-15-DC-40-0001	770,499	771,220
FY 14		B-14-DC-40-0001	412,583	412,583
FY 13		B-13-DC-40-0001	101,357	101,564
FY 12		B-12-DC-40-0001	1,101,895	1,077,592
FY 11		B-11-DC-40-0001	115,621	115,621
FY 10		B-10-DC-40-0001	212,711	212,711
FY 09		B-09-DC-40-0001	39,000	39,000
FY 07		B-07-DC-40-0001	79,289	79,289
FY 01		B-01-DC-40-0001	2,000	2,000
CDBG—ED		N/A	792,877	793,287
CDBG—CD		N/A	873,081	873,081
CDBG—Disaster Recovery	14.269*	B-13-DS-40-0001	6,371,759	6,763,197
			<u>19,465,449</u>	<u>20,408,679</u>

(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, 2019*

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant Number/ Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS, CONTINUED</b>				
Emergency Solutions Grant Program	14.231*			
FY 19		E-19-DC-40-0001	-	4,646
FY 18		E-18-DC-40-0001	1,191,648	1,247,540
FY 17		E-17-DC-40-0001	514,948	515,134
FY 16		E-16-DC-40-0001	(607)	(607)
			<u>1,705,989</u>	<u>1,766,713</u>
<b>Total Department of Housing and Urban Development Programs</b>			<u>21,171,438</u>	<u>22,175,392</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS</b>				
Community Services Block Grant	93.569*			
FY 19		G19B1OKCOSR	1,723,920	1,958,925
FY 18		G18B1OKCOSR	5,256,807	5,488,520
FY 17		G17B1OKCOSR	876,374	889,270
FY 12		G12B1OKCOSR	-	919
FY 11		G11B1OKCOSR	-	4,519
FY 10		G10B1OKCOSR	-	(5,437)
			<u>7,857,101</u>	<u>8,336,716</u>
Head Start	93.600			
FY 19		06CD4019-04-00	55,658	55,658
FY 18		06CD4019-03-00	101,153	101,153
			<u>156,811</u>	<u>156,811</u>

See Independent Auditors' Report.

See accompanying notes to schedule of expenditures of federal awards.

(Continued)

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED**

*Year Ended June 30, 2019*

<b><u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Grant Number/ Pass-Through Entity Identifying Number</u></b>	<b><u>Passed Through to Subrecipients</u></b>	<b><u>Total Federal Expenditures</u></b>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS— PASSED THROUGH OKLAHOMA DEPARTMENT OF HUMAN SERVICES</b>				
LIHEAP	93.568*			
FY 18		FFY18 Weatherization	964,154	1,009,154
FY 17		FFY17 Weatherization	344,335	344,335
			<u>1,308,489</u>	<u>1,353,489</u>
<b>Total Department of Health and Human Services Programs</b>			<u>9,322,401</u>	<u>9,847,016</u>
<b>DEPARTMENT OF COMMERCE</b>				
Economic Development Administration Grant	11.307	08-79-04989	<u>-</u>	<u>31,606</u>
<b>TOTAL</b>			<u>\$ 33,814,846</u>	<u>35,908,874</u>

\*A major program as determined by the auditors.

See Independent Auditors' Report.

See accompanying notes to schedule of expenditures of federal awards.

# STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

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### (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, 2019. 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) **RECONCILIATION OF REVENUES TO EXPENDITURES OF FEDERAL AWARDS**

The following reconciliation reports the revenues utilized for the expenditures shown on the schedule of expenditures of federal awards as of June 30, 2019:

Federal grant revenues	\$ 32,340,315
Program income	767,561
Interest	349,881
Other	<u>2,451,117</u>
Expenditures of federal awards	<u>\$ 35,908,874</u>

See Independent Auditors' Report.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED**

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**(4) EXPENDITURES AND SUBGRANTEES**

For the year ended June 30, 2019, subgrantees of ODOC expended \$33,814,846, or 94.17%, of federal expenditures.

The schedule of expenditures of federal awards totals \$35,908,874. The amount of federal expenditures used to determine major programs was \$35,908,874.

**(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, 2019, was 46.47%.

See Independent Auditors' Report.



**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, 2019, and the related notes to the financial statements, which collectively comprise ODOC's basic financial statements, and have issued our report thereon dated October 21, 2019. Our report includes an explanatory paragraph to emphasize the fact that the financial statements include only that portion of the State of Oklahoma that is attributable to transactions of ODOC. Our report includes a paragraph to disclose results from a recent report from the Office of Inspector General of the U.S. Department of Housing and Urban Development. In addition, our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

**Internal Control Over Financial Reporting**

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

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

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

(Continued)



**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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
October 21, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY 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, 2019. 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 for 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, 2019.

(Continued)

**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 a 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 21, 2019

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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*Year Ended June 30, 2019*

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**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 2 CFR Section 200.561(a)?

☐ Yes ☒ No

STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2019

SECTION I—SUMMARY OF AUDITORS' RESULTS, CONTINUED

Federal Awards, Continued

Identification of major federal programs:

<b>Federal CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
<b>81.042</b>	<i>Department of Energy</i> <b>Weatherization</b>
<b>14.228</b>	<i>Department of Housing and Urban Development</i> <b>CDBG Cluster:</b> <b>Community Development Block Grants</b>
<b>14.269</b>	<b>Community Development Block Grant</b> <b>Disaster Recovery</b>
<b>14.231</b>	<b>Emergency Solutions Grant Program</b>
<b>93.569</b>	<i>Department of Health and Human Services</i> <b>Community Services Block Grant</b>
<b>93.568</b>	<b>Low-Income Home Energy Assistance Program</b>

Dollar threshold used to distinguish between type A and type B programs: **\$1,068,624**

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED**

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*Year Ended June 30, 2019*

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**SECTION II—FINANCIAL STATEMENT FINDINGS**

None noted.

**SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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*Year Ended June 30, 2019*

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There were no findings or questioned costs noted in the June 30, 2018, audit report.