

FINANCIAL AUDIT

OKLAHOMA ACCOUNTANCY BOARD

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT

As of and for the fiscal years ended June 30, 2016 and 2015



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

October 18, 2016

**TO THE HONORABLE MARY FALLIN
GOVERNOR OF THE STATE OF OKLAHOMA**

This is the audit report and financial statements of the Oklahoma Accountancy Board for the fiscal years ended June 30, 2016 and June 30, 2015. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

This report is also a public document pursuant to the Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style with a long, sweeping underline.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR AND INSPECTOR

OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2016 and 2015

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**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2016 and 2015**

BOARD MEMBERS

Fiscal Year 2016

Term

Jay Engelbach, CPA, Chairperson	07/01/11 to 06/30/16	Oklahoma City, Oklahoma
Barbara A. Ley, CPA, Vice Chair	07/01/06 to 06/30/17	Oklahoma City, Oklahoma
David Greenwell, CPA, Secretary	07/01/13 to 06/30/18	Oklahoma City, Oklahoma
Mike Sanner, CPA	07/01/10 to 06/30/20	Jones, Oklahoma
Marc Delametter, CPA	07/01/14 to 06/30/19	Tulsa, OK
Karen Cunningham, ChFC	Coterminous Beginning 5/2011	Oklahoma City, Oklahoma
Jody M. Manning	12/01/11 to 06/30/21	Tulsa, OK

Fiscal Year 2015

Term

Mike Sanner, CPA, Chairperson	07/01/10 to 06/30/15	Jones, Oklahoma
Jay Engelbach, CPA, Vice Chair	07/01/11 to 06/30/16	Oklahoma City, Oklahoma
Jody M. Manning, Secretary	12/01/11 to 06/30/16	Tulsa, Oklahoma
Barbara A. Ley, CPA	07/01/06 to 06/30/17	Oklahoma City, Oklahoma
David Greenwell, CPA	07/01/13 to 06/30/18	Norman, Oklahoma
Marc Delametter, CPA	07/01/14 to 06/30/19	Tulsa, OK
Karen Cunningham, ChFC	Coterminous Beginning 5/2011	Oklahoma City, Oklahoma



Oklahoma State Auditor & Inspector

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INDEPENDENT AUDITOR'S REPORT

TO THE OKLAHOMA ACCOUNTANCY BOARD

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Accountancy Board (OAB), as of and for the years ended June 30, 2016 and 2015, and the related notes to the 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 respective financial position of the OAB, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years 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 OAB are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the general fund of the State of Oklahoma that is attributable to the transactions of the OAB. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 10 and 11 to the financial statements, in FY 2015 the OAB adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Government Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment to GASB Statement 68*.

Our opinion is not modified with respect to these matters.

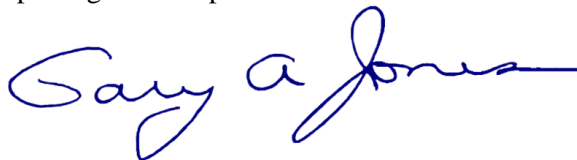
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension schedules and related ratios as listed in the table of contents 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 October 18, 2016 on our consideration of the OAB'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 OAB's internal control over financial reporting and compliance.



GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR AND INSPECTOR
October 18, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2016 and 2015**

MANAGEMENT'S DISCUSSION AND ANALYSIS SUMMARY

The management of the Oklahoma Accountancy Board (OAB) 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 the OAB financial condition and activities as of and for the fiscal years ended June 30, 2016 and 2015. Management of the OAB 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 years ended June 30, 2016 and 2015, the following financial results are considered noteworthy by management.

- Due to the new GASB 68 pension standards, the FY15 financial statements were revised. Implementation of the new pension standards caused beginning net position to decrease by \$265,013 to \$1,854,298 and ending net position to decrease by \$174,900 to \$2,004,775 for the year ended June, 30, 2015. For the year ended June 30, 2016, the OAB's total net position increased \$99,056, or 4.9%, from the prior year.
- Because of the new GASB 68 pension standards, there was a revision to the FY15 comparative financial statements. Deferred outflows has a balance of \$97,417 for FY15 and increased by \$103,646 or 106.4% in FY16. Meanwhile, deferred inflows began with a FY15 balance of \$214,043 and decreased \$52,739 or 24.6%. The net pension liability for FY16 is \$116,016 which is an increase of \$57,742 or 99.1%.
- For the year ended June 30, 2016, OAB operating revenues decreased \$19,512, or 1.5%, over the prior year. Then, because of the new pension reporting requirements, personnel services was decreased by \$90,114 in the revised FY15 statements. Therefore, total expenses increased \$34,601, or 3.1% for FY16. For the year ended June 30, 2015, OAB program revenue increased \$16,243, or 1.3%.
- For the year ended June 30, 2016, OAB accounts receivable decreased \$2,125, or 12.8% over the prior year. This amount compares to a decrease of \$14,550 for June 30, 2015, and an increase of \$300 for June 30, 2014. The dramatic decrease in FY15 was due to increased efforts to alert registrants to complete their annual registration in a timely fashion to stay in compliance. For the year ended June 30, 2016, OAB unearned revenue decreased \$1,966, or 0.3% over the prior year. This decrease compares to an increase of \$8,171 or 1.2% for June 30, 2015 and decrease of \$1,986 or 0.3% for June 30, 2014.
- Fines receivable decreased by \$19,662 or 45.0% in FY 2016, and due to state decreased by \$19,662, or 45.0%. These decreases were due to a minimal increase in new receivables and a large increase in the fines allowance account which is made up of receivables past due 12 months or longer.
- The OAB reports its financial activity as an enterprise fund.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA ACCOUNTANCY BOARD
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USING THIS REPORT

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

The OAB's Reporting Entity

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

Overview of the OAB's Reporting Entity Presentation

The financial statements consist of three parts as follows:

Financial Statements: The fund financial statements report information, on the accrual basis of accounting and economic resources measurement focus, about the OAB as a whole using accounting methods similar to those used by private-sector companies. The "Statement of Net Position" includes all the OAB's assets, liabilities, deferred outflows and deferred inflows as of the fiscal years 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.

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: This 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 benchmarks presented throughout Management's Discussion and Analysis are for guidance and measurement by the OAB and its constituents. The benchmarks are not required by either the State of Oklahoma or GASB Statement No. 34. The Pension Schedules and Related Ratios are new this year and required by GASB Statement No. 68. These schedules provide users of the report with additional information regarding the pension plan in which the OAB participates.

AN ECONOMIC-BASED FINANCIAL ANALYSIS OF OAB

Management's Discussion and Analysis on the Economic Basis Financial Condition:

One of the most important questions asked about the OAB is, "Has the entity utilized its resources to accomplish its mission assigned by the legislature of protecting the public?"

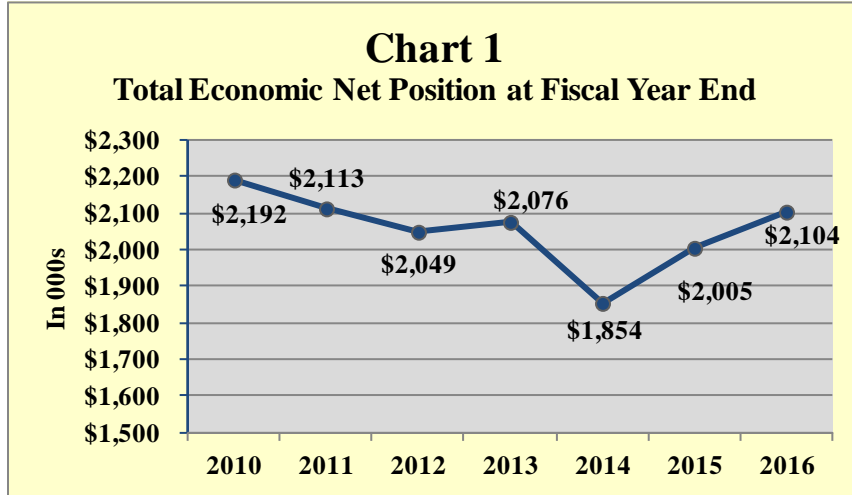
The "Statement of Net Position" and the "Statement of Revenues, Expenses and Changes in Net Position" report information about the OAB as an economic entity that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the OAB resource base and the status of its pending projects, to assess the overall health of the OAB. These economic basis statements include all OAB assets and liabilities, including capital assets.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA ACCOUNTANCY BOARD
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AN ECONOMIC-BASED FINANCIAL ANALYSIS OF OAB, Cont.

For the years ended June 30, 2010 through 2016, the OAB’s overall financial condition changed as noted below.

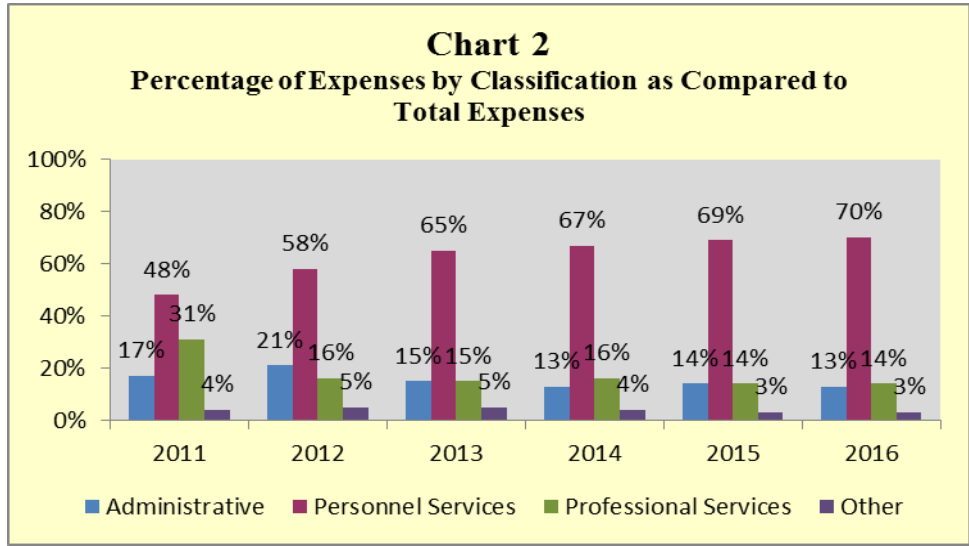


	2011	2012	2013	2014	2015	2016
Percentage Change in Net Position	-3.6%	-3.0%	+1.3%	-10.7%	+8.1%	+4.9%

For the year ended June 30, 2016 the OAB’s total net position increased by \$99,056, or 4.9%. For the year ended June 30, 2015, the OAB’s total net position increased by \$150,477, or 8.1%. For the year ended June 30, 2014, the OAB’s total net position decreased by \$222,109, or -10.7%, as a result of the implementation of the new pension reporting requirements.

(Unaudited. See accompanying auditor’s report.)

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FUTURE OUTLOOK

The Oklahoma Accountancy Board replaced their licensing system with a new system to be utilized by multiple licensing agencies throughout state government on February 1, 2012. The Board is a pilot agency for the project and became the first state agency in Oklahoma to implement the AMANDA licensing system. Moving into FY16, the Board continued to enhance the AMANDA licensing system, which will continue through the foreseeable future to maximize efficiency internally and enhance outreach to the profession. With enhanced capabilities the Board will begin monitoring compliance issues associated with continuing education to a much greater degree.

ABOUT OAB

The Oklahoma Accountancy Board is a part of the primary government of the State of Oklahoma. The first accountancy law was enacted by the Oklahoma Legislature in 1916. The OAB was continued by the legislature in 2014, in accordance with provisions of the Oklahoma Sunset Law. The OAB is composed of five Certified Public Accountants (CPAs), one Public Accountant (PA) or an individual that meets the education requirements to sit as a Public Accountant, and one public member. The responsibilities of the OAB include determining the eligibility of applicants to become candidates for the CPA and PA examinations and registering accountants, sole-proprietorships, partnerships, professional corporations, limited liability partnerships, and limited liability companies eligible to practice public accounting in Oklahoma. Also, the OAB regulates the practice and conduct of Certified Public Accountants and Public Accountants.

(Unaudited. See accompanying auditor's report.)

OKLAHOMA ACCOUNTANCY BOARD
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CONTACTING OAB

This report is designed to provide citizens, taxpayers, registrants, and creditors with a general overview of the OAB's finances and to demonstrate accountability for the resources it receives. If you have questions about this report or need additional financial information, contact the OAB Executive Director's Office by mail at 201 N.W. 63rd Street, Suite 210, Oklahoma City, OK 73116, by telephone at (405) 521-2397, or by e-mail at www.ok.gov/oab.

BASIC FINANCIAL STATEMENTS

OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2016 and 2015

Statement of Net Position
June 30, 2016 and 2015

	June 30,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,944,438	\$ 2,938,938
Accounts receivable	14,500	16,625
Fines receivable, net of allowance of \$2,173,178 and \$2,155,451, respectively	24,055	43,717
Accounts receivable-cost recovery, net of allowance \$130,790 and \$128,452, respectively	10,750	15,256
Prepaid assets	3,417	7,064
Total current assets	2,997,160	3,021,600
Non-current assets:		
Capital assets, net of accumulated depreciation	5,383	4,515
Total assets	3,002,543	3,026,115
DEFERRED OUTFLOWS OF RESOURCES		
Total deferred outflows	201,063	97,417
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 34,361	\$ 37,023
Unearned revenue	691,295	693,261
Due to state	24,055	43,717
Current compensated absences	21,823	21,732
Total current liabilities	771,534	795,733
Non-current liabilities:		
Non-current compensated absences	50,921	50,707
Net Pension Liability	116,016	58,274
Total non-current liabilities	166,937	108,981
Total liabilities	938,471	904,714
DEFERRED INFLOWS OF RESOURCES		
Total deferred inflows	161,304	214,043
NET POSITION		
Invested in capital assets	5,383	4,515
Unrestricted	2,098,448	2,000,260
Total net position	\$ 2,103,831	\$ 2,004,775

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

OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2016 and 2015

Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Licenses, permits, and fees	\$ 1,282,176	\$ 1,291,229
Cost recovery	10,816	21,275
Total operating revenues	<u>1,292,992</u>	<u>1,312,504</u>
Operating Expenses:		
Personnel services	805,993	772,100
Professional services	157,982	151,225
Travel	28,326	36,771
Administration expense	154,791	154,274
Depreciation expense	6,464	4,585
Total operating expenses	<u>1,153,556</u>	<u>1,118,955</u>
Operating income (loss)	139,436	193,549
Non-Operating Revenues (Expenses):		
Other income	<u>17,013</u>	<u>15,808</u>
Total non-operating revenues	<u>17,013</u>	<u>15,808</u>
Income (loss) before contributions and transfers	156,449	209,357
Transfers out	<u>(57,393)</u>	<u>(58,880)</u>
Change in net position	99,056	150,477
Total net position - beginning	2,004,775	1,854,298
Total net position - ending	<u><u>\$ 2,103,831</u></u>	<u><u>\$ 2,004,775</u></u>

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

OKLAHOMA ACCOUNTANCY BOARD
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Statement of Cash Flows
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of license, permits, fees, and cost	\$ 1,314,669	\$ 1,343,852
Payments to suppliers	(340,123)	(327,560)
Payments to employees	(904,321)	(852,662)
	<u>70,225</u>	<u>163,630</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out - State of Oklahoma	(57,393)	(58,880)
	<u>(57,393)</u>	<u>(58,880)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(7,332)	(1,483)
	<u>(7,332)</u>	<u>(1,483)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,500	103,267
Balances - beginning of the year	<u>2,938,938</u>	<u>2,835,671</u>
Balances - end of the year	<u>\$ 2,944,438</u>	<u>\$ 2,938,938</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 139,436	\$ 193,549
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Other income	17,013	15,808
Depreciation expense	6,464	4,587
Change in assets and liabilities:		
Decrease (Increase) in accounts receivable	2,125	14,550
Decrease (Increase) in fines receivable	19,662	(506)
Decrease (Increase) in costs receivable	4,506	(7,183)
Decrease (Increase) in prepaid assets	3,647	4,099
Decrease (Increase) in deferred outflows	(103,646)	(8,673)
Increase (Decrease) in accounts payable	(2,662)	10,603
Increase (Decrease) in unearned revenue	(1,966)	8,171
Increase (Decrease) in due to state	(19,662)	506
Increase (Decrease) in accrued compensated absences	305	9,560
Increase (Decrease) in net pension liability	57,742	(295,484)
Increase (Decrease) in deferred inflows	(52,739)	214,043
	<u>\$ 70,225</u>	<u>\$ 163,630</u>
Net cash provided by (used in) operating activities	<u>\$ 70,225</u>	<u>\$ 163,630</u>

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

FOOTNOTES TO THE FINANCIAL STATEMENTS

OKLAHOMA ACCOUNTANCY BOARD
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Footnotes to the Statement of Net Position and Statement of Activities:

1. *Summary of Significant Accounting Policies*

The accompanying financial statements of the Oklahoma Accountancy Board (OAB) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of Oklahoma that is attributable to the transactions of the OAB.

A. *Reporting Entity*

The Oklahoma Accountancy Board is a part of the primary government of the State of Oklahoma. The first accountancy law was enacted by the Oklahoma Legislature in 1916. The OAB was continued by the legislature in 2014, in accordance with provisions of the Oklahoma Sunset Law. The OAB is composed of five Certified Public Accountants (CPAs), one Public Accountant (PA) or an individual that meets the educational requirements to sit as a Public Accountant, and one public member. The responsibilities of the OAB include determining the eligibility of applicants to become candidates for the CPA and PA examinations and registering accountants, sole-proprietorships, partnerships, professional corporations, limited liability partnerships, and limited liability companies eligible to practice public accounting in Oklahoma. Also, the OAB regulates the practice and conduct of Certified Public Accountants and Public Accountants.

B. *Fund Financial Statements*

The fund financial statements (the statement of net position and the statement of revenues, expenses and changes in net position) report information for OAB. OAB is classified as an enterprise activity; its function is the Regulatory Services function. The OAB is accounted for and presented similar to a special-purpose government engaged solely in business-type activities.

Operating revenues consist primarily of fees for licenses and permits to practice public accounting remitted by Certified Public Accountants, Public Accountants and Firms. Also included in operating revenues are fees paid by candidates to sit for the examination.

The OAB reports its financial activity as an enterprise fund.

C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Revenue Recognition:

Fund Financial Statements

The fund financial statements display information about OAB as a whole. They are reported using the economic resources measurement focus and the accrual basis of

OKLAHOMA ACCOUNTANCY BOARD
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accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Net Position Accounting Policies

Net position is normally displayed in three components (two of which are applicable to the OAB):

- a. *Invested in capital assets*—Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. *Restricted net position*—Consists of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, or laws and regulations.
- c. *Unrestricted net position*—All other net position that do not meet the definition of “restricted” or “invested in capital assets.”

E. Cash

Cash and cash equivalents include amounts on deposit with and under the control of the State Treasurer. These amounts are collateralized in accordance with 62 O.S. 2001, § 72.1, the Security for Public Deposits Act. The bank balances as of June 30, 2016 and 2015 were fully insured or collateralized with securities held by the State’s agent in the State’s name.

F. Accounts Receivable

Accounts receivable reflect monies received in July and August for renewal notices sent prior to June 30th. Renewal notices relate to permits and registrations for Certified Public Accountants, Public Accountants and firms. Amounts shown as accounts receivable and unearned revenue are for permits and registrations for year’s beginning on or after July 1, 2016.

G. Fines Receivable, Accounts Receivable – Cost Recovery, and Due to State

The OAB in its enforcement program assesses fines and costs of investigation by certain registrants for violations of the Oklahoma Accountancy Act. When collected, the amount of the fines is remitted to the State General Fund and the costs are retained by the OAB. Beginning in fiscal year 2008, the OAB adopted the accounting methodology needed to more appropriately account for the fines receivable, cost receivable, and the related amount due to the state. All fines and costs receivable 365 days or older were considered to be uncollectible.

**OKLAHOMA ACCOUNTANCY BOARD
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		Cost Recovery		
		Accounts Receivable	Allowance	Net
June 30, 2016		\$141,540	\$130,790	\$10,750
June 30, 2015		\$143,708	\$128,452	\$15,256

		Fines Receivable		
		Accounts Receivable	Allowance	Net
June 30, 2016		\$2,197,233	\$2,173,178	\$24,055
June 30, 2015		\$2,199,168	\$2,155,451	\$43,717

In addition to the Fines Receivable and the related amounts Due to State which are reflected in the financial statements, fines in the amount of \$23,935 and \$19,597 were collected and remitted to the State General Fund during the fiscal years 2016 and fiscal year 2015, respectively.

At June 30, 2015 and 2016, the Due to State of \$43,717 and \$24,055, respectively, reflects fines receivable due to the state (see footnote 9).

H. Capital Assets

Capital assets are capitalized in the statement of net position. Capital assets are reported at actual or estimated historical cost and net of accumulated depreciation. Capital assets are defined as assets that have a cost in excess of \$500 at the date of acquisition and have an expected useful life of 3 or more years, and consist primarily of information systems equipment, furniture, and other equipment. Depreciation is computed on the straight-line method over the estimated useful life of 6 years for office furniture and equipment and 3 years for information systems and related equipment.

I. Deferred Inflows and Deferred Outflows

Deferred inflows and deferred outflows of resources represent amounts associated with pension differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions (see footnote 7).

J. Accounts Payable

Accounts payable include charges for all services or claims incurred on or before June 30. These payables represent amounts incurred in the ordinary course of business and are primarily owed to vendors.

K. Unearned Revenue

Unearned revenues arise when resources are received by the OAB before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met or when OAB has legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

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L. Compensated Absences

Employees earn annual vacation at the average rate of 10 hours per month for up to 5 years of service and may accumulate to a maximum of 240 hours. Employees earn 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. Annual leave for employees with over 5 years of service may accumulate to a maximum of 480 hours. All accrued annual leave is payable upon layoff, resignation, retirement, or death.

2. Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. OAB'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.

3. Operating Leases

The OAB entered into operating lease agreements for office space, off-site storage, copier, and postage machines. Payments under these operating leases for the 2016 and 2015 fiscal years were approximately \$62,401 and \$63,432, respectively. The lease on the copier and the postage machine are effective until June 30, 2021 and the lease for the office space is effective until June 30, 2017. The future minimum lease payments for these leases are as follows:

2017	\$61,917
2018	\$9,213
2019	\$9,213
2020	\$9,213
2021	<u>\$9,213</u>
Total	<u>\$98,769</u>

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4. Capital Assets

For the years ended June 30, 2016 and 2015, changes in capital assets were as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets	124,238	7,332	(12,376)	119,194
Accumulated depreciation	(119,723)	(6,464)	12,376	(113,811)
	\$4,515	\$868	-	\$5,383

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets	127,781	1,483	(5,026)	124,238
Accumulated depreciation	(112,151)	(4,585)	5,026	(119,723)
	\$7,617	(\$3,102)	-	\$4,515

5. Long-term Obligations

Long-term obligations are comprised of accrued compensated absences. For the years ended June 30, 2016 and 2015, the liability for accrued compensated absences liabilities changed as follows:

Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
\$72,439	50,804	50,499	72,744	\$21,823

Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Amounts Due Within One Year
\$62,878	45,951	36,390	72,439	\$21,732

6. Risk Management

As part of the primary government, the State of Oklahoma, the risk of losses to which the OAB may be exposed is covered through the risk management activities of the State, and any losses and liabilities are the responsibility of, and financed through, the State's risk management activities. The Risk Management Division of the Office of Management and Enterprise Services (OMES) Division of Capital Assets Management (DCAM) is empowered by the authority of 74 O.S., Section 85.58 et seq. The division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for use by the State or for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The State Risk Management is authorized to settle claims of the State and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the State, agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act, as prescribed by 51 O.S., Section 154. The Risk Management Division oversees the

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collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State.

7. Pension Plan

A. Plan Description

The OAB 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 (OPERS). A separately issued independent auditor's report may be obtained from the Public Employees Retirement System, P.O. Box 53007 Oklahoma City, OK 73152-3007 or can be obtained at 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.

B. Benefits Provided

a. Eligible to Participate

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:

- ❖ 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.
- ❖ 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).

Membership is mandatory for new eligible employees on the first of the month following employment. Effective November 1, 2015, the Plan is closed to most new State employees. Any employee with service in the System prior to November 1, 2015 will continue to be a member or will join the System upon re-employment with a participating employer.

b. Period Required to Vest

Eight years of credited service.

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c. Eligibility for Distribution

- ❖ Normal retirement:
 - Member before November 1, 2011 one of the following:
 - Age 62 with 6 years of credited service. For elected officials age 60.
 - 80 points- The sum of age and years of service equals 80 if member before July 1, 1992.
 - 90 points- The sum of age and years of service equals 90 if member after July 1, 1992.
 - Member after November 1, 2011 one of the following:
 - Age 65 with 6 years of credited service. For elected officials age 65 with 8 years of elected service.
 - 90 points – At least age 60 and the sum of age and years of service equals 90.
- ❖ Disability benefit after 8 years of service, provided member qualifies for disability benefits from the Social Security Administration or the Railroad Retirement Board.
- ❖ Death benefit of \$5,000 payable upon death of retiree to the designated beneficiary.

d. Benefit Determination Base

Final average salary – member before July 1, 2013, the average compensation during the highest 3 years out of the last 10 years of service (including highest 3 longevity payments). Member after July 1, 2013, the average highest 5 out of the last 10 years of service (including highest 5 longevity payments).

e. Benefit Determination Methods

- ❖ Normal Retirement:
2% of member's final average salary multiplied by the years of credited service.
- ❖ Disability Retirement:
Same as normal retirement.

f. Benefit Authorization

Benefits are established in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Sections 901 through 935 as amended.

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g. Form of Benefit Payments

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.

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. The rate for state employees is 3.5% of their covered salary and 16.5% of covered payroll for state agencies for 2016, 2015 and 2014. Contributions to OPERS by the Accountancy Board were \$100,553, \$94,082 and \$88,743 for 2016, 2015 and 2014, respectively.

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

At June 30, 2016 the Board reported a liability of \$116,016 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The OAB's proportion of the net pension liability was based on the Board's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2015. Based upon this information, the Accountancy Board's proportion was 0.03225498%.

For the year ended June 30, 2016, the Board recognized pension expense of \$1,909. At June 30, 2016, the Board 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		\$12,899
Changes in assumptions	\$1,805	
Net difference between projected and actual earnings on pension plan investments	95,779	148,405
Changes in proportion and differences between Board contributions and proportionate share of contributions	2,926	
Board contributions subsequent to the measurement date	100,553	
	<u>\$201,063</u>	<u>\$161,304</u>

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Reported deferred outflows of resources of \$100,553 resulting from the Accountancy Board's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows	Deferred Inflows
2017	\$26,915	\$(59,793)
2018	25,553	(51,915)
2019	24,097	(49,596)
2020	23,945	0
	<u>\$100,510</u>	<u>\$(161,304)</u>

E. Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2015 and 2014 using the following actuarial assumptions:

- Investment return- 7.5% compounded annually net of investment expense and including inflation
- Salary increases- 4.5% to 8.4% per year, including inflation
- Mortality rates- Active participants and nondisabled pensioners:RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- Annual post-retirement benefit increases- None
- Assumed inflation rate- 3%
- Payroll growth- 4% per year
- Actuarial cost method- Entry age
- Select period for the termination of employment assumptions- 10 years
- Percentage of married individuals- 85%, males and females
- Spouse age difference- Males four years older than spouse
- Turnover- Varies from 1-22%

The actuarial assumptions used in the July 1, 2015 and 2014 valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

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

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The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2015 and 2014, 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%
	<u>100.0%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50% for both years. 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 of the employer calculated using the discount rate of 7.50%, as well as what the Accountancy Board's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

	1% Decrease (<u>6.5%</u>)	Current Discount Rate (<u>7.5%</u>)	1% Increase (<u>8.5%</u>)
2015 Net Pension Liability (asset)	\$432,305	\$116,016	\$(152,880)
2014 Net Pension Liability (asset)	\$362,801	\$58,274	\$(200,617)

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.

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I. Accountancy Board Portion

The amounts presented below represent Net Pension Liability, Deferred Outflows, Deferred Inflows, and Pension Expense related to OPERS recorded to the Statement of Net Position. The amounts were determined based on the actuarial valuations performed as of July 1, 2015 and 2014 which is also the measurement dates.

	<u>Board %</u>	<u>Pension Assets</u>	<u>Pension Liabilities</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Pension Expense</u>
2015	0.03225498%	\$2,785,683	\$2,901,699	\$116,016	\$(201,063)	\$161,304	\$1,909
2014	0.03174592%	\$2,720,659	\$2,778,933	\$58,274	\$(97,417)	\$214,043	\$3,968

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 Accountancy Board's portion of the State's net pension liability has been recorded and reported.

8. *Other Postemployment Benefits*

In addition to the pension benefits described above, the State provides post-retirement healthcare benefits (OPEB) to employees. OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, toward the cost of the monthly insurance premium for all retirees of OPERS who elect coverage at the time of retirement and retain health insurance coverage with the Oklahoma of Management and Enterprise Services: Employees Group Insurance Division (EGID). The retiree must pay the balance of the monthly health insurance premium plus any dependent coverage premiums. There is no OPEB obligation information available specific to the OAB.

9. *Payment to State of Oklahoma*

Under provisions of 59 O.S., Section 15.7, the "Board shall pay into the General Revenue Fund of the State ten percent (10%) of all annual registration fees so charged, collected, and received, and no other portion shall ever revert to the General Revenue Fund or any other fund of the state." The OAB paid \$57,393 to the State General Revenue Fund in fiscal year 2016 and \$58,880 in fiscal year 2015, related to the 10% General Revenue Fund.

In addition, under the provision of 59 O.S., Section 15.24, "all monies, excluding costs, collected from civil penalties authorized in this section, such penalties being enforceable in the district courts of this state, shall be deposited with the State Treasurer to be paid into the General Revenue Fund of the state." The amount assessed for civil penalties are recorded as Fines Receivable and a Due to State. During fiscal year 2016 and 2015, the OAB collected and remitted \$23,935 and \$19,597, respectively, and remitted these amounts to the State.

The OAB maintains a clearing account in which all amounts are deposited. When these transfers are made to the State General Revenue Fund, they are made directly from the OAB's clearing account.

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10. GASB Statement No 68

In June of 2012 the Governmental Accounting Standards Board (GASB) issued Statement 68 *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*. The objective of this statement is to improve financial reporting by state and local governments for pensions. It also improves information provided by governmental employers about financial support for pensions that is provided by other entities.

This Statement replaces the requirements of Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement 50 *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this statement.

The scope of this statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The OAB was required to implement this standard for the fiscal year ended June 30, 2015.

11. GASB Statement No 71

In November 2013 GASB issued Statement 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement 68*. The objective of this statement is to address an issue regarding application of the transition provisions of statement 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The OAB was required to implement this standard for the fiscal year ended June 30, 2015.

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12. *Prior Period Adjustment*

Pursuant to guidance regarding pension reporting under GASB 68, the FY-15 financial statements have been restated to reflect the pension liability of the Board and the corresponding expense, deferred outflows, and deferred inflows. Liabilities increased by \$58,274, beginning net position decreased by \$265,013, ending net position decreased by \$174,900, deferred inflows and deferred outflows accounts were adjusted to \$214,043 and \$97,417, respectively. In addition, the amount reported for Personnel Services decreased by \$90,114.

REQUIRED SUPPLEMENTARY INFORMATION

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
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**Required Supplementary Information
Pension Schedules and Related Ratios**

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

	<u>2015</u>	<u>2014</u>
OAB proportion of the net pension liability	0.03225498%	0.03174592%
OAB proportional share of net pension liability	\$116,016	\$58,274
OAB covered-employee payroll	\$570,192	\$537,835
OAB proportionate share of net pension liability as a percentage of covered payroll	20.35%	10.83%
OPERS fiduciary net position as a percentage of the total pension liability	96.00%	97.90%

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$100,553	\$94,082	\$88,743	\$85,719
Contributions in relation to the contractually required contributions	\$100,553	\$94,082	\$88,743	\$85,719
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
OAB's covered employee payroll	\$609,410	\$570,192	\$537,835	\$519,508
Contributions as a percentage of covered employee payroll	16.5%	16.5%	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.



Oklahoma State Auditor & Inspector

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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 OKLAHOMA ACCOUNTANCY BOARD

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Accountancy Board (OAB), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2016. The report includes an emphasis of matter paragraph stating that the financial statements of the OAB are intended to present the financial position and results of daily operations of only that portion of the general fund of the State of Oklahoma attributable to the transactions of the OAB.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OAB'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OAB's internal control. Accordingly, we do not express an opinion on the effectiveness of the OAB'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 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 the 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 OAB'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 Audit Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR AND INSPECTOR

October 18, 2016



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