

**OKLAHOMA STATE AUDITOR  
AND INSPECTOR**

**AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

State of Oklahoma  
Oklahoma State Auditor and Inspector  
Oklahoma City, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Auditor and Inspector of the State of Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Oklahoma State Auditor and Inspector of the State of Oklahoma'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 an opinion 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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State Auditor and Inspector of the State of Oklahoma as of June 30, 2019, and the changes in financial position and cash flows 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 Oklahoma State Auditor and Inspector of the State of Oklahoma are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the State of Oklahoma that is attributable to the transactions of the Oklahoma State Auditor and Inspector of the State of Oklahoma. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB schedules and related ratios on pages 3-6 and 29-31 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 of America, 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2020, on our consideration of the Oklahoma State Auditor and Inspector of the State of Oklahoma'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 Oklahoma State Auditor and Inspector of the State of Oklahoma's internal control over financial reporting and compliance.

*HBC CPA's & Advisors*

Oklahoma City, Oklahoma  
February 14, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS SUMMARY

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The management of the Oklahoma State Auditor and Inspector (SAI) is pleased to provide the accompanying financial statements to the citizens of the State of Oklahoma and other report users to demonstrate its accountability and communicate SAI's financial condition and activities for the fiscal year ended June 30, 2019. Management of SAI is responsible for the fair presentation of these financial statements, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of contracts.

### *Financial Highlights*

For the year ended June 30, 2019 the following financial results are considered noteworthy by management.

- SAI's operating revenue increased \$675,749 or 9.76%, from the prior year. Additionally, accounts receivable increased \$511,167 or 47.96%. These increases are due to an increase in the amounts charged and/or collected for audit services during the year. Charges for audit services are directly attributable to audit staff and since the staff size increased, the charges billed and/or collected also increased. Additionally, an increase in billing rates, efforts to be more efficient, and a greater emphasis on the collectability of contracts also contributed to the increase in operating revenues and accounts receivable.
- SAI's operating expenses increased \$233,496 or 2.38%, from the prior year. The increase in expenditures is largely due to an increase in the staff size.
- SAI's appropriations increased \$287,269 or 8.54% from the prior year. The increase is due to the State legislature appropriating additional funds to state agencies this year.

## USING THIS REPORT

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The financial statements are presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board (GASB) Statement No. 34.

### *SAI's Reporting Entity*

The financial statements include all activities for which the SAI is fiscally responsible. These activities, defined as SAI's reporting entity, are operated within a single government agency. SAI's financial statements are reported as a part of the financial presentation of the State of Oklahoma.

### *Overview of SAI's Reporting Entity Presentation*

The financial statements consist of three parts as follows:

**Financial Statements:** The financial statements report information, on the accrual basis of accounting and economic resources measurement focus, about SAI as a whole using accounting methods similar to those used by private-sector companies. The "Statement of Net Position" includes all of SAI's assets and liabilities as of the fiscal year presented. All of the current year revenues and expenses are accounted for in the "Statement of Revenues, Expenses and Changes in Net Position" regardless of when cash is received or paid. All cash receipts and cash disbursements for the current year are captured in the "Statement of Cash Flows".

(Unaudited)

**Notes to the Financial Statements:** The notes to the financial statements are an integral part of these financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Required Supplementary Information:** The Management Discussion and Analysis represents financial information required to be presented by GASB. Such information provides users of this report with additional data that supplements the financial statements and notes (collectively referred to as “the basic financial statements”). The Pension Schedules and Related Ratios are required by GASB 68. These schedules provide users of the report with additional information regarding the pension in which SAI participates. The OPEB Schedules and Related Ratios are required by GASB 75. These schedules provide users of the report with additional information regarding the OPEB plans in which SAI participates.

## **AN ECONOMIC-BASED FINANCIAL ANALYSIS OF SAI**

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### **Management’s Discussion and Analysis on the Economic Basis Financial Condition:**

SAI uses resources to accomplish its mission of assisting other governmental entities to safeguard public assets.

A review of the “Statement of Net Position” and the “Statement of Revenues, Expenses and Changes in Net Position” reports allow a comprehensive assessment of SAI’s financial health. However, in order to assess its overall financial condition, the reader should consider other non-financial factors such as SAI’s resource base and the status of pending projects.

### **Analysis of Financial Accounts**

The tables on the following pages provide SAI’s Net Position information as of the end of fiscal years 2019 and 2018:

(Unaudited)

	2019	2018	% Change
<b>Assets</b>			
<b>Current Assets:</b>			
Cash	\$772,818	\$794,210	-2.69%
Cash-Restricted	18,602	18,531	0.38%
Due From Federal Government	33,758	55,813	-39.52%
Accounts Receivable, Net of Allowance	1,576,913	1,065,746	47.96%
<b>Total Current Assets</b>	<b>\$2,402,091</b>	<b>\$1,934,300</b>	<b>24.18%</b>
<b>Noncurrent Assets:</b>			
Notes Receivable	\$243,292	\$186,254	30.62%
Net OPEB Asset	44,034	0	100.00%
Capital Assets, Net of Accumulated Depreciation	8,533	22,064	-61.33%
<b>Total Noncurrent Assets</b>	<b>\$295,859</b>	<b>\$208,318</b>	<b>42.02%</b>
<b>Total Assets</b>	<b>\$2,697,950</b>	<b>\$2,142,618</b>	<b>25.92%</b>
<b>Deferred Outflows of Resources:</b>			
Deferred Outflows - OPEB	\$134,692	\$132,237	1.86%
Deferred Outflows - Pensions	1,207,865	1,765,005	-31.57%
<b>Total Deferred Outflows</b>	<b>\$1,342,557</b>	<b>\$1,897,242</b>	<b>-29.24%</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$135,630	\$130,809	3.69%
Accrued Wages Payable	16,592	23,272	-28.70%
Unearned Revenue	12,004	0	100.00%
Compensated Absences-Payable within one year	520,358	476,667	9.17%
<b>Total Current Liabilities</b>	<b>\$684,584</b>	<b>\$630,748</b>	<b>8.54%</b>
<b>Noncurrent Liabilities</b>			
Compensated absences-Payable after one year	\$143,928	\$113,282	27.05%
Total OPEB Liability	509,313	520,280	-2.11%
Net OPEB Liability	0	39,174	100.00%
Net Pension Liability	663,668	1,849,123	-64.11%
<b>Total Noncurrent Liabilities</b>	<b>\$1,316,909</b>	<b>\$2,521,859</b>	<b>-47.78%</b>
<b>Total Liabilities</b>	<b>\$2,001,493</b>	<b>\$3,152,607</b>	<b>-36.51%</b>
<b>Deferred Inflows of Resources:</b>			
Deferred Inflows - OPEB	\$134,860	\$110,928	21.57%
Deferred Inflows - Pensions	488,584	331,438	47.41%
<b>Total Deferred Inflows</b>	<b>\$623,444</b>	<b>\$442,366</b>	<b>40.93%</b>
<b>Net Position</b>			
Restricted for OSU	\$18,602	\$18,531	0.38%
Invested in Capital Assets	8,533	22,064	-61.33%
Unrestricted	1,388,436	404,292	243.42%
<b>Total Net Position</b>	<b>\$1,415,571</b>	<b>\$444,887</b>	<b>218.19%</b>

(Unaudited)

<b>Operating Revenues:</b>	<b>2019</b>	<b>2018</b>	<b>% Change</b>
Filing Fees	\$158,000	\$167,200	-5.50%
Charges for Audit Services	7,238,994	6,706,040	7.95%
Other Revenue	204,877	52,882	287.42%
<b>Total Operating Revenues</b>	<b>\$7,601,871</b>	<b>\$6,926,122</b>	<b>9.76%</b>
<b>Operating Expenses:</b>			
Personnel Services	\$9,054,384	\$8,823,276	2.62%
Travel	131,257	112,605	16.56%
Administrative	723,729	661,121	9.47%
Equipment	134,558	210,823	-36.17%
Depreciation	13,531	16,138	-16.16%
<b>Total Operating Expenses</b>	<b>\$10,057,459</b>	<b>\$9,823,963</b>	<b>2.38%</b>
<b>Operating Income (Loss)</b>	<b>(2,455,588)</b>	<b>(2,897,841)</b>	<b>15.26%</b>
<b>Non-Operating Revenues (Expenses):</b>			
Appropriations	\$3,649,500	\$3,362,231	8.54%
Pass-through OSU expenses	(223,228)	(224,884)	0.74%
<b>Total Non-Operating Revenue (Expenses)</b>	<b>\$3,426,272</b>	<b>\$3,137,347</b>	<b>9.21%</b>
<b>Change in Net Position</b>	<b>\$970,684</b>	<b>\$239,506</b>	<b>305.29%</b>
<b>Total Net Position-Beginning</b>	<b>444,887</b>	<b>205,381</b>	<b>-116.62%</b>
<b>Total Net Position-Ending</b>	<b>\$1,415,571</b>	<b>\$444,887</b>	<b>218.19%</b>

## CONTACTING SAI

This report is designed to provide citizens, taxpayers, registrants, and creditors with a general overview of the SAI's finances and to demonstrate accountability for the resources it receives. If you have questions about this report or need additional financial information, contact SAI by mail at 2300 North Lincoln Boulevard, Room 123, State Capitol Building, Oklahoma City, OK 73105, by telephone at (405) 521-3495, or by e-mail at [lhodges@sai.ok.gov](mailto:lhodges@sai.ok.gov).

(Unaudited)



OKLAHOMA STATE AUDITOR AND INSPECTOR  
STATEMENT OF NET POSITION  
JUNE 30, 2019

**ASSETS**

Current Assets:

Cash	\$772,818
Cash-Restricted	18,602
Due from Federal Government	33,758
Accounts Receivable, Net of Allowance of \$123,318	1,576,913
Total Current Assets	<u>\$2,402,091</u>

Noncurrent Assets:

Notes Receivable	\$243,292
Net OPEB Asset	\$44,034
Capital Assets, Net of Accumulated Depreciation of \$85,343	8,533
Total Noncurrent Assets	<u>\$295,859</u>
Total Assets	<u>\$2,697,950</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows - OPEB	\$134,692
Deferred Outflows - Pension	\$1,207,865
Total Deferred Outflows	<u>\$1,342,557</u>

**LIABILITIES**

Current Liabilities:

Accounts Payable	\$135,630
Accrued Wages Payable	16,592
Unearned Revenue	12,004
Compensated Absences-Payable Within One Year	520,358
Total Current Liabilities	<u>\$684,584</u>

Noncurrent Liabilities:

Compensated Absences-Payable After One Year	\$143,928
Total OPEB Liability	\$509,313
Net Pension Liability	\$663,668
Total Noncurrent Liabilities	<u>\$1,316,909</u>
Total Liabilities	<u>\$2,001,493</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows - OPEB	\$134,860
Deferred Inflows - Pension	\$488,584
Total Deferred Inflows	<u>\$623,444</u>

**NET POSITION**

Restricted for OSU	\$18,602
Invested in Capital Assets	8,533
Unrestricted	1,388,436
Total Net Position	<u>\$1,415,571</u>

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

OKLAHOMA STATE AUDITOR AND INSPECTOR  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2019

**Operating Revenues:**

Filing Fees	\$ 158,000
Charges for Audit Services	7,238,994
Other Revenue	204,877
Total Operating Revenues	<u>7,601,871</u>

**Operating Expenses:**

Personnel Services	9,054,384
Travel	131,257
Administrative	723,729
Equipment	134,558
Depreciation	13,531
Total Operating Expenses	<u>10,057,459</u>

<b>Operating Income (Loss)</b>	(2,455,588)
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**Nonoperating Revenues (Expenses):**

Appropriations	3,649,500
Pass-through OSU expenses	(223,228)
Total Nonoperating Revenue (Expenses)	<u>3,426,272</u>

<b>Change in Net Position</b>	970,684
<b>Total Net Position - Beginning</b>	444,887
<b>Total Net position - Ending</b>	<u><u>\$ 1,415,571</u></u>

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

OKLAHOMA STATE AUDITOR AND INSPECTOR  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipt of Filing Fees	\$158,000
Receipt of Charges for Audit Services	6,707,277
Receipt of Other Revenue	202,447
Payments for Personnel Services	(9,531,919)
Payments for Travel	(136,314)
Payments for Administrative	(713,009)
Payments for Equipment	(134,147)
Net Cash Provided (Used) by Operating Activities	<u>(\$3,447,665)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Receipt of Appropriations	\$3,649,500
Pass-through Payments to OSU	(223,156)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$3,426,344</u>

Net Decrease in Cash	(\$21,321)
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Cash July 1, 2018 (Including \$18,531 Reported in Restricted Cash)	<u>812,741</u>
Cash June 30, 2019 (Including \$18,602 Reported in Restricted Cash)	<u><u>\$791,420</u></u>

**Reconciliation of Operating Income to Net Cash  
Provided (Used) by Operating Activities:**

Operating Income (Loss)	<u>(\$2,455,588)</u>
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Due from Federal Government	22,055
(Increase) Decrease in Accounts Receivable	(511,167)
(Increase) Decrease in Notes Receivable	(57,039)
(Increase) Decrease in Capital Assets	13,531
(Increase) Decrease in Net OPEB Asset	(44,034)
(Increase) Decrease in Deferred Outflows-Pensions	557,140
(Increase) Decrease in Deferred Outflows-OPEB	(2,455)
Increase (Decrease) in Accounts Payable	4,750
Increase (Decrease) in Accrued Wages Payable	(6,681)
Increase (Decrease) in Unearned Revenue	12,004
Increase (Decrease) in Compensated Absences Payable in One Year	43,691
Increase (Decrease) in Compensated Absences Payable After One Year	30,646
Increase (Decrease) in Deferred Inflows - Pensions	157,146
Increase (Decrease) in Deferred Inflows - OPEB	23,932
Increase (Decrease) in Total OPEB Liability	(10,967)
Increase (Decrease) in Net OPEB Liability	(39,174)
Increase (Decrease) in Net Pension Liability	(1,185,455)
Total Adjustments	<u>(992,077)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$3,447,665)</u></u>

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

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR**  
**FINANCIAL REPORT**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

The basic financial statements of the Oklahoma State Auditor and Inspector (the Office) have been prepared in conformity with the accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below.

**Notes to the Basic Financial Statements**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Constitution of the State of Oklahoma provides under Article VI, Section 19 for a State Auditor and Inspector. Prior to 1979, the State maintained separate Offices of the State Auditor and the State Examiner and Inspector. However, effective January 8, 1979, a constitutional amendment merged both offices creating the Office of the Oklahoma State Auditor and Inspector (the Office).

The Office is a part of the primary government (State of Oklahoma), and its financial data is included in the State's Comprehensive Annual Financial Report. The accompanying financial statements are intended to present the financial position and results of operations of only that portion of governmental fund activities of the State of Oklahoma that is attributable to the Office.

The Office has the following primary duties as specified in the Constitution and Statutes of Oklahoma, as well as other duties not listed here:

- Examine the books and records of the State Treasurer and all county treasurers;
- Examine the books and records of state agencies, boards, and commissions;
- Conduct audits of the operations of the state's 62 Emergency Medical Services Districts;
- Conduct audits of all 77 counties of the state;
- Conduct audits of all 27 offices of the district attorneys of the state;
- Maintain copies of audit reports of public trusts;
- Maintain a repository for audits and budgets filed by counties, school districts, and towns;
- Provide fiscal support for the Pension Commission;
- Provide fiscal support for the Board of Equalization.

The Office is funded by the Legislature of the State of Oklahoma (the Legislature) through appropriations to perform certain of its constitutional and statutory functions and by various charges, such as those for auditing and filing audit reports.

**B. Basis of Presentation and Accounting**

The Office accounts for its activities within a proprietary fund type. The Office's activities meet the definition of an enterprise fund because it is the intent of the Office to recover, primarily through user charges, the cost of providing goods or services to the general public.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR**  
**FINANCIAL REPORT**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. The accrual basis of accounting is utilized by the proprietary fund. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Assets, Liabilities, and Net Position**

Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. The Office's cash is pooled with the cash of all other state agencies; this pool of cash is deposited in banks or invested by the State Treasurer in accordance with Oklahoma Statutes. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution.

The Office, for the purposes of reporting cash flows, considers cash equivalents to include all highly liquid investments with an original maturity of three months or less.

Cash and Net Assets – Restricted

Each year, the Legislature appropriates funds to the Office to be paid to Oklahoma State University (OSU) for the County Training Program, administered by the Commission on County Government Personnel Education and Training, mandated by 19 O.S., §130.1 et seq. The Office has no administrative duties related to this program. The Legislature appropriated \$223,228 for this program in fiscal year 2019. These funds are legally restricted; therefore, the balance remaining at June 30, 2019 has been shown as restricted cash and restricted net position on the statement of net position.

Due from Federal Government

The Office is under contract with the Federal Department of the Interior to perform audits and related investigations of federal oil and gas leases located in Oklahoma in accordance with section 205 of the Federal Oil and Gas Royalty Act. The amounts presented are reimbursements receivable for work performed during June of fiscal year 2019.

Accounts Receivable

Accounts receivable consist of amounts due from state agencies, counties, school districts, cities, ambulance services, and various quasi-governmental entities in the State for audit services rendered by the Office. The amount presented is net of the allowance for doubtful accounts of

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR**  
**FINANCIAL REPORT**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

\$123,318 for fiscal year 2019. The allowance for doubtful accounts consists of accounts outstanding for more than 120 days with no expectation to collect. The policy of the Office is to bill for the audit services rendered while the audit is in progress. Bills are submitted approximately once per month during the progression of the audit, with a final billing at completion.

Notes Receivable

Notes receivable consist of collectible accounts receivable that are not expected to be fully collected within one year.

Capital Assets

Capital assets are capitalized in the statement of net position. Capital assets are reported at actual cost and net of accumulated depreciation. Capital assets are defined as assets with initial costs of \$5,000 or more and an expected useful life of five years or more. Depreciation is computed on the straight-line method over the estimated useful lives:

Computer equipment	5 years
Furniture and equipment	10 years

A half year's depreciation is taken in the year an asset is placed in service. When assets are disposed of, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded.

Deferred Inflows and Deferred Outflows

Deferred inflows and deferred outflows of resources represent amounts associated with pension and OPEB differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions. Notes 5, 6 and 7 contain additional information on these items.

Accounts Payable

Accounts payable include all unpaid charges for services or goods incurred on or before June 30<sup>th</sup>. These payables represent amounts incurred in the ordinary course of business and are primarily owed to vendors.

Wages Payable

Wages payable consists of all wages earned prior to June 30<sup>th</sup> that were not paid by June 30<sup>th</sup>.

Unearned Revenue

On occasion, auditees overpay the amount due to the Office. When this occurs the amount overpaid is considered unearned until the Office performs the audit services necessary to earn this revenue. In the event the overpayment occurs on the final audit billing and the auditee does not have an upcoming engagement in the near future, the amount overpaid is refunded.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR**  
**FINANCIAL REPORT**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

Compensated Absences

Employees earn annual leave at the average rate of 10 hours per month for up to 5 years service, an average of 12 hours per month for 5 to 10 years, an average of 13.33 hours per month for 10 to 20 years, and an average of 16.67 hours per month for over 20 years of service. Employees with up to 5 years service may accumulate to a maximum of 240 hours and employees with over five years service may accumulate to a maximum of 480 hours.

Personnel Services

Personnel services consists of all payroll and related costs (including regular and part-time salaries, longevity payments, retirement, and group insurance premiums), as well as payments for professional services (such as auditing fees, data processing services, and various other general services).

Pension Plan

The Office participates in two pension plans. The first is a cost-sharing, multiple employer defined benefits pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). This plan applies only to state employees who were employed by the Office before November 1, 2015 or had prior participation in this defined benefits plan.

The second is a tax-qualified defined contribution retirement plan named Pathfinder which is also administered by the OPERS. In a defined contribution plan, no specific benefit is promised to a plan participant. This plan applies only to employees who first became employed by the Office on or after November 1, 2015 and have no prior participation in the defined benefits plan.

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 pension plan and additions to/deletions from the plan's 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.

OPEB Plans

The Office participates in two OPEB plans. The first is a cost-sharing multiple employer health insurance subsidy plan (HISP) administered by OPERS held in an irrevocable trust. The net OPEB liability/asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by OPERS.

The second is a non-trusted single employer OPEB plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65 (implicit rate subsidy of health insurance). The total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the State of Oklahoma.

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Income Taxes

The Office, as an integral part of the State, is exempt from federal and state income taxes.

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 expenditures during the reporting period. Actual results could differ from those estimates.

**Note 2. Capital Assets**

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets - Net</u>
Beginning Balance	\$93,876	(\$71,812)	\$22,064
Increases	\$0	(\$13,531)	(\$13,531)
Decreases	0	0	0
Ending Balance	<u>\$93,876</u>	<u>(\$85,343)</u>	<u>\$8,533</u>

**Note 3. Operating Leases**

The Office leases certain office space, equipment and vehicles which meet the criteria for operating leases. Payments under these operating leases for the 2019 fiscal year were approximately \$379,280. The vehicles are monthly leases and the various office space leases are one-year renewable leases with varying effective dates. The copier leases are either 3 year or 5-year leases depending on the machine and have varying effective dates. The future minimum lease payments for the office space and copier leases are as follows:

2020	\$42,117
2021	5,042
2022	0
2023	0
2024	0
Total	<u>\$47,159</u>

**Note 4. Risk Management**

As part of the State of Oklahoma primary government, the Office's risk of losses to which they are exposed is managed through the State's risk management activities. The Office is subject to risks of loss from tort claims, property loss, health claims, and workers' compensation claims. In general, the State is self-insured for health care claims, workers' compensation claims, tort claims, and property losses. These services are provided by the certain departments of the State's General Fund and two state component units. The Office is at no financial risk of loss from these types of risks.



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**Note 5. Pension Plan Participation**

**A. Plan Description**

The Office participates in the Oklahoma Public Employees Retirement Plan, a cost-sharing multiple employer defined benefit retirement plan administered by the Oklahoma Public Employees Retirement System. A separately issued independent auditor's report may be obtained from the Oklahoma Public Employees Retirement System (OPERS), P.O. Box 53007 Oklahoma City, OK 73152-3007 or can be obtained at [www.opers.ok.gov](http://www.opers.ok.gov). The 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 at the discretion of the State Legislature. This plan applies only to state employees who were employed by the Office before November 1, 2015 or had prior participation in the OPERS defined benefit plan. At June 30, 2019 twenty-eight Office employees were not participating in this defined benefit retirement plan. These employees were instead members of the defined contribution retirement plan discussed in section K of this footnote.

At June 30, the Office's membership consisted of:

Inactive members or their beneficiaries currently receiving benefits	120
Inactive members entitled to but not yet receiving benefits	20
Active members	124
<b>Total</b>	<b>264</b>

**B. Benefits Provided**

a. Eligible to Participate	<p>All permanent employees of the State of Oklahoma, and any other employer such as a county, county hospital, city or town, conservation districts, circuit engineering districts, and any trust in which a county, city, or town participates and is the primary beneficiary, are eligible to join if:</p> <ul style="list-style-type: none"> <li>• The employee is not eligible for or participating in another retirement system authorized under Oklahoma law, is covered by Social Security and not participating in the U.S. Civil Service Retirement System.</li> <li>• The employee is scheduled for 1,000 hours per year and salary is not less than the hourly rate of the monthly minimum wage for state employees (for employees of local government employers, not less than the hourly rate of the monthly minimum wage for such employees).</li> </ul>
b. Period Required to Vest	8 years of credited service.
c. Eligibility for Distribution	<p>Normal retirement:</p> <p>Member before November 1, 2011 one of the following:</p> <ul style="list-style-type: none"> <li>• Age 62 with 6 years of credited service. For elected</li> </ul>

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	<p>officials age 60.</p> <ul style="list-style-type: none"> <li>80 points- The sum of age and years of service equals 80 if member before July 1, 1992.</li> <li>90 points- The sum of age and years of service equals 90 if member after July 1, 1992.</li> </ul> <p>Member after November 1, 2011 one of the following:</p> <ul style="list-style-type: none"> <li>Age 65 with 6 years of credited service. For elected officials age 65 with 8 years of elected service.</li> <li>90 points – At least age 60 and the sum of age and years of service equals 90.</li> </ul> <p>Disability benefit after 8 years of service, provided member qualifies for disability benefits from the Social Security Administration or the Railroad Retirement Board.</p> <p>Death benefit of \$5,000 payable upon death of retiree to the designated beneficiary.</p>
d. Benefit Determination Base	<p>Final average salary – member before July 1, 2013, the average compensation during the highest 36 months out of the last 10 years of service (including highest 3 longevity payments). Member after July 1, 2013, the average highest 60 months out of the last 10 years of service (including highest 5 longevity payments).</p>
e. Benefit Determination Methods:	
• Normal Retirement	<p>2% of member's final average salary multiplied by the years of credited service.</p>
• Disability Retirement	<p>Same as normal retirement</p>
f. Benefit Authorization	<p>Benefits are established in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 901 through 935 as amended.</p>
g. Form of Benefit Payments	<p>Life Annuity, Joint and 50% Survivor, Joint and 100% Survivor Annuity, Life Annuity with a minimum of 120 monthly payments, and Medicare Gap Benefit option.</p>

**C. Contributions**

The authority to set and amend contribution rates is established by ordinance for OPERS defined benefit plan in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 908. The contribution rates for the current fiscal year have been made in accordance with Oklahoma statute. State employees contribute 3.5% on all salary and State agency employers contribute 16.5% of total salary. Contributions to OPERS by the Office for 2019, 2018, and 2017 were as follows:

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<u>2019</u>	<u>2018</u>	<u>2017</u>
\$920,439	\$882,361	\$918,848

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

At June 30, 2019, the Office reported a liability of \$663,668 for its proportionate share of the net pension liability. 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. The Office's proportion of the net pension liability was based on the Office's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2018. Based upon this information, the Office's proportion was 0.34026723%.

For the year ended June 30, 2019, the Office recognized pension expense of \$449,270. At June 30, 2019, the Office 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
Difference between expected and actual experience	\$0	\$373,768
Changes in assumptions	285,413	0
Net difference between projected and actual earnings on pension plan investments	0	108,562
Changes in proportion and differences between agency contributions and proportionate share of contributions	2,013	6,253
Office contributions during measurement date	0	0
Office contributions subsequent to the measurement date	920,439	0
	<u>\$1,207,865</u>	<u>\$488,584</u>

Reported deferred outflows of resources of \$920,439 resulting from the Office's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. The amortization of deferred outflows of resources and deferred inflows of resources related to pensions is as follows:

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2020	\$ 311,836
2021	(54,650)
2022	(376,063)
2023	(82,281)
	<u>\$ (201,158)</u>

**E. Actuarial Methods and Assumptions**

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

Investment return:	7.00% compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.5% 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%
Payroll growth:	3.5% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Percent of married employees:	85% Males; 85% Females
Spouse age difference:	Males 4 years older than females
Turnover:	Varies from 1%-24%

The actuarial assumptions used in the July 1, 2018, valuation 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 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

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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, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
Treasury Inflation-Protected Securities	3.5%	0.7%
Rate anticipation	3.5%	1.5%
	<b><u>100.0%</u></b>	

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

**G. 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%, as well as what the Office's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00%) or 1 percentage-point higher (8.00%) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Net Pension Liability/(Asset)	\$4,258,236	\$663,668	\$ (2,328,532)

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**H. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPERS, which can be located at [www.opers.ok.gov](http://www.opers.ok.gov).

**I. Payables to the Pension Plan**

The accrued wages payable amount reflected on the statement of net position in the amount of \$16,592 includes \$1,370 payable to OPERS.

**J. Legal and Accounting Liability**

Attorney General opinions as well as the Oklahoma Supreme Court have implied that the State of Oklahoma is legally responsible for any pension liability over the employers' set contribution amount. However, GASB Statement 68 requires that the net pension liability be accounted for and reported by the entity that created the liability. Therefore, the SAI portion of the State's net pension liability has been recorded and reported.

**K. Defined Contribution Plan**

The Office also participates in the tax-qualified defined contribution retirement plan named Pathfinder which is administered by the Oklahoma Public Employees Retirement System. In a defined contribution plan, no specific benefit is promised to a plan participant. 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. This plan applies only to state employees who first became employed by the Office on or after November 1, 2015 and have no prior participation in the OPERS defined benefit plan. At June 30, 2019 there were twenty-eight Office employees participating in this plan.

Plan members are required to contribute between 4.5% and 7% of compensation annually. If the employee elects anything less than the 7% maximum, the Office matches the contribution at 6.0%. If the employee elects the maximum of 7%, the Office will match at 7% as well. Employees are progressively vested in employer contributions at a rate of 20% per year and become 100% vested after 5 years of credited service. For the year ended June 30, 2019, the Office contributed \$65,408, and eligible employees contributed \$56,608 to the defined contribution plan.

**Note 6. Other Post-Employment Benefits - Implicit Rate Subsidy of Health Insurance**

**A. Plan Description**

The Employee Group Insurance Division (EGID) is a division of the Office of Management and Enterprise Services (OMES). EGID administers, manages, and provides group health, dental, life, and disability insurance for active employees and retirees of state agencies, school districts, and other governmental units of the State of Oklahoma (the State) through Title 74 of the Oklahoma Statutes, Sections 1301 et seq. as amended. As a state agency, the Office offers this insurance coverage and Office employees receive a post-employment benefit of blended health

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insurance rates. Therefore, the Office recognizes its proportionate piece of the State of Oklahoma Implicit Rate Subsidy of Health Insurance OPEB liability.

This OPEB Plan is a non-trusted single-employer plan in which no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75. Contributions are made by both participants and participating employer agencies on a “pay as you go” basis.

At June 30, the Office’s participant data for the Plan is as follows:

<u>Active Participants:</u>	
Number	112
Average age	45.9
Average years of service	10.9
 <u>Inactive Participants:</u>	
Retirees and surviving spouses	9
Average age	59.7
Covered spouses	1
Average age	<u>58.6</u>
 Total participants	 <u>122</u>

**B. Benefits Provided**

The Plan covers all current retirees of the Office and provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the Plan before retiring. The State of Oklahoma provides postretirement medical benefits through the Plan until age 65 if the retiree and spouse pay the full active premium. Participants can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma and the authority granted to EGID.

The amount of benefit payments during fiscal year 2018 and 2019 were \$38,570 and \$40,573.

**C. OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2019 the Office reported a liability of \$509,313 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of July 1, 2018. The total OPEB liability used was determined by an actuarial valuation as of June 30, 2018. The Office’s proportion of the total OPEB liability was based on SAI’s active employees of the plan relative to the total participation of the substantive plan as of June 30, 2018. Based upon this information, the Office’s proportion was 0.3483628% percent.

Changes of assumptions reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018 resulting in recognition of a deferred inflow of resources.

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For the year ended June 30, 2019, the Office recognized OPEB expense of \$28,817. At June 30, 2019, the Office reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$0	\$3,389
Changes in assumptions	0	16,051
Net difference between projected and actual earnings on pension plan investments	0	0
Changes in proportion and differences between Agency contributions and proportionate share of contributions	160	2,235
Office contributions subsequent to the measurement date	40,753	0
	<u>\$40,913</u>	<u>\$21,675</u>

Reported deferred outflows of resources of \$40,753 related to OPEB resulting from the Office's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. The amortization of deferred outflows of resources and deferred inflows of resources related to OPEB is as follows:

2020	\$ (7,749)
2021	(7,749)
2022	(5,196)
2023	(821)
	<u>\$(21,515)</u>

**D. Actuarial Methods and Assumptions**

The total OPEB liability was determined based on actuarial valuations prepared using a July 1, 2018 measurement date using the following actuarial assumptions:

Investment return:	Not applicable, as the 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-2018
Salary scale, retirement rate, withdrawal rate, and disability rate:	Actuarial assumptions are based on rates for the various retirement systems that the Plan's participants are in, including:



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	<ul style="list-style-type: none"> <li>• Oklahoma Public Employees Retirement System</li> <li>• Oklahoma Law Enforcement Retirement System</li> <li>• Teachers' Retirement System of Oklahoma</li> <li>• Uniform Retirement System of Justices &amp; Judges</li> <li>• Oklahoma Dept. of Wildlife Conservation Defined Benefit Pension Plan</li> </ul>
Plan entry date:	Date of hire
Healthcare trend rate:	7.10% decreasing to 4.60%
Actuarial cost method:	Entry age normal based upon salary
Plan participation:	40% of retired employees are assumed to participate in the Plan
Marital assumptions:	<p>Male participants: 25% who elect coverage are assumed to have a spouse who will receive coverage</p> <p>Female participants: 15% who elect coverage are assumed to have a spouse who will receive coverage</p>
Spouse age difference:	Males are assumed to be 3 years older than their spouses
Discount rate:	Based on bond buyer index

The June 30, 2019 valuation is based on a measured date of July 1, 2018, with a measurement period of July 1, 2017, to July 1, 2018.

**E. Changes in the Total OPEB Liability**

The following table reports the components of the changes in the total OPEB liability for the year ended June 30, 2019:

Balance at the beginning of the year	\$520,280
Changes for the year:	
Service cost	18,079
Interest expense	18,486
Changes in assumptions	(6,954)
Change in proportion	(2,975)
Deferred inflows changes	746
Benefits paid	<u>(38,349)</u>
Net changes	<u>(10,967)</u>
Balance at end of year	\$509,313

**F. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the Office's proportionate share of the total OPEB liability, as well as what the Office's proportionate share of the total OPEB liability would be if it were calculated

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using a discount rate that is 1 percentage-point lower (2.87%) or 1 percentage-point higher (4.87%) than the current discount rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Employers Total OPEB Liability	\$543,462	\$509,313	\$477,528

**G. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the Office's proportionate share of the total OPEB liability, as well as what the Office's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (6.1% decreasing to 3.6%) or 1 percentage-point higher (8.1% decreasing to 5.6%) than the current healthcare cost trend rates:

	6.1% Decreasing to 3.6%	Current 7.1% Decreasing to 4.6%	8.1% Decreasing to 5.6%
Employers Total OPEB Liability	\$463,463	\$509,313	\$562,536

**Note 7. Other Post-Employment Benefits - Health Insurance Subsidy Plan (OPERS)**

**A. Plan Description**

The Office participates in the Supplemental Health Insurance Program, a cost-sharing multiple-employer defined benefit OPEB plan administered by the Oklahoma Public Employees Retirement System (OPERS). The authority to establish and amend benefit provisions rests with the State Legislature. OPERS issues a publicly available financial report that can be obtained at [www.opers.ok.gov](http://www.opers.ok.gov).

**B. Benefits Provided**

OPERS pays a medical insurance supplement to eligible members who elect to maintain health insurance with the Employees Group Insurance Division (EGID) or other qualified insurance plans provided by the State. 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. The supplement payment is capped at \$105 per month per retiree, remitted to EGID.

At June 30, the Office's membership consisted of:

Inactive members or their beneficiaries currently receiving benefits	120
Inactive members entitled to but not yet receiving benefits	20
Active members	124
Total	264

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**C. Contributions**

The contribution rates for each member category of the System 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 contributions to the System are set aside to finance the cost of the benefits of the Health Insurance Subsidy Plan (HISP) in accordance with provisions of the Internal Revenue Code. Based on the contribution requirements of the plan employers and employees contribute a single amount based on a single contribution rate of 16.5% as described in Note 5 above; from this amount OPERS allocates a portion of the contributions to the supplemental health insurance program. Contributions allocated to the OPEB plan from the Office for SFY18 and SFY19 were \$61,760 and \$67,968.

**D. OPEB Liabilities (Assets), Expense, Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2019, the Office reported an asset of \$(44,034) for its proportionate share of the net OPEB liability (asset). The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of June 30, 2018. The Office's proportion of the net OPEB liability (asset) was based on the Office's contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2018. Based upon this information, the Office's proportion was 0.34026723%

For the year ended June 30, 2019, the Office recognized OPEB expense of \$7,207. At June 30, 2019, the Office reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$0	\$69,232
Changes in assumptions	25,811	0
Net difference between projected and actual earnings on OPEB plan investments	0	40,834
Changes in proportion and differences between Agency contributions and proportionate share of contributions	0	3,119
Office contributions subsequent to the measurement date	67,968	0
	<u>\$93,779</u>	<u>\$113,185</u>

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Reported deferred outflows of resources of \$67,968 related to OPEB resulting from the Office's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability (asset) in the year ended June 30, 2020. The amortization of deferred outflows of resources and deferred inflows of resources related to OPEB is as follows:

2020	\$ (22,387)
2021	(22,387)
2022	(22,387)
2023	(11,873)
2024	(7,561)
Thereafter	(779)
	<u><u>\$(87,374)</u></u>

**E. Actuarial Methods and Assumptions**

The total OPEB liability (asset) was determined on an actuarial valuation prepared as of July 1, 2018, using the following actuarial assumptions:

Investment return:	7.00% compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.5% 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%
Payroll growth:	3.5% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Health Care Trend Rate:	N/A based on how the System is structured and benefit payments are made

The actuarial assumptions used in the July 1, 2018 valuation 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

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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, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	3.8%
U.S. small cap equity	6.0%	4.9%
U.S. fixed income	32.0%	1.4%
Non-US Equity	24.0%	9.2%
	<b><u>100.0%</u></b>	

**F. Discount Rate**

The discount rate used to measure the total OPEB liability (asset) was 7.00% for 2018. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the current contribution rate as set out in state statute. Based on those assumptions, the OPEB plan's fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability (asset). The discount rate determined does not use a municipal bond rate.

**G. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the Office's proportionate share of the total OPEB liability (asset), as well as what the Office's proportionate share of the total OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 %) or 1 percentage-point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Employer's Net OPEB Liability	\$70,107	\$(44,034)	\$(142,208)

**H. OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report of the OPERS; which can be located at [www.opers.ok.gov](http://www.opers.ok.gov).

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**Note 8.    Long-Term Obligations**

Long-term debt is comprised of accrued compensated absences. Vested accrued leave, up to a total of 480 hours, is payable upon termination, resignation, retirement, or death. In the statement of net position, this accrued leave is reported as a liability. The amount due within one year varies from year to year based on personnel turnover and the amount reported is an estimate. For the year ended June 30, 2019, accrued compensated absences liabilities changed as follows:

<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2019</u>	<u>Amount Due Within One Year</u>
\$589,949	\$499,885	\$425,548	\$664,286	\$520,358

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**Required Supplementary Information  
Pension Schedules and Related Ratios**

**Schedule 1  
Oklahoma Public Employees Retirement System  
Schedule of Proportionate Shares**

	2018	2017	2016	2015	2014
SAI proportion of the net pension liability	0.34026723%	0.34201032%	0.34255227%	0.34940826%	0.36926475%
SAI proportional share of the net pension liability/(asset)	\$663,668	\$1,849,123	\$3,398,908	\$1,256,765	\$677,838
SAI covered payroll	\$5,877,151	\$6,079,333	\$6,168,427	\$6,068,896	\$6,253,691
SAI proportionate share of the net pension liability/(asset) as a percentage of covered payroll	11.29%	30.42%	55.10%	20.71%	10.84%
OPERS fiduciary net position as a percentage of the total pension liability	97.96%	94.28%	89.48%	96.00%	97.90%

**Schedule 2  
Oklahoma Public Employees Retirement System  
Schedule of Contributions**

	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$920,439	\$882,361	\$983,161	\$1,015,404	\$1,019,159	\$1,031,859	\$1,020,328
Contributions in relation to the contractually required contributions	\$920,439	\$882,361	\$983,161	\$1,015,404	\$1,019,159	\$1,031,859	\$1,020,328
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SAI's covered payroll	\$6,233,295	\$5,877,151	\$6,079,333	\$6,168,427	\$6,068,896	\$6,253,691	\$6,183,806
Contributions as a percentage of covered payroll	14.8%	15.0%	16.2%	16.5%	16.8%	16.5%	16.5%

**Notes to Schedule:**

GASB Statement 68 requires the information presented in the Schedules of Required Supplementary Information cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 68 and is the latest information available.

Benefit Changes: Information to present a 10-year history is not readily available

Changes in Actuarial Assumptions: Information to present a 10-year history is not readily available

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**Required Supplementary Information  
OPEB Schedules and Related Ratios**

**Schedule 1**

**Oklahoma Public Employees Health Insurance Subsidy Plan  
Schedule of Proportionate Share of Net OPEB Liability/(Asset)**

	<b>2018</b>	<b>2017</b>
SAI proportion of the net OPEB liability/asset	.34026723%	0.34201032%
SAI proportional share of the net OPEB liability (asset)	\$(44,034)	\$39,174
SAI covered payroll	\$5,877,151	\$6,079,333
SAI proportionate share of the net OPEB liability (asset) as a percentage of covered payroll	(0.75) %	0.64%
OPERS fiduciary net position as a percentage of the total OPEB liability/asset	103.94%	96.5%

**Schedule 2**

**Oklahoma Public Employees Health Insurance Subsidy Plan  
Schedule of Contributions**

	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$67,968	\$61,760
Contributions in relation to the contractually required contributions	\$67,968	\$61,760
Contribution deficiency (excess)	\$0	\$0
SAI's covered payroll	\$6,233,295	\$5,877,151
Contributions as a percentage of covered payroll	1.09%	1.05%

**Notes to Schedule:**

GASB Statement 75 requires the information presented in the Schedules of Required Supplementary Information cover the 10 most recent fiscal years. Only the current fiscal year is presented because 10-year data is not readily available.

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**Required Supplementary Information  
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**Schedule 3**

**Implicit Rate Subsidy of Health Insurance OPEB Liability**

**Schedule of Changes in Total OPEB Liability and Related Ratios**

	<b>2018</b>	<b>2017</b>
Total OPEB liability:		
Proportion of the total OPEB liability	.3483628%	0.35036650%
Proportionate share of the total OPEB liability	509,313	520,280
Covered employee payroll	5,877,151	\$6,079,333
Total OPEB liability as a percentage of covered employee payroll	8.67%	8.56%

**Notes to Schedule:**

GASB Statement 75 requires the information presented in the Schedules of Required Supplementary Information cover the 10 most recent fiscal years. Only the current fiscal year is presented because 10-year data is not readily available.

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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

State of Oklahoma  
Oklahoma State Auditor and Inspector  
Oklahoma City, 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 Oklahoma State Auditor and Inspector, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Oklahoma State Auditor and Inspector's basic financial statements, and have issued our report thereon dated February 14, 2020.

**Internal Control over Financial Reporting**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "HBC CPAs & Advisors". The signature is written in a cursive, stylized font.

Oklahoma City, Oklahoma  
February 14, 2020