

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF
ENERGY AND ENVIRONMENT
STATE OF OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE FISCAL YEAR ENDED

JUNE 30, 2018

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Governor of the State of Oklahoma
and the Secretary of Energy and Environment of the State of Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Environmental Grants (the "Department"), a department of the Office of the Secretary of Energy and Environment of the State of Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department'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 of America; 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's 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 auditor considers 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Secretary of Energy and Environment of the State of Oklahoma that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the Office of the Secretary of Energy and Environment of the State of Oklahoma as of June 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

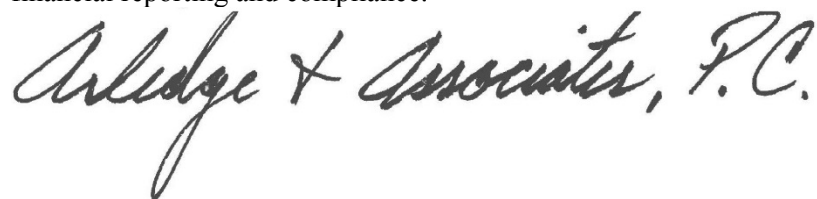
Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements. The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Management's discussion and analysis and the budgetary comparison information, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



December 21, 2018

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Department of Environmental Grants (the “Department”) financial performance provides an overview of the federal programs administered by the Department for the fiscal year ended June 30, 2018. Please read it in conjunction with the Department’s financial statements, which begin on page 4. The Department administers these funds in accordance with federal and state statutes.

FINANCIAL HIGHLIGHTS

- The Department received revenue of \$5,387,170 during the state fiscal year 2018. Of the total revenue:
 - \$5,387,170, or 100% consisted of Federal Funds from the U.S. Environmental Protection Agency
- \$5,267,327 of federal funds were provided to subrecipients to conduct activities set forth under Cooperative Agreements with the U.S. Environmental Protection Agency
- \$120,335 was expended for personnel and other activities associated with meeting the goals of the Clean Water Act and the overall conservation of Oklahoma’s Environment.

ECONOMIC FACTORS – NEXT YEAR’S OUTLOOK

It is anticipated that the funding level for the state fiscal year 2019 will remain level for the Clean Water Act programs that are funded by the United States Environmental Protection Agency and administered by the Environmental Grants Department.

CONTACTING THE DEPARTMENT’S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of the Department and the Federal Clean Water Act Programs that it administers. If you have questions regarding this report or need additional information, please contact the Department of Environmental Grants, Office of the Secretary of Energy and Environment at 204 N. Robinson Suite 1010, Oklahoma City, OK. 73102-7001.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

STATEMENT 1

**Statement of Net Position
June 30, 2018**

	<u>Total Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 68,587
Due from other governments	2,064,842
Total assets	<u>2,133,429</u>
LIABILITIES	
Accounts payable	2,051,559
Compensated absences	4,742
Total liabilities	<u>2,056,301</u>
NET POSITION	
Unrestricted	77,128
Total net position	<u>\$ 77,128</u>

The notes to the financial statements are an integral part of this statement.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

STATEMENT 2

Statement of Activities

For the Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue Operating Grants and Contributions</u>	<u>Net (Expense)</u>
			<u>Revenue and Changes in Net Assets Total Primary Government Governmental Activities</u>
Primary government			
Governmental activities:			
General government	\$ 120,335	\$ -	\$ (120,335)
Environmental program services	<u>5,267,327</u>	<u>5,387,170</u>	<u>119,843</u>
Total primary government	<u>\$ 5,387,662</u>	<u>\$ 5,387,170</u>	<u>(492)</u>
	Change in net position		<u>(492)</u>
	Net position - beginning		<u>77,620</u>
	Net position - ending	\$	<u><u>77,128</u></u>

The notes to the financial statements are an integral part of this statement.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

STATEMENT 3

**Balance Sheet
Governmental Funds
June 30, 2018**

	<u>General Fund</u>	<u>Water Pollution Control Fund</u>	<u>Non-Point Source Implementation Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 68,587	\$ -	\$ -	\$ -	\$ 68,587
Due from other funds	13,283	-	-	-	13,283
Due from other governments	-	1,729,791	255,177	79,874	2,064,842
Total assets	<u>\$ 81,870</u>	<u>\$ 1,729,791</u>	<u>\$ 255,177</u>	<u>\$ 79,874</u>	<u>\$ 2,146,712</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 1,725,347	\$ 246,338	\$ 79,874	\$ 2,051,559
Due to other funds	-	4,444	8,839	-	13,283
Total liabilities	<u>-</u>	<u>1,729,791</u>	<u>255,177</u>	<u>79,874</u>	<u>2,064,842</u>
Fund Balances:					
Unassigned	81,870	-	-	-	81,870
Total fund balances	<u>81,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,870</u>
Total liabilities and fund balances	<u>\$ 81,870</u>	<u>\$ 1,729,791</u>	<u>\$ 255,177</u>	<u>\$ 79,874</u>	<u>\$ 2,146,712</u>

Amounts reported for governmental activities in the statement of net position are different because:

Compensated absences of governmental activities are not financial resources and therefore are not reported in the funds

	(4,742)
Net position of governmental activities	<u>\$ 77,128</u>

The notes to the financial statements are an integral part of this statement.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

STATEMENT 4

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General Fund	Water Pollution Control Fund	Non-Point Source Implementation Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Federal grants	\$ -	\$ 2,934,137	\$ 2,125,665	\$ 327,368	\$ 5,387,170
Total revenues	-	2,934,137	2,125,665	327,368	5,387,170
EXPENDITURES					
Current:					
Personnel costs	(2,083)	44,750	40,693	-	83,360
Program expenditures	-	2,872,187	2,067,772	327,368	5,267,327
Other operating	-	17,200	17,200	-	34,400
Total expenditures	(2,083)	2,934,137	2,125,665	327,368	5,385,087
Excess (deficiency) of revenues over expenditures	2,083	-	-	-	2,083
Net change in fund balances	2,083	-	-	-	2,083
Fund balances - beginning	79,787	-	-	-	79,787
Fund balances - ending	\$ 81,870	\$ -	\$ -	\$ -	\$ 81,870
Net change in fund balances - total governmental funds					\$ 2,083

Amounts reported for governmental activities in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds
- Accrued compensated absences

(2,575)

Change in net position of governmental activities

\$ (492)

The notes to the financial statements are an integral part of this statement.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Department of Environmental Grants (the "Department") is a department within the Office of the Secretary of Energy and Environment of the State of Oklahoma (the "OSEE"). The OSEE was initially formed in 1992 as the Office of the Secretary of the Environment and was later revised effective July 1, 2014 to include the Office of the Secretary of Energy. One of the missions of the OSEE is to provide for the coordination of environmental activities across the State, between other states, and with the federal government. OSEE achieves this function through its Department of Environmental Grants. The OSEE, through the Department serves as the coordinating agency and the central point of contact for activities relating to the Clean Water Act. OSEE also serves as the focal point for the Governor's Environmental Sub-cabinet group which is composed of the directors of agencies involved in environmental programs. Rather than set policy for the State, OSEE serves to facilitate interaction between groups to see that environmental policies which have an effect on the environment and consequently the environmental health of citizens are implemented in the most efficient and expeditious manner possible.

These financial statements reflect only the activity of the Department of Environmental Grants.

B. BASIC FINANCIAL STATEMENTS

The Department follows the provisions of Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* ("GASB 34"). GASB 34, among other provisions, establishes a basic financial reporting model and requires management's discussion and analysis.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide statement of net position and statement of activities present governmental and business-type activities on a full accrual basis using the "economic resources" measurement focus and display information about the reporting government as a whole. Fiduciary activities of a government are not included in these statements. The government-wide statement of activities reflects the cost of programs and functions reduced by directly associated revenues (charges for services, and operating and capital grants) to arrive at the net revenue or expense for each program and function. Net program revenue or expenses for governmental and business activities are then adjusted for general revenues to determine the change in net position for the year.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT'D)

The types of transactions reported as program revenues for the Department are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, net position, revenues, expenditures, or expenses, as appropriate. All governmental funds are accounted for on a "current financial resources" measurement focus. Proprietary funds are accounted for on an "economic resources" measurement focus. The Department has no proprietary funds.

Individual funds meeting minimum criteria (based on the size of the fund in relation to the Department as a whole, or its governmental or business activities) as well as other funds that the Department believes are particularly important to financial statement users are considered "major funds" and are presented separately in the fund financial statements. The general fund is always a major fund. Funds not meeting the criteria for major funds are aggregated and presented in a single column of the fund financial statements.

The various funds are grouped in the accompanying basic financial statements by type as follows:

Governmental Funds:

General Fund – The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
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**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT'D)

Governmental Funds (Cont'd):

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds are grant funds from federal agencies which represent the activities of various noncapital and capital programs which are disbursed by the Department and over which the Department exercises fiscal and administrative control. The following are the Department's special revenue funds reported in the governmental fund statements as major funds:

1. *Water Pollution Control State and Interstate Program Support* fund is used to account for the administration of programs for the prevention, reduction, and elimination of water pollution including programs for the development and implementation of groundwater protection strategies. Financing is provided by the U.S. Environmental Protection Agency.
2. *Nonpoint Source Implementation* fund is used to account for the operations of the Nonpoint Source program. Financing is provided by the U.S. Environmental Protection Agency.

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. A schedule is presented on the face of each statement presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented for governmental activities in the government-wide financial statements.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type 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 economic asset used.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONT'D)

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred.

Those revenues susceptible to accrual are grant revenues. Most other governmental revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Agency and proprietary fund types utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Department currently does not have any agency or proprietary type funds.

The Department follows the provisions of Governmental Accounting Standards Board's Statement No. 33, *"Accounting and Financial Reporting for Nonexchange Transactions"* (GASB 33). GASB 33, among other provisions, clarifies the revenue recognition requirements for entities entering into nonexchange transactions. Nonexchange transactions involve the government giving or receiving value without directly receiving or giving equal value in return. Pursuant to GASB 33, as amended by GASB Statement No. 65, the Department records revenue on its voluntary nonexchange transactions when all applicable eligibility requirements, including expenditure-driven transactions, are met. Resources transmitted before the eligibility requirements have been met are reported as deferred revenues.

E. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents - The Department considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market funds to be cash equivalents.

Receivables and Payables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. ASSETS, LIABILITIES AND EQUITY (CONT'D)

Capital Assets - The accounting treatment over property, plant, and equipment is contingent upon whether they are reported in the government-wide or fund financial statements. The OSEE's capitalization threshold is \$5,000.

Government-wide financial statements – In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost.

Depreciation of fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is charged over the estimated useful lives using the straight-line method of depreciation.

<u>Class of asset</u>	<u>Estimated useful life</u>
Equipment	3 – 7 year

Fund Financial Statements – In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

All equipment owned by the Department as of June 30, 2018 was either fully depreciated or had a historical cost of less than \$5,000.

Equity Classifications, Government-wide Statements – Equity is classified as net assets and displayed in three components:

1. *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
2. *Restricted net assets* – Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* – All other assets that do not meet the definition of "restricted", "invested in capital assets, net of related debt", or "invested in purchased goodwill".

DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. ASSETS, LIABILITIES AND EQUITY (CONT'D)

Equity Classifications, Fund Financial Statements – Governmental fund equity is classified as fund balance. In accordance with GASB 54, the Department classifies fund balance as non-spendable, restricted, committed, assigned, and unassigned. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- A. *Non-spendable* – consists of balances that are either not in spendable form or legally or contractually required to be maintained intact. Balances most likely to be classified as nonspendable include inventory, prepaids, and interfund advances.
- B. *Restricted* – consists of balances that have constraints placed on the net asset use 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.
- C. *Committed* – consists of assets that can only be used for specific purposes as a result of constraints imposed by formal action of the individual government's highest level of decision-making authority. Committed amounts cannot be uncommitted except by removing the constraints through the same type of formal action.
- D. *Assigned* – consists of amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of resources for a specific purpose that are not made by the government's highest level of decision-making authority are reported in this classification.
- E. *Unassigned* – consists of the residual resources that have not been restricted, committed or assigned to a specific purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available (i.e. in the case of federal or private grant revenues), OSEE considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Department considers the amount to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Department has provided otherwise in its commitment or assignment actions.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
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**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. ASSETS, LIABILITIES AND EQUITY (CONT'D)

Equity Classifications, Fund Financial Statements – (Cont'd)

The Department establishes (and modifies or rescinds) fund balance commitments by adoption and amendment of the annual budget. Assigned fund balances are established by the Department's management.

F. REVENUES AND EXPENDITURES

Federal Grants – Federal grants are recognized as operating revenue upon payment of allowable grant expenditures eligible for reimbursement from the U.S. Environmental Protection Agency or other grantors and not covered by state matching or program income.

Transfers – Represent the transfer of cash balances between funds as part of re-allocating pooled cash balances attributable to each fund. For the purposes of the statement of activities, all interfund transactions have been eliminated.

G. COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a part of noncurrent liabilities in the government-wide statement of net assets. Vested or accumulated vacation leave for proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
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**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

2. CASH

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Department's deposits may not be returned or the Department will not be able to recover collateral securities in the possession of an outside party. The Department deposits its funds with the Office of the State Treasurer (OST). Oklahoma statutes require OST to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The Department's deposits with the State Treasurer are pooled with the funds of other State agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

As of June 30, 2018, the carrying amount of the Department's deposits with the State Treasurer was \$68,587.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
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OF THE STATE OF OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

3. PENSION PLAN

General Description

As provided by State law, the OSEE participates in the Oklahoma Public Employees' Retirement System (the "System") a component unit of the State of Oklahoma. This System covers substantially all State and county employees and extends to local entities if they elect to participate. The System is a multi-employer, cost-sharing plan.

The Retirement Plan, administered by the System, is a defined benefit, contributory plan that provides participants with retirement, death and disability benefits. Pension benefit provisions were established by statute, and benefit provisions are amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

A separately issued independent audit report for the plan may be obtained by writing:

Public Employees' Retirement
5801 N. Broadway Extension, Suite 400
Oklahoma City, OK 73118

Funding Policy

The contribution rates for the plan are established by the State Legislature and are not based on an actuarial calculation, which is performed to determine the adequacy of the rate.

The Department, through the OSEE makes contributions to the plan on behalf of its employees based on their gross salary earned (excluding overtime) for the fiscal year ended June 30. The contribution rates in effect for the year ended June 30, 2018, and the rates in subsequent periods are summarized as follows:

OSEE	16.5%
OSEE Employees	3.50%

**DEPARTMENT OF ENVIRONMENTAL GRANTS
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OF THE STATE OF OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

3. PENSION PLAN (Cont'd)

Funding Policy

In addition to the required employee participation described above, the Retirement Plan allows employees to make an irrevocable election to participate in the Plan's *Step-Up* election. The *Step-Up* election requires employees, who choose to do so, to make an additional annual contribution to the Plan equal to 2.91% of compensation. In exchange for the additional contribution, the employee's final benefit computation factor used in calculating the retirees benefit will be increased, or "stepped-up", from the standard 2% factor to 2.5%. The 2.91% factor is actuarially determined and could change in the future.

Contributions to the plan by the Department for the years ended June 30, 2018, 2017, and 2016, were \$10,097, \$10,422, and \$9,793, respectively. These contributions represented 100% of the contributions required.

4. COMPENSATED ABSENCES

Employees earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of 5 to 10 years, 13.33 hours per month for service of 10 to 20 years, and 16.67 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The governmental fund financial statements present the cost of accumulated vacation leave as a liability. The liability is valued based on current rate of pay. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay this amount when employees separate from service.

5. RISK MANAGEMENT

The Department, through the OSEE participates in the Risk Management Division of the Department of Central Services of the State of Oklahoma for its property insurance. Comprehensive general liability and personal injury liability are also covered by the fund.

6. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability to OSEE. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although OSEE expects such amounts, if any, to be immaterial.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018**

7. RELATED PARTIES

The Department utilizes office space and certain other overhead costs provided to it by the OSEE. The value of these services is not reflected in these financial statements. The Department utilizes the services of the Comptroller's Office of the Oklahoma Department of Environmental Quality ("DEQ") to provide procurement, grant reimbursement/drawdown, payroll and recordkeeping services for the Department. The Department paid DEQ \$20,000 for these services during FY-2018.

8. MAJOR REVENUE SOURCES

The majority of the Department's revenue is from grants from the U.S. Environmental Protection Agency. In the event these grants were discontinued or severely restricted, the activities of the Department would be curtailed accordingly.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018**

EXHIBIT 1

	General Fund Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State appropriations	\$ -	-	-	-
Other	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
Current:				
Personnel and operating costs	79,787	79,787	(2,083)	81,870
Total expenditures	79,787	79,787	(2,083)	81,870
Excess (deficiency) of revenues over expenditures	(79,787)	(79,787)	2,083	81,870
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change	(79,787)	(79,787)	2,083	81,870
Fund balances-beginning	79,787	79,787	79,787	-
Fund balances-ending	\$ -	-	81,870	81,870

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT
OF THE STATE OF OKLAHOMA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2018**

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presents a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The Department's budget is prepared on the cash basis utilizing encumbrance accounting. Encumbrances represent executed but unperformed purchase orders. In the accompanying financial statements, encumbrances are recorded as expenditures for budgetary purposes if expected to be presented for payment by November 15 following the end of the fiscal year and as reservations of fund balance for GAAP purposes. Since the budgetary basis differs from generally accepted accounting principles, budget and actual amounts presented in the Budgetary Comparison Schedule – Budget to Actual – General Fund are presented on the budgetary basis.

A reconciliation of revenues in excess of (less than) expenditures and other financing sources (uses) on a budgetary basis at June 30, 2018 to revenues in excess of (less than) expenditures and other financing sources (uses) presented in conformity with generally accounting principles is set forth as follows:

Budgetary basis fund balance, June 30, 2017	\$	79,787
Excess of total uses over sources per		
Budgetary Basis		2,083
Budgetary basis fund balance, June 30, 2018		<u>81,870</u>
Entity and perspective differences:		
Encumbrances		-
Basis differences:		
Less: Accrued expenditures		<u>-</u>
GAAP basis fund balance (deficit), June 30, 2018	\$	<u><u>81,870</u></u>

Special Revenue Funds prepare and use budgetary data but generally have contract periods which differ from the Department's fiscal year. Accordingly, the budgetary comparison for these funds is not included as part of the budgetary comparison schedule.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF
ENERGY AND ENVIRONMENT
OF THE
STATE OF OKLAHOMA**

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2018

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT OF THE
STATE OF OKLAHOMA**

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**INDEPENDENT AUDITOR'S 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***

To the Governor of the State of Oklahoma
and the Secretary of Energy and Environment of the State of Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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, each major fund, and the aggregate remaining fund information of the Department of Environmental Grants (the "Department"), a department of the Office of the Secretary of Energy and Environment of the State of Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Arledge & Associates, P.C." The signature is written in a cursive, flowing style.

December 21, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

To the Governor of the State of Oklahoma
and the Secretary of Energy and Environment of the State of Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Department of Environmental Grants' (the "Department"), a department of the Office of the Secretary of Energy and Environment of the State of Oklahoma, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2018. The Department's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department'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 of America; 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* 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 the Department'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 the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department 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, 2018.

Report on Internal Control Over Compliance

Management of the Department 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 the Department'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 the Department's internal control over compliance.

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated December 21, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 of

America. 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.

Arledge & Associates, P.C.

December 21, 2018

DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT OF THE STATE OF OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

FUNDING SOURCE	GRANT/ CONTRACT NAME	FEDERAL CFDA NUMBER	CURRENT YEAR GRANT EXPENDITURES
Office of Water, U.S. Environmental Protection Agency:			
	Water Pollution Control State, Interstate, and Tribal Program Support	66.419	\$ 2,934,137
	Water Quality Management Planning	66.454	133,999
	Nonpoint Source Implementation Grants	66.460	2,125,665
	Regional Wetland Program Development Grants	66.461	152,699
	Multipurpose Grants to States and Tribes	66.204	<u>40,670</u>
	Total Office of Water, Environment Protection Agency		<u>5,387,170</u>
			\$
	Total Expenditures of Federal Awards		<u>5,387,170</u>
Reconciliation to the Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds (Statement 4):			
	Total Expenditures of Federal Awards (from above)		\$ 5,387,170
Include General Fund expenditures reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances			
	Total expenditures per Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds (Statement 4)		<u>(2,083)</u>
			\$ <u>5,385,087</u>

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT OF THE
STATE OF OKLAHOMA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018**

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal award activity of the Department of Environmental Grants of the Office of the Secretary of Energy and Environment of the State of Oklahoma (the “Department”) under programs of the federal government for the year ended June 30, 2018. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Department.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Department has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT OF THE
STATE OF OKLAHOMA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont'd)
Year Ended June 30, 2018**

NOTE C—SUBRECIPIENTS

Of the federal expenditures presented in this schedule, the Department provided federal awards to subrecipients as follows:

Program	CFDA Number	Sub-recipient	Amount Provided
Multipurpose Grants to States & Tribes	66.204	Department of Environmental Quality	<u>\$ 40,670</u>
Water Pollution Control	66.419	Oklahoma Conservation Commission	\$ 6,683
Water Pollution Control	66.419	Oklahoma Department of Environmental Quality	2,295,877
Water Pollution Control	66.419	Oklahoma Water Resources Board	569,628
			<u>\$ 2,872,188</u>
Water Quality Management	66.454	Association of Central Oklahoma Governments	\$ 25,350
Water Quality Management	66.454	Indian Nation Council of Government	29,693
Water Quality Management	66.454	Oklahoma Water Resources Board	78,956
			<u>\$ 133,999</u>
Non-Point Source Implementation	66.460	Oklahoma Conservation Commission	<u>\$ 2,067,772</u>
Regional Wetland Program	66.461	Oklahoma Conservation Commission	\$ 51,219
Regional Wetland Program	66.461	Oklahoma State University	46,523
Regional Wetland Program	66.461	Oklahoma Water Resources Board	54,956
			<u>\$ 152,698</u>

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT OF THE
STATE OF OKLAHOMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	<u>X</u> no
Significant deficiency (ies) identified?	_____ yes	<u>X</u> none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major federal programs:

Material weakness(es) identified?	_____ yes	<u>X</u> no
Significant deficiency(ies) identified?	_____ yes	<u>X</u> none reported

Type of auditor's report issued on compliance
for major federal programs: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.419	Water Pollution Control State, Interstate, and Tribal Program Support
66.460	Nonpoint Source Implementation Grants

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT OF THE
STATE OF OKLAHOMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

**DEPARTMENT OF ENVIRONMENTAL GRANTS
OFFICE OF THE SECRETARY OF ENERGY AND ENVIRONMENT OF THE
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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

There were no audit findings for the year ended June 30, 2017 that require preparation of a summary of prior audit findings.

Corrective Action Plan

No corrective action plan is required.