# State of Oklahoma
# Department of Commerce

*Financial Statements*

June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2020 and 2019, 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)



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## *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, 2020 and 2019, 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, 2020 and 2019, 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-10, the budgetary comparison information on pages 61 through 65 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 66 through 70 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, 2020, 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 30, 2020, 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 30, 2020

# 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, 2020 and 2019. It should be read in conjunction with the financial statements which begin on page 4.

## Discussion of the Basic Financial Statements

The 2020 and 2019 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, 2020 and 2019.

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, 2020 and 2019.

*Fund Financial Statements:*

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

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

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

## Condensed Financial Information

*Government-Wide Financial Statements*

### Statements of Net Position

| | June 30, 2020 | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 63,504,988 | 38,162,787 | 48,696,992 |
| Noncurrent assets | 9,444,482 | 10,310,345 | 11,073,300 |
| Total assets | 72,949,470 | 48,473,132 | 59,770,292 |
| Deferred outflows of resources related to the pension and OPEB | 852,834 | 1,133,816 | 1,721,280 |
| **Liabilities** | | | |
| Current liabilities | 8,731,857 | 5,143,209 | 6,899,976 |
| Noncurrent liabilities | 1,078,214 | 1,468,021 | 3,146,806 |
| Total liabilities | 9,810,071 | 6,611,230 | 10,046,782 |
| Deferred inflows of resources: | | | |
| OCIA lease restructure | - | 24,571 | 49,143 |
| Pension plan and OPEB liabilities | 382,560 | 561,572 | 453,344 |
| Total deferred inflows of resources | 382,560 | 586,143 | 502,487 |
| Net position | $ 63,609,673 | 42,409,575 | 50,942,303 |

Current assets primarily consist of cash and receivables from grantors. In addition, as of June 30, 2020 and 2019, there was approximately $7,538,000 and $1,397,000, 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 $853,000 and $1,134,000 as of June 30, 2020 and 2019, respectively. Current liabilities were primarily composed of accounts payable and the current portion of capital lease obligations of $412,000 and $402,000 at June 30, 2020 and 2019, respectively, and the current portion of compensated absences of approximately $369,000 and $446,000 at June 30, 2020 and 2019, respectively. There were deferred inflows of approximately $383,000 and $586,000 as of June 30, 2020 and 2019, respectively. Noncurrent liabilities consisted of lease obligations, net of the current portion, of $0 and $412,000 at June 30, 2020 and 2019, respectively, and accrued compensated absences, less the current portion, of approximately $391,000 and $111,000 at June 30, 2020 and 2019, respectively. Noncurrent liabilities also included the net pension liability and net OPEB liability.

## Condensed Financial Information, Continued

*Government-Wide Financial Statements, Continued*

Net position was composed of the net investment in capital assets of approximately $3,790,000 and $3,517,000 at June 30, 2020 and 2019, respectively. Restricted net position totaled approximately $52,859,000 and $32,637,000 at June 30, 2020 and 2019, respectively, representing the net position of the federal programs administered by ODOC; approximately $22,615,000 and $9,328,000 restricted for the Oklahoma Quick Action Closing Fund at June 30, 2020 and 2019, respectively; and approximately $216,000 restricted for the Aerospace Commerce Economic Services (ACES) program at June 30, 2019. Unrestricted net position was approximately $6,960,000 and $6,256,000 at June 30, 2020 and 2019, 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, 2020 and 2019, approximately $45,005,000 and $34,519,000, respectively, was transferred to ODOC from State of Oklahoma appropriated revenues. Grant programs as of June 30, 2020 and 2019, accounted for approximately $32,152,000 and $38,631,000, respectively, of expenses and approximately $38,905,000 and $35,041,000, respectively, of revenues.

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

At June 30, 2020 and 2019, the statements of net position reflect assets in excess of liabilities of approximately $63,610,000 and $42,409,000, respectively; approximately $30,244,000 and $23,093,000, respectively, of net position was restricted for grant operations. For the years ended June 30, 2020 and 2019, the statements of activities reflect a change in net position of approximately $21,200,000 and $(8,533,000), respectively.

*Analysis of Balances and Transactions of Individual Funds*

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

## Condensed Financial Information, Continued

*Fund Financial Statements*

### Balance Sheets

| | June 30, 2020 | 2019 | 2018 |
|---|---|---|---|
| Cash, including short-term investments | $ 51,462,265 | 34,347,611 | 40,797,019 |
| Subgrantee advances | 7,537,691 | 1,397,046 | 4,652,418 |
| Grants receivable | 4,372,897 | 2,322,672 | 3,186,883 |
| Accounts receivable | 132,135 | 95,458 | 60,672 |
| Total assets | $ 63,504,988 | 38,162,787 | 48,696,992 |
| Accounts payable | $ 7,951,078 | 4,295,050 | 6,174,674 |
| Fund balances | 55,553,910 | 33,867,737 | 42,522,318 |
| Total liabilities and fund balances | $ 63,504,988 | 38,162,787 | 48,696,992 |

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

| | Year Ended June 30, 2020 | 2019 | 2018 |
|---|---|---|---|
| Revenues and other sources: | | | |
| State appropriations | $ 45,005,295 | 34,518,833 | 30,061,882 |
| Federal grant revenues | 35,824,695 | 32,340,315 | 42,750,093 |
| In-kind revenues (match) | 2,491,635 | 2,488,969 | 2,631,779 |
| Other | 2,352,266 | 1,397,968 | 5,800,170 |
| Total revenues and other sources | 85,673,891 | 70,746,085 | 81,243,924 |
| Expenditures: | | | |
| Subgrantee expenditures | 44,080,100 | 48,595,697 | 58,471,763 |
| Salaries, wages, and benefits | 9,656,540 | 8,203,486 | 7,961,125 |
| In-kind expenditures (match) | 2,491,635 | 2,488,969 | 2,631,779 |
| Other | 7,759,443 | 20,112,514 | 12,540,335 |
| Total expenditures | 63,987,718 | 79,400,666 | 81,605,002 |
| Net (decrease) increase in fund balance | $ 21,686,173 | (8,654,581) | (361,078) |

## Condensed Financial Information, Continued

*Fund Financial Statements, Continued*

Grants receivable represents amounts due from federal grants for expenditures made as of June 30, 2020 and 2019. Cash includes federal grant monies held at June 30, 2020 and 2019, of $17,385,997 and $15,716,703, respectively. The fund balance at June 30, 2020 and 2019, included $24,923,688 and $17,113,749, respectively, reserved for the grant programs administered by ODOC and $22,614,922 and $9,327,868, 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, 2020 and 2019, it was anticipated that ODOC would receive approximately $51,484,000 and $49,204,000, respectively, in grant revenues and expend approximately $66,000,000 and $61,556,000, respectively, in subgrantee expenditures. For the years ended June 30, 2020 and 2019, grant revenue was overestimated by approximately $14,413,000 and $16,096,000, respectively, while subgrantee expenditures were overestimated by approximately $21,920,000 and $12,960,000, respectively. The variance for the years ended June 30, 2020 and 2019, was due to an overestimate of anticipated Workforce, Community Development Block Grant Disaster Recovery (CDBGDR), and CARES Act expenditures, unanticipated partnerships for the ACES program, and budgeted state pass-through being coded in the budget as pass-through instead of contractual expenditures. The Workforce programs were transferred from Oklahoma State University-Oklahoma City to Commerce effective December 31, 2019; however, ODOC did not gain access to the funding until April 2020. ODOC was notified of a new CDBGDR award during FY-2020. As of June 30, 2020, the grant was still in the process of being approved by HUD. Other large variances in the budget were contractual and professional expenditures, for which actual expenditures were approximately $1,513,000 and $886,000 more than budgeted for the years ended June 30, 2020 and 2019, respectively; salaries, wages, and benefits, for which actual expenditures were approximately $2,662,000 and $1,325,000 less than budgeted for the years ended June 30, 2020 and 2019, respectively; and miscellaneous administrative expenses, for which actual expenditures were approximately $12,571,000 and $11,342,000 less than budgeted for the years ended June 30, 2020 and 2019, respectively. The majority of the variance in contractual and professional expenditures for the year ended June 30, 2020, was in large part due to the increase in marketing expenditures for the 2020 Census and an incorrect budgeted account code for the Oklahoma Strategic Military Planning Commission. The salaries, wages, and benefits variance was due to FY-2019 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 years ended June 30, 2020, and 2019, was due to budgeting $14,000,000 in the Quick Action Closing fund and only expending $881,075 in FY-2020 and budgeting $9,925,049 and only expending $1,000,000 in FY-2019. Both variances were due to slower than anticipated execution of contracts.

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

As of June 30, 2020 and 2019, long-term debt of ODOC consisted of capital lease obligations and compensated absences. At June 30, 2020 and 2019, the principal amount of the capital lease obligations was $412,000 and $814,000, respectively. During the years ended June 30, 2020 and 2019, principal payments of $402,000 and $388,000, respectively, were made on the debt.

Compensated absences totaled $759,531 and $557,480 at June 30, 2020 and 2019, respectively. The allocation of the portion considered long-term is as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Total compensated absences | $ 759,351 | 557,480 | 539,351 |
| Portion considered short-term | (368,779) | (446,159) | (337,302) |
| Long-term portion | $ 390,572 | 111,321 | 202,049 |

During the years ended June 30, 2020 and 2019, ODOC recorded approximately $207,000 of depreciation for each year. There were no capital asset additions for the year ended June 30, 2020 or 2019. 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 27, 2020, OMES approved ODOC's budget for the fiscal year July 1, 2020, to June 30, 2021. Overall, the total budgeted operating expenditures increased $187,037,630 for FY-2021 and increased $2,037,285 for FY-2020. The change in anticipated expenditures, reflected by funding source, is as follows:

| Funding Source | 2021 Budget Compared to 2020 | 2020 Budget Compared to 2019 | 2019 Budget Compared to 2018 |
|---|---|---|---|
| State-appropriated (including appropriation budgeted in revolving funds and Special Cash and REAP funds) | $ 1,206,700 | 10,206,102 | (429,177) |
| Revolving funds (excluding appropriation budgeted in revolving funds) | 1,358,494 | (193,321) | (12,100,006) |
| Federal and other | 184,472,436 | (7,975,496) | (16,155,366) |
| Total budget change | $ 187,037,630 | 2,037,285 | (28,684,549) |

**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 $49,638,306 in state-appropriated funding for FY-2021, compared to $48,431,606 in FY-2020. The $1,206,700 increase in the "state-appropriated" category for the year ending June 30, 2021, is due primarily to the following:

- The current budgeted appropriations for operating costs, increased by $212,351 in FY-2021—from $17,527,329 in FY-2020 to $17,739,680 in FY-2021. The actual appropriation for FY-2021 was decreased compared to FY-2020 but the reduction of the appropriation in FY-2020 is due to moving carryover which creates an increase in FY-2021.

- Carryover of appropriated funds decreased by $3,426,311 in FY-2021—from $3,777,460 in FY-2020 to $351,149 in FY-2021. The second carryover revision has not been completed yet and is estimated to be close to the FY-2020 carryover amount.

- The Rural Economic Action Plan (REAP) Fund increased by $6,663 in FY-2021 from $13,126,817 in FY-2020 to $13,133,480 in FY-2021. There is an existing cash amount of $6,663 due to a returned FY-2018 revenue failure that was not expended in the last two years that is budgeted in FY-2021.

- The Quick Action Closing Fund increased by $4,413,997 in FY-2021—from $14,000,000 in FY-2020 to $18,413,997 in FY-2021. No new appropriation was received in FY-2021 but existing cash has been budgeted. The existing cash in this fund is due to slower than anticipated execution of contracts.

ODOC is anticipating $2,253,273 in revolving fund operating expenditures for FY-2021, compared to $894,779 for FY-2020. The $1,358,494 increase in the "Revolving Funds" category for the year ending June 30, 2021, is due primarily to the following:

- The ODOC Non-Appropriated Fund increased by $225,164 in FY-2021—from $342,787 in FY-2020 to $567,951 in FY-2021. The agency received a State Trade and Export Program (STEP) grant and expenditures are expected to increase in FY-2021.

- The Workforce Work-based Learning Revolving Fund decreased by $22,853 in FY-2021—from $239,133 in FY-2020 to $216,280 in FY-2021. Workforce Development was moved to Commerce at the end of December 2019.

- The Indirect Cost Fund increased by $1,156,183 in FY-2021—from $310,902 in FY-2020 to $1,467,085 in FY-2021. In FY-2021 the majority of salaries for Financial Services and Operational Logistics are budgeted in indirect and also there is an increase in the FY-2021 IT MSA.

## 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 $233,847,738 in federally funded operating expenditures for FY-2021, compared to $49,375,302 in FY-2020. The $184,472,436 increase in the "Federal and Other" category for the year ending June 30, 2021, is due primarily to the following:

- The federal pass-through and other budget including payroll increased by $184,472,436 in FY-2021—from $49,375,302 in FY-2020 to $233,847,738 in FY-2021. The increase in federal funds is due to an increase in anticipated expenditures for the CARES Act funds and the Oklahoma Business Relief Program.

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. Three findings resulting from the 2018 monitoring visit were closed; however, the monitoring resulted in three new findings and five concerns. ODOC prepared a response to the finding in August 2020. Following ODOC's response, one finding was closed.

**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**

In December 2019, the Oklahoma Office of Workforce Development (OOWD) transitioned 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 was December 31, 2019. At that date, all OOWD employees transitioned to ODOC. Transfer of all current DOL grants administered by OOWD was delayed until April 2020. The total balance of funds transferred to ODOC was approximately $30,343,000.

During FY-2020, HUD issued a Federal Register notice announcing the allocation of $36,353,000 in CDBGDR funds to address unmet disaster recovery needs resulting primarily from floods. No less than $29,082,000 must be allocated to Muskogee, Tulsa, and Sequoyah Counties. At this time, ODOC is working with HUD on the required action plan for these funds. The official award is expected in FY-2021.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act provided assistance through several means including the Coronavirus Relief Fund (CRF) and allocations to the CDBG, CSBG, and ESG programs.

The Oklahoma CRF was awarded to OMES for distribution to state agencies, counties, and local municipalities. The CARES Act requires that the funds be used to cover expenses that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19), were not accounted for in the budget most recently approved as of March 27, 2020, and were incurred during the period that began March 1, 2020, and ends on December 30, 2020. As of June 30, 2020, ODOC had incurred approximately $345,000 in CRF eligible expenditures and was reimbursed by OMES subsequent to year end.

The CARES Act formula grant allocations were as follows:

- CDBGCR: $29,977,900
    - At least 70 percent must be expended for activities that benefit low-and moderate persons by providing housing, a permanent job, a public service, or access to new or significantly improved infrastructure. Funds were allocated to grantees based on various factors including the regular CDBG formula and the local impact of COVID-19 on communities. An action plan has been submitted to HUD for review and ODOC anticipates receipt of the CDBGCR award during FY-2021.

- CSBGCR: $11,685,346
    - Funds are intended to address the consequences of increasing unemployment and economic disruption as a result of COVID-19. The funds were awarded in May 2020 and must be expended by September 30, 2022.

(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**

- ESGCR: $17,978,443
  - Funds are to be used to prevent, prepare for, and respond to the COVID-19 pandemic among individuals and families who are homeless or receiving homeless assistance and to support additional homeless assistance and homelessness prevention activities to mitigate the impacts of COVID-19. Funds were allocated to grantees based on various factors including the regular ESG formula and the local impact of COVID-19 on communities. An initial award of $5,743,528 was received in June 2020. The remaining award of $12,234,915 was received in September 2020. All funds must be expended by September 22, 2022.

In April 2020, the Governor and ODOC announced the Oklahoma Manufacturing Reboot Program (OMRP) to address the negative effects of the COVID-19 pandemic on Oklahoma businesses. The awards ranged from $25,000 to $150,000 and were paid from funds available in the Quick Action Closing Fund. These awards were eligible for reimbursement from the CRF. As of June 30, 2020, $3,933,075 had been awarded to eligible businesses. Subsequent to June 30, 2020, $1,061,075 had been reimbursed to the Quick Action Closing Fund.

Additionally, the Governor designated $145 million in CRF funds to the Oklahoma Business Relief Program (OBRP). The OBRP provided for grants up to a maximum of $25,000 to eligible business located in Oklahoma that had incurred a revenue loss of 25% or more from March–May 2020 that was substantially caused by the impact of COVID-19 compared to one of three time periods (January–December 2019, March–May 2019, or January–February 2020). Grant amounts are equal to two months of average total payroll based on either average 2019 total payroll or the average of January–February 2020 total payroll. Businesses applied for funding through participating financial institutions (PFI). These PFIs also facilitated the payment process between ODOC and the businesses. The application period began June 29, 2020. Payments to PFIs were processed from July–October 2020.

**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.

## STATEMENTS OF NET POSITION

| *June 30,* | *2020* | *2019* |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash, including short-term investments | $ 51,462,265 | 34,347,611 |
| Subgrantee advances | 7,537,691 | 1,397,046 |
| Grants receivable | 4,372,897 | 2,322,672 |
| Accounts receivable | 132,135 | 95,458 |
| Total current assets | 63,504,988 | 38,162,787 |
| Noncurrent assets: | | |
| Loans receivable | 5,320,808 | 5,979,383 |
| Capital assets: | | |
| Nondepreciable—land | 70,000 | 70,000 |
| Depreciable, net of accumulated depreciation | 4,053,674 | 4,260,962 |
| Capital assets, net | 4,123,674 | 4,330,962 |
| Total noncurrent assets | 9,444,482 | 10,310,345 |
| Total assets | 72,949,470 | 48,473,132 |
| **Deferred Outflows of Resources** | | |
| Deferred amounts related to the pension and OPEB | 852,834 | 1,133,816 |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | 7,951,078 | 4,295,050 |
| Capital lease obligations—current portion | 412,000 | 402,000 |
| Compensated absences—current portion | 368,779 | 446,159 |
| Total current liabilities | 8,731,857 | 5,143,209 |
| Noncurrent liabilities: | | |
| Capital lease obligations—less current portion | - | 412,000 |
| Compensated absences—less current portion | 390,572 | 111,321 |
| Net pension liability—amount due in more than 1 year | 424,098 | 610,141 |
| Net OPEB liability—amount due in more than 1 year | 263,544 | 334,559 |
| Total noncurrent liabilities | 1,078,214 | 1,468,021 |
| Total liabilities | 9,810,071 | 6,611,230 |
| **Deferred Inflows of Resources** | | |
| Deferred gain on OCIA lease restructure | - | 24,571 |
| Deferred amounts related to the pension and OPEB | 382,560 | 561,572 |
| Total deferred inflows of resources | 382,560 | 586,143 |

(Continued)

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

## STATEMENTS OF NET POSITION, CONTINUED

| *June 30,* | *2020* | *2019* |
|---|---|---|
| **Net Position** | | |
| Net investment in capital assets | 3,790,212 | 3,516,962 |
| Restricted—grant programs | 30,244,495 | 23,093,132 |
| Restricted—Oklahoma Quick Action Closing Fund | 22,614,922 | 9,327,868 |
| Restricted—ACES | - | 216,098 |
| Unrestricted | 6,960,044 | 6,255,515 |
| Total net position | $ 63,609,673 | 42,409,575 |

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

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**STATEMENTS OF ACTIVITIES**

*Year Ended June 30, 2020*

| | Expense | Revenue: Charges for Services | Revenue: Operating Grants and Contributions | Net (Expense) Revenue |
|---|---|---|---|---|
| Government activities: | | | | |
| General government: | | | | |
| Operations | $ (32,432,508) | 808,446 | - | (31,624,062) |
| Interest expense | (38,780) | - | - | (38,780) |
| Total general government | (32,471,288) | 808,446 | - | (31,662,842) |
| Grant programs | (32,152,375) | - | 38,904,985 | 6,752,610 |
| Total government activities | $ (64,623,663) | 808,446 | 38,904,985 | (24,910,232) |
| General revenues: | | | | |
| State appropriations | | | | 45,005,295 |
| Investment income | | | | 397,700 |
| Other | | | | 707,335 |
| Total general revenues | | | | 46,110,330 |
| Change in net position | | | | 21,200,098 |
| Net position, beginning of year | | | | 42,409,575 |
| Net position, end of year | | | | $ 63,609,673 |

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

## STATEMENTS OF ACTIVITIES, CONTINUED

*Year Ended June 30, 2019*

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

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

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**BALANCE SHEETS—GENERAL FUND**

| *June 30,* | *2020* | *2019* |
|---|---|---|
| **Assets** | | |
| Cash, including short-term investments | $ 51,462,265 | 34,347,611 |
| Subgrantee advances | 7,537,691 | 1,397,046 |
| Grants receivable | 4,372,897 | 2,322,672 |
| Accounts receivable | 132,135 | 95,458 |
| Total assets | $ 63,504,988 | 38,162,787 |
| **Liabilities and Fund Balances** | | |
| Liabilities: | | |
| Accounts payable | $ 7,951,078 | 4,295,050 |
| Total liabilities | 7,951,078 | 4,295,050 |
| Fund balances: | | |
| Restricted | 47,784,046 | 26,664,378 |
| Assigned | 1,415,547 | 732,319 |
| Unassigned | 6,354,317 | 6,471,040 |
| Total fund balances | 55,553,910 | 33,867,737 |
| Total liabilities and fund balances | $ 63,504,988 | 38,162,787 |

(Continued)

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

## BALANCE SHEETS—GENERAL FUND, CONTINUED

| *June 30,* | *2020* | *2019* |
|---|---|---|
| **Reconciliation of Fund Balances to Net Position** | | |
| Total fund balances from above | $ 55,553,910 | 33,867,737 |
| 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 $3,898,584 and $3,691,296 at June 30, 2020 and 2019, respectively. | 4,123,674 | 4,330,962 |
| Loans receivable | 5,320,808 | 5,979,383 |
| Deferred outflows related to the pension and OPEB are not financial resources and therefore are not reported in the funds. | 965,227 | 1,133,816 |
| Certain liabilities are not due and payable in the current period and therefore not reported in the fund: | | |
| Accrued compensated absences | (759,351) | (557,480) |
| Capital lease obligations | (412,000) | (814,000) |
| Net pension liability | (424,098) | (610,141) |
| Net OPEB liability | (263,544) | (334,559) |
| 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) |
| 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. | (494,953) | (561,572) |
| Net position, per the statements of net position | $ 63,609,673 | 42,409,575 |

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

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

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

| *Years Ended June 30,* | *2020* | *2019* |
|---|---|---|
| Revenues: | | |
| Federal grant revenues | $ 35,824,695 | 32,340,315 |
| Program income | 1,247,231 | 767,561 |
| Interest | 397,700 | 349,881 |
| Other | 707,335 | 280,526 |
| In-kind revenues (match) | 2,491,635 | 2,488,969 |
| Total revenues | 40,668,596 | 36,227,252 |
| Expenditures: | | |
| Subgrantee expenditures | 44,080,100 | 48,595,697 |
| Salaries, wages, and benefits | 9,656,540 | 8,203,486 |
| Professional | 711,061 | 616,088 |
| Travel | 327,949 | 523,192 |
| Debt service: | | |
| Principal | 402,000 | 399,267 |
| Interest | 38,780 | 26,350 |
| Space rental | - | 14,642 |
| Equipment rental | 59,427 | 31,480 |
| Supplies | 45,622 | 47,286 |
| Equipment | 6,360 | 20,061 |
| Maintenance | 243,698 | 151,003 |
| Telephone | 98,590 | 85,433 |
| Postage and freight | 6,907 | 9,674 |
| Advertising | 756,429 | 140,347 |
| Printing | 8,683 | 12,906 |
| Contractual | 4,370,446 | 2,025,837 |
| Funds returned to grantor | 11,021 | 15,491,291 |
| Other | 672,470 | 293,729 |
| NACEA expenditures | - | 223,928 |
| In-kind expenditures (match) | 2,491,635 | 2,488,969 |
| Total expenditures | 63,987,718 | 79,400,666 |
| Deficiency of revenues over expenditures | (23,319,122) | (43,173,414) |
| Other funding sources: | | |
| State appropriations | 45,005,295 | 34,518,833 |
| Net changes in fund balances | 21,686,173 | (8,654,581) |
| Beginning fund balances | 33,867,737 | 42,522,318 |
| Ending fund balances | $ 55,553,910 | 33,867,737 |

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

## STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

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

| *Years Ended June 30,* | *2020* | *2019* |
|---|---|---|
| Net changes in fund balances—General Fund | $ 21,686,173 | (8,654,581) |
| 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 | (207,288) | (207,288) |
| | (207,288) | (207,288) |
| 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 | 402,000 | 388,000 |
| 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 | (658,575) | (555,667) |
| 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 | (201,871) | (18,129) |
| 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 | 155,088 | 490,366 |
| Changes in net position, per the statements of activities | $ 21,200,098 | (8,532,728) |

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

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Reporting Entity

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

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

The financial statements include only the activities of ODOC and are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma that is attributable to the transactions of ODOC. In addition, certain activities of the Native American Cultural and Educational Authority (NACEA), as discussed in Note 13, are included in the accompanying financial statements for the year ended June 30, 2019, as they were 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 and 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, 2020 and 2019, the premiums paid for this coverage were approximately $30,000 and $12,000, respectively.

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

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

### Basis of Presentation

***Government-Wide Financial Statements***

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

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

### Measurement Focus and Basis of Accounting, Continued

***Measurement Focus***

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

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

a. The statements of net position and the statements of activities utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of changes in net positions and financial positions. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

b. The General Fund utilizes a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund uses fund balances as the measure of available spendable financial resources at the end of the period.

***Basis of Accounting***

In the government-wide statements of net position and statements of activities, ODOC's activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic assets are used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchanges take place.

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

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

### Fund Accounting

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

- √ *Community Development Block Grant/States Program (CDBG)*—The objective of CDBG is the development of viable urban communities, decent housing and a suitable living environment, and expanded economic opportunities to be achieved through the undertaking of eligible activities that fulfill one or more of three broad national objectives: (1) benefiting low-and moderate-income individuals, (2) aiding in the prevention or elimination of slums or blight, and (3) meeting other communities' development needs having a particular urgency because existing conditions pose a serious and immediate threat to health or welfare of the community and other financial resources are not available to meet such needs.

- √ *CDBG ED Recovery and CD Recovery*—These are funds received by ODOC in repayment of various financial assistance agreements which were initially funded by the CDBG program. These funds are designated to be used in the same manner and under the same conditions as the CDBG program funds.

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

  Since the inception of the program, loans of approximately $57,574,009 have been funded through June 30, 2020, with approximately $16,142,000 and $16,780,000 outstanding at June 30, 2020 and 2019, respectively. During the years ended June 30, 2020 and 2019, collection of principal and interest on loans amounted to approximately $638,000 and $833,000, respectively. Cumulative collections of principal and interest since the inception of the program approximated $41,431,000 and $40,794,000 as of June 30, 2020 and 2019, respectively. There were no loans deemed as uncollectable and written-off during the year ended June 30, 2020. Loans of approximately $21,600 were deemed as uncollectable and written-off during the year ended June 30, 2019. Loans of approximately $200 and $500 previously written-off were recovered during the years ended June 30, 2020 and 2019, respectively. Cumulative loans charged-off since the inception of the program approximated $13,777,000 and $13,756,000 as of June 30, 2020 and 2019, respectively.

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

### Fund Accounting, Continued

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

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

| Program | 2020 | 2019 |
|---|---|---|
| SEPRF* | $ 4,463,866 | 5,070,375 |
| EIRLF | 857,022 | 908,541 |
| Stripper Well | (80) | 467 |
| | $ 5,320,808 | 5,979,383 |

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

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

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

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

√ *Stripper Well and Oil Overcharge*—These funds are used for energy-related purposes as authorized by the U.S. Department of Energy.

√ *Workforce Innovation and Opportunity Act (WIOA)*—The objectives of the WIOA programs are to help Americans access the tools needed to manage their careers through information and high-quality services and to help U.S. companies find skilled workers.

## (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 $14,000,000 and $9,000,000 in state appropriations for the Quick Action Closing Fund during the years ended June 30, 2020 and 2019, respectively. ODOC expended $881,075 and $850,000 during the years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, $22,614,922 and $9,327,868, 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 $13,127,000 and $10,127,000 in state appropriations for the REAP Fund during the years ended June 30, 2020 and 2019, respectively. ODOC expended approximately $13,127,000 and $11,506,000 during the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

## (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, 2020 and 2019.

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, 2020 and 2019.

## (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, 2020 and 2019, ODOC made contributions to Pathfinder of approximately $84,000 and $53,000, 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, 2020 or 2019.

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, 2020 or 2019.

d. Assigned fund balance—the assigned fund balance classification reflects amounts that are constrained by ODOC's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in unassigned fund balance.

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

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

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

### Equity Classifications, Continued

*Fund Financial Statements, Continued*

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

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

| | General Fund | |
|---|---|---|
| | 2020 | 2019 |
| Fund balances: | | |
| Restricted for: | | |
| Federal grants | $ 24,923,688 | 17,113,749 |
| State appropriations | 6,663 | 6,663 |
| State funded and other restricted programs | 22,853,695 | 9,543,966 |
| Total restricted | 47,784,046 | 26,664,378 |
| Assigned: | | |
| State appropriations | 1,415,547 | 732,319 |
| Unassigned: | | |
| State appropriations | 2,464,352 | 3,217,999 |
| Program income | 3,889,965 | 3,253,041 |
| Total unassigned | 6,354,317 | 6,471,040 |
| Total fund balances | $ 55,553,910 | 33,867,737 |

## (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, 2020 and 2019, approximately $3,011,000 and $794,000, 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, 2020 and 2019.

As of June 30, 2020 and 2019, ODOC had approximately $122,157,000 and $67,932,000, respectively, of grant funds available to be drawn upon when needed. Contract commitments with subgrantees of approximately $48,378,000 and $31,685,000 were outstanding as of June 30, 2020 and 2019, respectively.

### Recent Accounting Pronouncements

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95 postpones the effective dates of certain provisions in existing GASB Statements and Implementation Guides that are scheduled to become effective for periods beginning after June 15, 2018, and later. This includes GASB 83, GASB 84, GASB 87, GASB 88, GASB 90, GASB 91, GASB 92, GASB 93, Implementation Guide 2018-1, Implementation Guide 2019-1, Implementation Guide 2019-2, and Implementation Guide 2019-3.

## (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, 2020, for the June 30, 2021, reporting year. ODOC has not determined the impact of GASB 84 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 June 15, 2021. 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, 2020, for the June 30, 2021, 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, 2021, for the June 30, 2022, 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, 2020, for the June 30, 2021, 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, 2022, for the June 30, 2023, reporting year. ODOC does not expect GASB 91 to significantly impact the financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020* (GASB 92). GASB 92 addresses a variety of topics and includes specific provisions relating to 1) interim financial reporting requirements of GASB 87 and Implementation Guide 2019-3 2) reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan 3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits 4) the applicability of certain requirements of GASB 84 to postemployment benefit arrangements 5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition 6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers 7) reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and 8) terminology used to refer to derivative instruments. The requirements of GASB 92 are effective upon issuance in relation to the provisions impacting GASB 87 and Implementation Guide 2019-3 and are effective for periods beginning after June 15, 2021, for all other provisions. ODOC is currently evaluating the impact that the adoption of GASB 92 will have on its financial statements.

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

### Recent Accounting Pronouncements, Continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates Activities* (GASB 93). GASB 93 addresses various accounting and other issues arising from the result of the replacement of an interbank offered rate (IBOR) by 1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment 2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate 3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable 4) removing the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap 5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and 6) clarifying the definition of *reference rate,* as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 and the remaining requirements of GASB 93 are effective for periods beginning after June 15, 2021, for all other provisions. ODOC is currently evaluating the impact that the adoption of GASB 93 will have on its financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). GASB 94 defines and provides financial reporting requirements for Public-Private or Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA). A PPP is an arrangement between a government (transferor) and an operator (governmental or non-governmental) to provide public services by conveying the right to control or use a nonfinancial or infrastructure asset for a period of time in an exchange-like transaction. An APA is a similar arrangement where the operator may also be compensated for services that include designing, constructing, financing and maintaining a nonfinancial asset for a period of time. ODOC will adopt GASB 94 on July 1, 2022, for the June 30, 2023, reporting year. ODOC does not expect GASB 94 to significantly impact the financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. GASB 96 1) defines a SBITA; 2) establishes that SBITA results in a right-to-use subscription intangible asset and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of SBITA; and 4) requires note disclosures regarding SBITA. The requirements of GASB 96 are effective for periods beginning after June 15, 2022. ODOC is currently evaluating the impact that the adoption of GASB 96 will have on its financial statements.

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

### Recent Accounting Pronouncements, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* (GASB 97). The primary objectives of GASB 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of GASB 97 that 1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and 2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective at the date of issuance of GASB 97. The requirements of GASB 97 that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of GASB 97 that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within GASB 97. ODOC is currently evaluating the impact that the adoption of GASB 97 will have on its financial statements.

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

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

ODOC has evaluated subsequent events through October 30, 2020, the date which the financial statements were available to be issued. See Note 16 for a discussion of significant subsequent events.

## (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.

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.

## (2) CASH BALANCES AND SUBGRANTEE ADVANCES, CONTINUED

### Cash Balances, Continued

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:

| | 2020 | 2019 |
|---|---|---|
| U.S. agencies | $ 3,787,370 | 4,732,656 |
| Mortgage-backed agencies | 6,070,871 | 6,137,556 |
| U.S. Treasury notes | 5,196,138 | 2,456,171 |
| Municipal bonds | 20,947 | 27,144 |
| Foreign bonds | 169,786 | 63,272 |
| Certificates of deposit | 241,133 | 337,725 |
| Money market mutual funds | 852,351 | 1,520,182 |
| | $ 16,338,596 | 15,274,706 |

See Independent Auditors' Report.

## (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, 2019 | Additions | Disposals | Balance at June 30, 2020 |
|---|---|---|---|---|
| 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 | 8,022,258 | - | - | 8,022,258 |
| Less accumulated depreciation: | | | | |
| Building | (1,551,596) | (61,337) | - | (1,612,933) |
| Building improvements—capitol dome | (1,573,331) | (143,030) | - | (1,716,361) |
| Furniture, fixtures, and equipment | (566,369) | (2,921) | - | (569,290) |
| Total accumulated depreciation | (3,691,296) | (207,288) | - | (3,898,584) |
| Capital assets, net | $ 4,330,962 | (207,288) | - | 4,123,674 |

See Independent Auditors' Report.

## (3) CAPITAL ASSETS, CONTINUED

| | 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 | 8,022,258 | - | - | 8,022,258 |
| 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 | (563,448) | (2,921) | - | (566,369) |
| Total accumulated depreciation | (3,484,008) | (207,288) | - | (3,691,296) |
| Capital assets, net | $ 4,538,250 | (207,288) | - | 4,330,962 |

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

| | Cost | Accumulated Depreciation | Capital Assets, Net |
|---|---|---|---|
| 2020 | | | |
| Building improvements—capitol dome | $ 4,720,000 | (1,716,361) | 3,003,639 |
| 2019 | | | |
| Building improvements—capitol dome | $ 4,720,000 | (1,573,331) | 3,146,669 |

ODOC has no significant infrastructure assets.

See Independent Auditors' Report.

## (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 each of the years ended June 30, 2020 and 2019, was $207,288.

## (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.

## (4) CAPITAL LEASE OBLIGATIONS, CONTINUED

During the years ended June 30, 2020 and 2019, ODOC recognized $24,571 of amortization for each year on the deferred gain on lease restructuring on the OCIA 2013A lease obligation. The unamortized deferred gain is included in the deferred inflows of resources in the accompanying financial statements. The deferred gain on lease restructuring was fully amortized as of June 30, 2020. There was a balance of the unamortized deferred gain of $24,571 as of June 30, 2019.

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.

The escrow requirements for the defeased debt are as follows:

| Date | Principal | Interest | Total Debt Service Payments | Escrow Requirements |
|---|---|---|---|---|
| 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 | 192,941 | 10,515 | 203,456 | 203,456 |
| | $ 380,893 | 49,560 | 430,453 | 430,453 |

As of June 30, 2020, payments on the defeased debt were current.

See Independent Auditors' Report.

## (4) CAPITAL LEASE OBLIGATIONS, CONTINUED

The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2020:

| Year Ending June 30, | Capitol Dome |
|---|---|
| 2021 | $ 419,145 |
| Minimum lease payments for capital lease | 419,145 |
| Less amount representing interest | (7,145) |
| Present value of minimum lease payments | $ 412,000 |

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:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | $ 814,000 | 1,202,000 |
| Principal payments | (402,000) | (388,000) |
| Balance at end of year | $ 412,000 | 814,000 |

## (5) ACCRUED COMPENSATED ABSENCES

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

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | $ 557,480 | 539,351 |
| Amount earned | 570,650 | 464,288 |
| Amount used | (368,779) | (446,159) |
| Balance at end of year | $ 759,351 | 557,480 |

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, 2020 and 2019.

## (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, 2020 and 2019, were $45,005,295 and $34,518,833, respectively.

During the years ended June 30, 2020 and 2019, $7,633 and $15,203,209, 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, 2020 and 2019, 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, 2020 and 2019, was 41.81% and 46.47%, respectively, which resulted in a charge of $808,446 and $529,129 to the various federal programs during 2020 and 2019, respectively.

## (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.ok.gov/wp-content/uploads/2020/05/CAFR-2019-OPERS.pdf .

## (9) PENSION PLAN, CONTINUED

### Benefits Provided

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

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

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

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

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

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

## (9) PENSION PLAN, CONTINUED

### Benefits Provided, Continued

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

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

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

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

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

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 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.

## (9) PENSION PLAN, CONTINUED

### Contributions, Continued

For 2020, 2019, and 2018, *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 2020, 2019, and 2018, were approximately as follows:

| 2020 | 2019 | 2018 |
|---|---|---|
| $ 697,000 | 747,000 | 769,000 |

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

At June 30, 2020 and 2019, ODOC reported a liability for its proportionate share of the net pension liability. As of June 30, 2020, the net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. 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. 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, 2019 and 2018. Based upon this information, ODOC's proportion for June 30, 2020 and 2019, was 0.31842062% and 0.31282374%, respectively.

## (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, 2020 and 2019, ODOC recognized pension expense of $615,474 and $317,352, respectively. At June 30, 2020 and 2019, 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 |
|---|---|---|
| **2020** | | |
| Differences between expected and actual experience | $ - | 99,796 |
| Changes in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 127,965 |
| Changes in proportion | 4,905 | - |
| ODOC contributions subsequent to the measurement date | 696,996 | - |
| | $ 701,901 | 227,761 |
| **2019** | | |
| 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 | 746,884 | - |
| | $ 1,022,090 | 443,430 |

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, Continued

Reported deferred outflows of resources of $696,996 at June 30, 2020, 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, 2021. 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: | | |
|---|---|---|
| 2021 | $ | (6,151) |
| 2022 | | (281,577) |
| 2023 | | (13,437) |
| 2024 | | 78,309 |
| | $ | (222,856) |

### Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2019 and 2018, 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 |
| 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, 2019 and 2018, 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.

## (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, 2020 and 2019, are summarized in the following table:

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. large cap equity | 38.0% | 3.8% |
| U.S. small cap equity | 6.0% | 4.9% |
| Non-U.S. equity | 24.0% | 9.2% |
| U.S. fixed income | 32.0% | 1.4% |
| | **100.0%** | |

### Discount Rate

The discount rate used to measure the total pension liability was 7.00% for both 2019 and 2018. 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.

## (9) PENSION PLAN, CONTINUED

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

The following presents the net pension liability (asset) of the employer calculated using the discount rate of 7.00% for both 2020 and 2019, as well as what ODOC's net pension liability (asset) 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%) |
|---|---|---|---|
| 2020 | | | |
| Net pension liability (asset) | $ 3,834,511 | 424,098 | (2,467,280) |
| 2019 | | | |
| Net pension liability (asset) | $ 3,914,798 | 610,141 | (2,190,374) |

### 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.

## (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 IRS limitations on compensation. Only employers contribute to the HISP. For 2020, state agency employers contributed 16.5% on all salary.

Contributions to OPERS for the HISP by ODOC for the years ended June 30, 2020, 2019, and 2018, were approximately $59,000, $58,000, and $58,000, respectively.

## (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, 2020, ODOC reported an asset for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of July 1, 2019. 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, 2019. Based upon this information, ODOC's proportion for June 30, 2020 and 2019, was 0.31842062% and 0.31282374%, respectively.

For the years ended June 30, 2020 and 2019, ODOC recognized OPEB (income) expense related to the HISP of $(66,810) and $(52,307), respectively. At June 30, 2020 and 2019, ODOC reported deferred outflows of resources and deferred inflows of resources related to the HISP from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| **2020** | | |
| Differences between expected and actual experience | $ - | 100,588 |
| Changes in assumptions | 18,601 | - |
| Net difference between projected and actual earnings on OPEB investments | - | 13,374 |
| Changes in proportion | - | 166 |
| ODOC contributions subsequent to the measurement date | 58,670 | - |
| | $ 77,271 | 114,128 |
| **2019** | | |
| 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 | 57,988 | - |
| | $ 81,717 | 102,079 |

See Independent Auditors' Report.

## (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 $58,670 related to OPEB resulting from ODOC's contributions subsequent to the measurement date will be recognized as an increase of the net OPEB asset in the year ending June 30, 2021. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2020, will be recognized in OPEB expense as follows:

| | | |
|---|---|---|
| Years Ended June 30: | | |
| 2021 | $ | (27,232) |
| 2022 | | (27,232) |
| 2023 | | (17,451) |
| 2024 | | (13,560) |
| 2025 | | (10,052) |
| | $ | (95,527) |

**Actuarial Methods and Assumptions**

The total OPEB asset was determined on an actuarial valuation prepared as of July 1, 2019 and 2018:

| | |
|---|---|
| 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 |
| Health care trend rate | Not applicable based on how OPERS is structured and benefit payments are made. |

See Independent Auditors' Report.

## (10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

### *HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*

### Actuarial Methods and Assumptions, Continued

The actuarial assumptions used in the July 1, 2019 and 2018, 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, 2020 and 2019, are summarized in the following table:

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. large cap equity | 38.0% | 3.8% |
| U.S. small cap equity | 6.0% | 4.9% |
| Non-U.S. equity | 24.0% | 9.2% |
| U.S. fixed income | 32.0% | 1.4% |
| | **100.0%** | |

### Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% for both 2019 and 2018. 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.

## (10) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

### *HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*

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

The following presents the net OPEB (asset) liability of ODOC calculated using the discount rate of 7.00% for both 2020 and 2019, as well as what ODOC's net OPEB (asset) liability would be at June 30 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%) |
|---|---|---|---|
| 2020 | | | |
| Net OPEB (asset) | $ (19,553) | (123,787) | (213,446) |
| 2019 | | | |
| Net OPEB (asset) liability | $ 64,453 | (40,482) | (130,739) |

### 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.

## (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, 2020 and 2019, were approximately $31,000 and $30,000, respectively.

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

At June 30, 2020 and 2019, 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, 2019 and 2018, and the total IRSHIP OPEB liability used to calculate the net IRSHIP OPEB liability was determined by an actuarial valuation as of July 1, 2020 and 2019. ODOC's proportion of the net IRSHIP OPEB liability was based on ODOC's active employees as of July 1, 2019 and 2018, to all active employees of the State agencies included in the State of Oklahoma's calculation. Based upon this information, ODOC's proportion was 0.29298750% and 0.25652250% at June 30, 2020 and 2019, respectively.

## (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, 2020 and 2019, ODOC recognized OPEB (income) expense of $(6,760) and $(8,527), respectively. At June 30, 2020 and 2019, 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 |
|---|---|---|
| **2020** | | |
| Differences between expected and actual experience | $ - | 3,466 |
| Changes in assumptions | - | 37,205 |
| Changes in proportion | 42,182 | - |
| ODOC contributions subsequent to the measurement date | 31,480 | - |
| | $ 73,662 | 40,671 |
| **2019** | | |
| 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 | 30,009 | - |
| | $ 30,009 | 16,063 |

Reported deferred outflows of resources of $31,480 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, 2021. Deferred inflows of resources and deferred outflows of resources related to the IRSHIP OPEB liability as of June 30, 2020, will be recognized in OPEB expense as follows:

| Years Ending June 30: | |
|---|---|
| 2021 | $ (2,633) |
| 2022 | 817 |
| 2023 | 1,560 |
| 2024 | 1,767 |
| | $ 1,511 |

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, 2019 and 2018:

- Investment return—Not applicable, as the health insurance plan is unfunded and benefits are not paid from a qualifying trust

- Mortality rates—Pub-2010 Public Retirement Plans General Mortality Table weighted by headcount projected by MP-2019 as of July 1, 2019

- 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—5.30% decreasing to 5.00%

At July 1, 2019, ODOC had 95 participants in the plan, consisting of 87 active participants and 8 retirees or surviving spouses.

See Independent Auditors' Report.

## (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 3.58% and 3.87% for June 30, 2020 and 2019, 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:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | $ 375,041 | 383,072 |
| Changes for the year: | | |
| Service cost | 15,179 | 13,313 |
| Interest expense | 16,508 | 13,613 |
| Actual experience | 51,521 | (5,334) |
| Changes in assumptions | (36,644) | (1,384) |
| Benefits paid | (34,275) | (28,239) |
| Net changes | 12,289 | (8,031) |
| Balance at end of year | $ 387,330 | 375,041 |

#### 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 3.58% and 3.87% for 2020 and 2019, respectively, as well as what ODOC's net IRSHIP OPEB liability would be at June 30 if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| 2020 | 1% Decrease (2.58%) | Current Discount Rate (3.58%) | 1% Increase (4.58%) |
|---|---|---|---|
| Net OPEB liability | $ 413,445 | 387,330 | 362,948 |

| 2019 | 1% Decrease (2.87%) | Current Discount Rate (3.87%) | 1% Increase (4.87%) |
|---|---|---|---|
| Net OPEB liability | $ 400,187 | 375,041 | 357,031 |

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, 2020 and 2019, calculated using the healthcare trend rate of 5.30% decreasing to 5.00% for 2020 and 7.10% decreasing to 4.60% for 2019, 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:

| 2020 | 1% Decrease in Healthcare Trend Rate (4.30% decreasing to 4.00%) | Current Healthcare Trend Rate (5.30% decreasing to 5.00%) | 1% Increase in Healthcare Trend Rate (6.30% decreasing to 6.00%) |
|---|---|---|---|
| Net OPEB liability | $ 354,502 | 387,330 | 425,543 |

| 2019 | 1% Decrease in Healthcare Trend Rate (6.10% decreasing to 3.60%) | Current Healthcare Trend Rate (7.10% decreasing to 4.60%) | 1% Increase in Healthcare Trend Rate (8.10% decreasing to 5.60%) |
|---|---|---|---|
| Net OPEB liability | $ 341,278 | 375,041 | 414,232 |

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/documents/202004/ActuarialValuationReport2020.pdf

See Independent Auditors’ Report.

## (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, 2020 and 2019. 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.

## (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.

## (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. Prior to July 1, 2018, 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 OMES at July 1, 2018, ODOC did not receive any state appropriations earmarked for NACEA for the year ended June 30, 2019. NACEA's expenditures, as administered by ODOC, were approximately $234,000 for the year ended June 30, 2019. There were no such expenditures during the year ended June 30, 2020.

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.

## (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.

## (14) TAX ABATEMENTS, CONTINUED

- **21st 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 21st 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 $103,736 (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, 2020, 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. HUD performed an additional review in September 2019, for which a monitoring report was issued on July 7, 2020. Two of the four remaining findings from the May 2018 monitoring report were closed. The other two findings remain open, and ODOC is working with HUD to close them. Three additional findings were identified in the September 2019 monitoring report. ODOC prepared a response to the findings in August 2020. Following ODOC's response, one finding was closed. ODOC is awaiting notification from HUD regarding the status of the remaining findings.

## (15) COMMITMENTS AND CONTINGENT LIABILITIES, CONTINUED

### Grant Programs, Continued

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

### Leasing Agreements

ODOC leases space and various items of equipment under annual renewable operating leases. As of June 30, 2020 and 2019, 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, 2020, there was no litigation outstanding.

### COVID-19

The novel coronavirus (COVID-19), which was declared a global health emergency in January 2020 and a pandemic in March 2020, has caused significant changes in political and economic conditions around the world, including disruptions and volatility in the global capital markets. In response, the State of Oklahoma and local municipalities have taken various preventative or protective actions, such as imposing restrictions on business operations and advising or requiring individuals to limit or forgo their time outside of their homes. ODOC's management has considered the economic implications of the COVID-19 pandemic in making critical and significant accounting estimates included in the June 30, 2020, financial statements.

The extent to which the COVID-19 pandemic may impact ODOC will depend on future developments which are uncertain, such as the duration of the outbreak, additional governmental mandates issued to mitigate the spread of the disease, business closures, economic disruptions, and the effectiveness of actions taken to contain and treat the virus. Accordingly, the COVID-19 pandemic may have a negative impact on ODOC's future operations, the size and duration of which is difficult to predict. ODOC's management will continue to actively monitor the situation and may take further actions altering operations that ODOC's management determines are in the best interests of its employees and stakeholders, or as required by federal, state, or local authorities.

## (16) SUBSEQUENT EVENTS

In June 2020, the State of Oklahoma started the Oklahoma Business Relief Program (OBRP) that was developed to assist Oklahoma businesses in overcoming the economic challenges of the COVID-19 pandemic. Businesses could apply for participation in the OBRP through various financial institutions in Oklahoma. ODOC was assigned as the State agency with the responsibility of overseeing the OBRP for the State. Oklahoma's Governor designated approximately $145,000,000 of Federal Cares Act funds for the OBRP which was provided to ODOC during July and August 2020. The participating financial institutions provided a preliminary determination of eligibility for businesses based on the OBRP rules established by the State of Oklahoma. The financial institutions subsequently provided the applications and supporting documentation to ODOC to make the final determination of eligibility. As of October 30, 2020, ODOC has paid out approximately $143,097,000, net of refunds, and approximately $1,895,000 has been returned to the State of Oklahoma.

# 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, 2020*

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance |
|---|---|---|---|---|
| Revenues: | | | | |
| State appropriations | $ 45,005,295 | 48,670,739 | 45,005,295 | (3,665,444) |
| Federal grant revenues | 41,482,976 | 51,484,484 | 37,071,926 | (14,412,558) |
| Other | 262,568 | 292,568 | 1,913,481 | 1,620,913 |
| Total revenues | 86,750,839 | 100,447,791 | 83,990,702 | (16,457,089) |
| Expenditures: | | | | |
| Subgrantee expenditures | 56,799,599 | 66,000,107 | 44,080,100 | 21,920,007 |
| Salaries, wages, and benefits | 10,453,346 | 12,318,651 | 9,656,540 | 2,662,111 |
| Contractual and professional | 1,895,149 | 3,568,403 | 5,081,507 | (1,513,104) |
| Travel | 728,468 | 755,058 | 327,949 | 427,109 |
| Capitol dome leases and space and equipment rental | 824,334 | 824,834 | 500,207 | 324,627 |
| Equipment | 10,952 | 10,952 | 6,360 | 4,592 |
| Maintenance | 196,182 | 255,800 | 243,698 | 12,102 |
| Miscellaneous administrative expenses | 14,872,284 | 14,967,881 | 2,397,145 | 12,570,736 |
| Total expenditures | 85,780,314 | 98,701,686 | 62,293,506 | 36,408,180 |
| Revenues less than expenditures | $ 970,525 | 1,746,105 | 21,697,196 | (19,951,091) |

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, 2019*

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance |
|---|---|---|---|---|
| Revenues: | | | | |
| State appropriations | $ 29,518,833 | 37,179,233 | 34,518,833 | (2,660,400) |
| Federal grant revenues | 48,404,340 | 49,204,340 | 33,107,876 | (16,096,464) |
| Other | 345,831 | 369,831 | 1,159,536 | 789,705 |
| Total revenues | 78,269,004 | 86,753,404 | 68,786,245 | (17,967,159) |
| 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 | 5,778,910 | 12,666,968 | 1,325,036 | 11,341,932 |
| Total expenditures | 78,348,050 | 87,048,119 | 61,949,535 | 25,098,584 |
| Revenues less than expenditures | $ (79,046) | (294,715) | 6,836,710 | (7,131,425) |

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, 2020*

| | Actual per Audit Report | Adjustment to Budgetary Basis | Actual on Budgetary Basis |
|---|---|---|---|
| Revenues: | | | |
| State appropriations | $ 45,005,295 | - | 45,005,295 |
| Federal grant revenues | 35,824,695 | 1,247,231 | 37,071,926 |
| Other | 4,843,901 | (2,930,420) | 1,913,481 |
| Total revenues | 85,673,891 | (1,683,189) | 83,990,702 |
| Expenditures: | | | |
| Subgrantee expenditures | 44,080,100 | - | 44,080,100 |
| Salaries, wages, and benefits | 9,656,540 | - | 9,656,540 |
| Contractual and professional | 5,081,507 | - | 5,081,507 |
| Travel | 327,949 | - | 327,949 |
| Debt service on capitol dome leases and space and equipment rental | 500,207 | - | 500,207 |
| Equipment | 6,360 | - | 6,360 |
| Maintenance | 243,698 | - | 243,698 |
| Miscellaneous administrative expenses | 4,091,357 | (1,694,212) | 2,397,145 |
| Total expenditures | 63,987,718 | (1,694,212) | 62,293,506 |
| Revenues in excess of expenditures | $ 21,686,173 | 11,023 | 21,697,196 |

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, 2019*

| | Actual per Audit Report | Adjustment to Budgetary Basis | Actual on Budgetary Basis |
|---|---|---|---|
| Revenues: | | | |
| State appropriations | $ 34,518,833 | - | 34,518,833 |
| Federal grant revenues | 32,340,315 | 767,561 | 33,107,876 |
| Other | 3,886,937 | (2,727,401) | 1,159,536 |
| Total revenues | 70,746,085 | (1,959,840) | 68,786,245 |
| 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 | 18,793,563 | (17,468,527) | 1,325,036 |
| Total expenditures | 79,400,666 | (17,451,131) | 61,949,535 |
| Revenues (less than) in excess of expenditures | $ (8,654,581) | 15,491,291 | 6,836,710 |

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

- In preparing its budget, ODOC is allowed to budget estimated revenues, expenditures, and available cash on-hand. The budgeted expenditures in excess of revenues for 2020 and 2019 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 2019 amounts transferred to 2020 and rebudgeted approximated $3,777,000. Unexpended 2018 amounts transferred to 2019 and rebudgeted approximated $2,660,000.

- 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**

**Exhibit I**

## STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

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

**Last 6 Fiscal Years[1]**

| | 2020 | 2019 | 2018 | 2017[2] | 2016[2] | 2015[2] |
|---|---|---|---|---|---|---|
| ODOC's proportion of the net pension liability | 0.31842062% | 0.31282374% | 0.31654233% | 0.29806652% | 0.34115499% | 0.40678366% |
| ODOC's proportionate share of the net pension liability | $ 424,092 | 610,141 | 1,711,428 | 2,957,508 | 1,227,080 | 783,224 |
| ODOC's covered payroll | 4,517,351 | 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 | 9.39% | 13.10% | 35.96% | 59.05% | 20.82% | 11.24% |
| OPERS' fiduciary net position as a percentage of the total pension liability | 98.63% | 97.96% | 94.28% | 89.48% | 96.00% | 97.90% |

[1] The amounts presented for each fiscal year were determined as of June 30 of the prior year.
[2] The amounts presented were net of NACEA.

Only the last 6 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

**Exhibit II**

**STATE OF OKLAHOMA DEPARTMENT OF COMMERCE**

**SCHEDULE OF ODOC'S CONTRIBUTIONS**
**Oklahoma Public Employees Retirement System**
**Last 8 Fiscal Years**

| | 2020 | 2019 | 2018 | 2017* | 2016* | 2015* | 2014* | 2013* |
|---|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 696,996 | 688,896 | 710,531 | 785,181 | 826,404 | 972,613 | 1,149,354 | 1,160,264 |
| Contributions in relation to the contractually required contributions | 696,996 | 688,896 | 710,531 | 785,181 | 826,404 | 972,613 | 1,149,354 | 1,160,264 |
| Contribution deficiency (excess) | $ - | - | - | - | - | - | - | - |
| ODOC's covered payroll | $ 4,570,469 | 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% | 15.25% | 16.50% | 16.50% | 16.50% | 16.50% | 16.50% |

* The amounts presented were net of NACEA.

Only the last 8 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

**Exhibit III**

**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 3 Fiscal Years***

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| ODOC's proportion of the net OPEB (asset) liability | 0.31842062% | 0.31282374% | 0.31654233% |
| ODOC's proportionate share of the net OPEB (asset) liability | $ (123,787) | (40,482) | 36,257 |
| ODOC's covered payroll | 4,517,351 | 4,659,218 | 4,758,673 |
| ODOC's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll | (2.74)% | (0.87)% | 0.76% |
| OPERS' fiduciary net position as a percentage of the total OPEB liability | 112.11% | 103.94% | 96.50% |

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

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

See Independent Auditors' Report.

**Exhibit IV**

## STATE OF OKLAHOMA DEPARTMENT OF COMMERCE

### SCHEDULE OF ODOC'S CONTRIBUTIONS
### Oklahoma Public Employees Health Insurance Subsidy Plan
### Last 3 Fiscal Years

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Contractually required contribution | $ 58,670 | 57,988 | 58,353 |
| Contributions in relation to the contractually required contributions | 58,670 | 57,988 | 58,353 |
| Contribution deficiency (excess) | $ - | - | - |
| ODOC's covered payroll | $ 4,693,600 | 4,639,040 | 4,659,218 |
| Contributions as a percentage of covered payroll | 1.25% | 1.25% | 1.25% |

Only the last 3 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 3 Fiscal Years

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Total OPEB liability: | | | |
| Service cost | $ 15,179 | 13,313 | 15,271 |
| Interest | 16,508 | 13,613 | 11,602 |
| Actual experience | 51,521 | (5,334) | - |
| Changes in assumptions | (36,644) | (1,384) | (19,101) |
| Benefits paid | (34,275) | (28,239) | (32,777) |
| Net change in total OPEB liability | 12,289 | (8,031) | (25,005) |
| Total OPEB liability—beginning | 375,041 | 383,072 | 408,077 |
| Total OPEB liability—ending | $ 387,330 | 375,041 | 383,072 |
| Covered-employee payroll | $ 4,639,040 | 4,659,218 | 4,758,683 |
| Total OPEB liability as a percentage of covered-employee payroll | 8.35% | 8.05% | 8.05% |

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

The discount rate used for 2020 is 3.58% and the discount rate used for 2019 is 3.87%.

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, 2020*

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Number/ Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **DEPARTMENT OF ENERGY PROGRAMS— PASSED THROUGH STATE OF OKLAHOMA GOVERNOR'S OFFICE** | | | | |
| State Energy Program | 81.041 | | | |
| FY 19 | | DE-EE0008663 | $ 95,155 | 380,798 |
| FY 18 | | DE-EE0007488 | (3,357) | (3,357) |
| | | | 91,798 | 377,441 |
| Weatherization | 81.042* | | | |
| FY 20 | | DE-EE0007944 | 61,465 | 167,514 |
| FY 19 | | DE-EE0007944 | 1,258,607 | 1,524,946 |
| FY 18 | | DE-EE0007944 | (493) | (493) |
| SDOE 09 | | DE-EE0000153 | (12,750) | (12,750) |
| | | | 1,306,829 | 1,679,217 |
| **Total Department of Energy Programs** | | | 1,398,627 | 2,056,658 |

(Continued)

See Independent Auditors' Report.
See accompanying notes to schedule of expenditures of federal awards.

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

*Year Ended June 30, 2020*

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Number/ Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS** | | | | |
| Community Development Block Grants— | | | | |
| State-Administered Small Cities Program Cluster | 14.228* | | | |
| FY 20 | | B-20-DC-40-0001 | - | 94,348 |
| FY 19 | | B-19-DC-40-0001 | 845,036 | 1,320,636 |
| FY 18 | | B-18-DC-40-0001 | 5,891,066 | 5,891,066 |
| FY 17 | | B-17-DC-40-0001 | 3,077,212 | 3,077,212 |
| FY 16 | | B-16-DC-40-0001 | 1,195,655 | 1,195,655 |
| FY 15 | | B-15-DC-40-0001 | 391,900 | 391,900 |
| FY 14 | | B-14-DC-40-0001 | 310,344 | 310,344 |
| FY 13 | | B-13-DC-40-0001 | 233,464 | 233,464 |
| CDBG—ED | | N/A | 41,100 | 41,258 |
| CDBG—CD | | N/A | 217,136 | 217,136 |
| CDBG—Disaster Recovery | 14.269* | B-13-DS-40-0001 | 936,878 | 1,116,364 |
| | | | 13,139,791 | 13,889,383 |
| Emergency Solutions Grant Program | 14.231* | | | |
| FY 20 | | E-20-DC-40-0001 | - | 26,976 |
| FY 19 | | E-19-DC-40-0001 | 1,144,981 | 1,206,043 |
| FY 18 | | E-18-DC-40-0001 | 276,300 | 277,600 |
| FY 17 | | E-17-DC-40-0001 | - | 83 |
| | | | 1,421,281 | 1,510,702 |
| **Total Department of Housing and Urban Development Programs** | | | 14,561,072 | 15,400,085 |

(Continued)

See Independent Auditors' Report.
See accompanying notes to schedule of expenditures of federal awards.

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Number/ Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS** | | | | |
| Community Services Block Grant | 93.569* | | | |
| FY 20 | | 2001OKCOSR | 1,558,253 | 1,740,196 |
| FY 19 | | G1901OKCOSR | 5,164,113 | 5,346,515 |
| FY 18 | | G18B1OKCOSR | 819,584 | 819,584 |
| FY 17 | | G17B1OKCOSR | (2,327) | (2,327) |
| CSBG—CR | | 2001OKCSC3 | 270,566 | 271,947 |
| CSBG—Disaster Recovery | | 2001OKCOSD | - | 5,000 |
| | | | 7,810,189 | 8,180,915 |
| Head Start | 93.600 | | | |
| FY 20 | | 06CD4019-05-00 | 50,813 | 50,813 |
| FY 19 | | 06CD4019-04-00 | 111,069 | 117,074 |
| | | | 161,882 | 167,887 |
| **DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS—PASSED THROUGH OKLAHOMA DEPARTMENT OF HUMAN SERVICES** | | | | |
| LIHEAP | 93.568* | | | |
| FY 19 | | FFY19 Weatherization | 371,889 | 439,357 |
| FY 18 | | FFY18 Weatherization | 445,671 | 445,671 |
| FY 17 | | FFY17 Weatherization | (295) | (295) |
| FY 16 | | FFY16 Weatherization | (80) | (80) |
| | | | 817,185 | 884,653 |
| **Total Department of Health and Human Services Programs** | | | 8,789,256 | 9,233,455 |

(Continued)

See Independent Auditors’ Report.
See accompanying notes to schedule of expenditures of federal awards.

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Number/ Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **DEPARTMENT OF LABOR PROGRAMS** | | | | |
| Workforce Innovation and Opportunity Act Cluster | | | | |
| WIOA Adult Programs | 17.258* | | | |
| FY 20 | | AA33250R70 | 27,371 | 428,282 |
| PY 19 | | AA32250L70 | 36,507 | 36,507 |
| FY 19 | | AA32245H70 | 72,892 | 72,892 |
| PY 18 | | AA32245G10 | - | 1,111 |
| FY 18 | | AA30738AC0 | - | 130,952 |
| PY 17 | | AA307388K0 | - | 378 |
| | | | 136,770 | 670,122 |
| WIOA Youth Activities | 17.259* | | | |
| PY 19 | | AA33250LN0 | 757,184 | 759,962 |
| PY 18 | | AA32245F30 | 253,372 | 446,225 |
| PY 17 | | AA307387Z0 | - | 166,971 |
| | | | 1,010,556 | 1,373,158 |
| WIOA Dislocated Worker Formula Grants | 17.278* | | | |
| FY 20 | | AA33250R90 | 11,219 | 279,318 |
| PY 19 | | AA32250L90 | 98,537 | 98,537 |
| FY 19 | | AA32245H90 | 300,000 | 300,000 |
| PY 18 | | AA32245G30 | - | - |
| FY 18 | | AA30738AE0 | - | 173,891 |
| PY 17 | | AA307388Q0 | - | 343 |
| | | | 409,756 | 852,089 |
| Total Workforce Innovation Opportunity Act Cluster | | | 1,557,082 | 2,895,369 |

(Continued)

See Independent Auditors' Report.
See accompanying notes to schedule of expenditures of federal awards.

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

*Year Ended June 30, 2020*

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Number/ Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **DEPARTMENT OF LABOR PROGRAMS, CONTINUED** | | | | |
| Workforce Apprenticeship State Funds | 17.285 | | | |
| FY 18 | | AP-33504-19-60-A-40 | - | 24,767 |
| | | | - | 24,767 |
| **Total Department of Labor Programs** | | | 1,557,082 | 2,920,136 |
| **DEPARTMENT TREASURY PROGRAMS— PASSED THROUGH OKLAHOMA OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES** | | | | |
| Coronavirus Relief Fund | 21.019 | N/A | - | 41,144 |
| **Total Department of Treasury Programs** | | | - | 41,144 |
| **SMALL BUSINESS ADMINISTRATION PROGRAMS** | | | | |
| State Trade Expansion Program | 59.061 | | | |
| FY 19 | | SBAHQ19IT0040 | - | 4,850 |
| **Total Small Business Administration Programs** | | | - | 4,850 |
| **TOTAL** | | | $ 26,306,037 | 29,656,328 |

*A major program as determined by the auditors.

See Independent Auditors' Report.
See accompanying notes to schedule of expenditures of federal awards.

## (1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of ODOC under programs of the federal government for the year ended June 30, 2020. 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, 2020:

| | |
|---|---|
| Federal grant revenues | $ 35,824,695 |
| Less unexpended federal grant revenues carried over for use in future periods | (7,813,298) |
| Program income | 1,247,231 |
| Interest | 397,700 |
| Expenditures of federal awards | $ 29,656,328 |

## (4) EXPENDITURES AND SUBGRANTEES

For the year ended June 30, 2020, subgrantees of ODOC expended $26,306,037, or 88.70%, of federal expenditures.

The schedule of expenditures of federal awards totals $29,656,328. The amount of federal expenditures used to determine major programs was $29,656,328.

## (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, 2020, was 41.81%.

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, 2020, and the related notes to the financial statements, which collectively comprise ODOC's basic financial statements, and have issued our report thereon dated October 30, 2020. 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") as a basis for designing 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)



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**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 financial statements. 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 30, 2020

**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, 2020. 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, 2020.

(Continued)



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

## Report on Internal Control Over Compliance

Management of ODOC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ODOC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ODOC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 30, 2020

## 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** |

## SECTION I—SUMMARY OF AUDITORS' RESULTS, CONTINUED

### Federal Awards, Continued

Identification of major federal programs:

| Federal CFDA Number | Name of Federal Program or Cluster |
|---|---|
| | *Department of Energy* |
| **81.042** | **Weatherization** |
| | *Department of Housing and Urban Development* |
| | **CDBG Cluster:** |
| **14.228** | **Community Development Block Grants** |
| **14.269** | **Community Development Block Grant Disaster Recovery** |
| **14.231** | **Emergency Solutions Grant Program** |
| | *Department of Labor* |
| | **Workforce Innovation Opportunity Act Cluster:** |
| **17.258** | **WIOA Adult Programs** |
| **17.259** | **WIOA Youth Activities** |
| **17.278** | **WIOA Dislocated Worker Formula Grants** |
| | *Department of Health and Human Services* |
| **93.569** | **Community Services Block Grant** |
| **93.568** | **Low-Income Home Energy Assistance Program** |

Dollar threshold used to distinguish between type A and type B programs: **$889,690**

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

## SECTION II—FINANCIAL STATEMENT FINDINGS

None noted.

## SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

*Year Ended June 30, 2020*

There were no findings or questioned costs noted in the June 30, 2019, audit report.