



FINANCIAL STATEMENTS

JUNE 30, 2013

Includes Independent Auditor's

Report Issued By



Office of the Oklahoma State Auditor and Inspector

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of the Oklahoma State Auditor and Inspector ("the Office"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office'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 Office of the Oklahoma State Auditor and Inspector as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 7 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 May 14, 2014, on our consideration of the Office of the Oklahoma State Auditor and Inspector'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 Office of the Oklahoma State Auditor and Inspector's internal control over financial reporting and compliance.

HBC CPAs & Advisors

Yukon, Oklahoma
May 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS SUMMARY

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, 2013. 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, 2013 the following financial results are considered noteworthy by management.

- SAI's operating revenue increased \$176,994, or 2.92%, over the prior year. The increase in revenue is due to greater efficiencies in completing audits.
- SAI's operating expenses increased \$743,732, or 7.43%, over the prior year. Increased operating expenses are for securing and retaining qualified personnel, increased travel costs and upgrading telephone equipment. SAI audits all 77 Oklahoma counties, and most state agencies, boards and commissions. Travel expense is regularly incurred to conduct the audit field work and reports for the various types of audits SAI conducts.
- Since SAI's operating expenditures increased by \$743,732 and operating revenue increased by \$176, 994, the results are a decrease in the total net position of \$177,151, or -12.72%, from the prior year.
- SAI's notes receivable increased \$37,070, or 121.99% over the prior year. Notes Receivable are collectible accounts receivable that are not expected to be fully collected within one year. Since more investigative audits are being completed, resulting in criminal charges being filed for inappropriate behavior, Judges are ordering offenders to pay the costs of the audits performed. The payments often extend for more than one year.

USING THIS REPORT

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.

(Unaudited)

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.

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").

AN ECONOMIC-BASED FINANCIAL ANALYSIS OF SAI

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.

(Unaudited)

Analysis of Financial Accounts

The following table provides SAI's Net Position information as of the end of fiscal years 2013 and 2012:

	2013	2012	% Change
Assets			
Current Assets:			
Cash	\$935,691	\$853,461	9.63%
Cash-Restricted	77,619	34,592	124.38%
Due From Federal Government	62,036	66,702	-6.99%
Accounts Receivable, Net of Allowance	954,064	1,099,071	-13.19%
Total Current Assets	\$2,029,410	\$2,053,826	-1.19%
Noncurrent Assets:			
Notes Receivable	\$68,802	\$30,993	121.99%
Capital Assets, Net of Accumulated Depreciated	4,358	6,995	-37.70%
Total Noncurrent Assets	\$73,160	\$37,988	92.59%
Total Assets	\$2,102,570	\$2,091,814	0.51%
Liabilities			
Current Liabilities:			
Accounts Payable	\$332,605	\$175,851	89.14%
Accrued Wages Payable	22,020	10,522	109.28%
Compensated Absences-Payable within one year	452,439	449,105	0.74%
Total Current Liabilities	\$807,064	\$635,478	27.00%
Noncurrent Liabilities			
Compensated absences-payable after one year	\$79,666	\$63,345	25.77%
Total noncurrent liabilities	\$79,666	\$63,345	25.77%
Total liabilities	\$886,730	\$698,823	26.89%
Net Position			
Restricted for OSU	\$77,619	\$34,592	124.38%
Invested in Capital Assets	4,358	6,995	-37.70%
Unrestricted	1,133,863	1,351,404	-16.10%
Total Net Position	\$1,215,840	\$1,392,991	-12.72%

(Unaudited)

	2013	2012	% Change
Operating Revenues:			
Filing Fees	\$161,407	\$156,900	2.87%
Audit fees	5,969,357	5,817,245	2.61%
Other fees	103,330	82,955	24.56%
Total Operating Revenues	\$6,234,094	\$6,057,100	2.92%
Operating Expenses:			
Personal Services	\$9,659,750	\$9,134,595	5.75%
Travel	223,462	182,211	22.64%
Administrative	758,655	637,177	19.07%
Equipment	115,006	59,158	94.41%
Depreciation	2,637	2,637	0%
Total Operation Expenses	\$10,759,510	\$10,015,778	7.43%
Operating income (loss)	(4,525,416)	(3,958,678)	14.32%
Non-operating revenues (expenses):			
Appropriations	\$4,706,986	\$4,706,986	0%
Pass-through OSU expenses	(358,721)	(336,566)	6.58%
Total Non-operating revenue(expenses)	\$4,348,265	\$4,370,420	-0.51%
Change in net position	(\$177,151)	\$411,742	-143.02%
Total net position-beginning	1,392,991	981,249	41.96%
Total net position-ending	\$1,215,840	\$1,392,991	-12.72%

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 100, State Capitol Building, Oklahoma City, OK 73105, by telephone at (405) 521-3495, or by e-mail at dthomas@sai.ok.gov.

(Unaudited)

OKLAHOMA STATE AUDITOR AND INSPECTOR
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current assets:

Cash	\$935,691
Cash-Restricted	77,619
Due from federal government	62,036
Accounts receivable, net of allowance of \$705,912	954,064
Total current assets	\$2,029,410

Noncurrent assets:

Notes Receivable	\$68,802
Capital Assets, net of accumulated depreciation of \$8,827	4,358
Total noncurrent assets	\$73,160
Total assets	\$2,102,570

LIABILITIES

Current liabilities:

Accounts payable	\$332,605
Accrued wages payable	\$22,020
Compensated absences-payable within one year	452,439
Total current liabilities	\$807,064

Noncurrent liabilities:

Compensated absences-payable after one year	\$79,666
Total noncurrent liabilities	\$79,666
Total liabilities	\$886,730

NET POSITION

Restricted for OSU	\$77,619
Invested in capital assets	\$4,358
Unrestricted	1,133,863
Total net position	\$1,215,840

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, 2013

Operating revenues:	
Filing Fees	\$ 161,407
Audit Fees	5,969,357
Other Fees	<u>103,330</u>
Total operating revenues	<u>6,234,094</u>
Operating expenses:	
Personal Services	9,659,750
Travel	223,462
Administrative	758,655
Equipment	115,006
Depreciation	<u>2,637</u>
Total operating expenses	<u>10,759,510</u>
Operating income (loss)	(4,525,416)
Nonoperating revenues (expenses):	
Appropriations	4,706,986
Pass-through OSU expenses	<u>(358,721)</u>
Total nonoperating revenue (expenses)	<u>4,348,265</u>
Change in net position	(177,151)
Total net position - beginning	<u>1,392,991</u>
Total net position - ending	<u><u>\$ 1,215,840</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipt of filing fees	\$161,407
Receipt of audit fees	6,094,166
Receipt of other fees	90,385
Payments for personal services	(9,619,500)
Payments for travel	(220,450)
Payments for administrative	(649,381)
Payments for equipment	(122,662)
Net cash provided (used) by operating activities	(\$4,266,035)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipt of appropriations	\$4,706,986
Pass-through payments to OSU	(315,694)
Net cash provided (used) by noncapital financing activities	\$4,391,292

Net increase in cash \$125,257

Cash July 1, 2012 (including \$34,592 reported in restricted cash)	888,053
Cash June 30, 2013 (including \$77,619 reported in restricted cash)	\$1,013,310

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income	(\$4,525,416)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in due from federal government	4,666
(Increase) decrease in accounts receivable	145,007
(Increase) decrease in notes receivable	(37,809)
(Increase) decrease in capital assets	2,637
Increase (decrease) in accounts payable	113,727
Increase (decrease) in accrued wages payable	11,498
Increase (decrease) in compensated absences payable in one year	3,334
Increase (decrease) in compensated absences payable after one year	16,321
Total adjustments	259,381
Net cash provided by operating activities	(\$4,266,035)

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, 2013**

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 a separate Office of the State Auditor and the Office of the State Examiner and Inspector. However, effective January 8, 1979, a constitutional amendment merged the Office of the State Auditor and the Office of the State Examiner and Inspector, 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 are 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 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 State Treasurer's and all county treasurers' books and records;
- Examine the books and records of state agencies, boards, and commissions;
- 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 fees charged, such as those for auditing and filing audit reports.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

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 Agency to recover, primarily through user charges, the cost of providing goods or services to the general public.

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 Equity

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, consider cash equivalents to include all highly liquid investments with an original maturity of three months or less.

Capital Assets

Capital assets are capitalized in the statement of net assets. 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.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

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.

Accounts Payable

Accounts payable include all unpaid charges for services or goods incurred on or before June 30. 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 30th that were not paid by June 30th.

Income Taxes

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

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 \$307,166 for this program in fiscal year 2013 and the Office collected \$51,555 from county governments for a total of \$358,721. These funds are legally restricted; therefore, the balance remaining at June 30, 2013 has been shown as restricted cash and restricted net position on the *Statement of Net Position*.

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 \$705,912 for fiscal year 2013. The allowance for doubtful accounts consists of accounts outstanding for more than 120 days.

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.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

Notes Receivable

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

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 May and June of fiscal year 2013.

Personal Services

Personal 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).

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, 2013 was as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets - Net</u>
Beginning Balance	\$13,185	(\$6,190)	\$6,995
Increases	0	(2,637)	(2,637)
Decreases	0	0	0
Ending Balance	<u>\$13,185</u>	<u>(\$8,827)</u>	<u>\$4,358</u>

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

Note 3. Operating Leases

The Office leases certain office space and equipment which meet the criteria for operating leases. Total costs of such leases were approximately \$665,422 for fiscal year 2013. The future minimum lease payments for these leases are as follows:

2014	\$15,532
2015	5,302
2016	0
2017	0
2018	0
Total	<u>\$20,834</u>

After fiscal year 2013 ended, the Office entered into a lease agreement for a new Oklahoma City location. The lease is an \$110,177 annual lease for office space with four yearly renewal options.

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.

Note 5. Pension Plan Participation

The Office contributes to the Oklahoma Public Employees Retirement System (OPERS) plan. The OPERS is a statewide cost-sharing multiemployer defined benefit retirement plan. A separately issued annual report for OPERS may be obtained from the Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, 73118-7484. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension benefit provisions are established and amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

Plan members and agencies are required to contribute at rates established by State law. For fiscal year 2013, plan member's contribution rate was 3.5% for all salary levels. The agency's contribution for the entire fiscal year was 16.5%, computed based on all salaries. For the fiscal year ended June 30, 2013, the Office's contributions to the plan, which were equal to the required contributions, were \$1,020,328; contributions for the preceding fiscal year were \$958,743.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

Note 6. Other Post-Employment Benefits

In addition to the pension benefits described above, the State provides post-retirement health care benefits to retirees. OPERS pays \$105 per month for all retirees who elect coverage at the time of retirement. There is no OPEB obligation information available specific to the Office.

Note 7. 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, 2013, accrued compensated absences liabilities changed as follows:

<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Amount Due</u> <u>Within One Year</u>
\$532,234	\$447,540	\$447,669	\$532,105	\$452,439

Note 8. GASB Statement No. 63

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position provides guidance for governments to report deferred outflows of resources, deferred inflows of resources, and net position as defined by Concepts Statement No. 4, Elements of Financial Statements. As a part of these new requirements, financial statement presentations have been changed to reflect the implementation of GASB Statement No. 63 beginning with fiscal year 2013. As of June 30, 2013 there were no deferred outflows or inflows of resources to be reported.



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
Office of the 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 Office of the Oklahoma State Auditor and Inspector a component unit of the State of Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which comprise Office of the Oklahoma State Auditor and Inspector's basic financial statements, and have issued our report thereon dated May 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office of 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 Office of the Oklahoma State Auditor and Inspector's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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.

HBC CPAs & Advisors

Yukon, Oklahoma
May 14, 2014