



OKLAHOMA TAX COMMISSION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

For the Fiscal year Ended June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

OKLAHOMA TAX COMMISSION
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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Cindy Byrd, CPA | State Auditor & Inspector

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June 3, 2021

**TO THE HONORABLE KEVIN STITT,
GOVERNOR OF THE STATE OF OKLAHOMA**

This is the audit report of the Oklahoma Tax Commission for the year ended June 30, 2018. 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.

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

Sincerely,

CINDY BYRD, CPA

OKLAHOMA STATE AUDITOR AND INSPECTOR



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FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

TO THE COMMISSIONERS OF THE OKLAHOMA TAX COMMISSION

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oklahoma Tax Commission, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Oklahoma Tax Commission'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 opinions.

Opinions

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

Emphasis of Matters

As discussed in Note 1, the financial statements of the Oklahoma Tax Commission are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the Oklahoma Tax Commission. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, in fiscal year 2018 the Oklahoma Tax Commission restated beginning Net Position as the result of GASB 75 implementation. In addition, the Oklahoma Tax Commission restated beginning balances of various accounts resulting from a misapplication of accounting principles in prior years. See 18-695-100 in the schedule of findings.

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 on pages 4-10, the pension schedules on pages 59-60, and the other post-employment benefit (OPEB) schedules on pages 61-63 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oklahoma Tax Commission's basic financial statements. The budgetary comparison information on pages 52-58 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2021, on our consideration of the Oklahoma Tax Commission'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 Tax Commission's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR AND INSPECTOR

May 18, 2021

Management's Discussion and Analysis

As management of the Oklahoma Tax Commission, we offer readers of the Commission's financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2018.

FINANCIAL HIGHLIGHTS

- The Commission's total net position increased 1400% to \$4.95 million during the fiscal year ending June 30, 2018 after a prior period adjustment restated the net position from \$9.48 million to \$0.33 million as of July 30, 2017.
- The Commission's program revenues for the fiscal year decreased 1.94% or \$.96 million from the prior year while expenses increased 9.90% or \$20.79 million for the year. Appropriations for FY18 decreased 2.95% to \$42.73 million from FY17.
- The assets of fiduciary funds, which represent taxes held in trust for distribution to state and local governments and others, totaled \$1.92 billion at June 30, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Commission.

The government-wide financial statements are designed to present an overall picture of the Commission's financial status.

The remaining statements are fund financial statements that focus on individual parts of the Commission, reporting the Commission's operations in more detail than the government-wide statements.

- The governmental statements explain how the general government services were financed in the short term as well as what remains for future spending.
- Fiduciary fund statements provide information about the financial relationships in which the Commission acts solely as trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

Government-wide Statements

The government-wide statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Commission's net position and how they have changed. Net position -- the difference between the Commission's assets and liabilities -- is one way to measure the Commission's financial health, or position.

- Over time, increases or decreases in the Commission's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Commission, you need to consider additional non-financial factors such as changes in administrative requirements added by legislation and changes in state and local tax rates and the overall tax base.

The government-wide financial statements of the Commission consist of only one category:

- Governmental activities -- All of the basic activities are included here, such as the general administration, taxpayer services, tax return processing, audit and compliance.

Fund Financial Statements

The fund financial statements provide more detailed information about the Commission's most significant funds -- not the Commission as a whole. Funds are accounting devices that the Commission uses to keep track of specific sources of funding and spending for particular purposes.

All funds are required by State law. The Commission has two kinds of funds:

- Governmental funds -- Most of the Commission's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- Fiduciary funds -- The Commission is the trustee, or fiduciary, for taxes levied by local governments and the majority of all state taxes levied for funding the essential services and infrastructure of the State Government of Oklahoma. The Commission is responsible for ensuring that the assets reported in these funds are apportioned or distributed as provided by law. All of the Commission's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Commission's government-wide financial statements because the Commission cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COMMISSION AS A WHOLE

Net Position

The Commission's net position increased between fiscal years 2017 and 2018 to \$4.95 million. During FY18 the Commission transfers in fund balance exceeded transfers out by \$98.65 million. Table A-1 illustrates the changes between the two years in more detail.

TABLE A-1
Summary of Net Position
as of June 30, 2018 and 2017
(in millions of dollars)

| | Governmental Activities | | Increase | Percent |
|---------------------------------------|--------------------------------|----------------|-------------------|-----------------|
| | 2018 | 2017 | (Decrease) | Change |
| Current And Other Assets | \$ 51.44 | \$ 47.96 | \$ 3.48 | 7.26% |
| Capital Assets, Net of Depreciation | 9.13 | 12.51 | (3.38) | (27.02%) |
| Total Assets | 60.57 | 60.47 | 0.10 | 0.17% |
| Deferred Outflows of Resources | 9.92 | 13.92 | (4.00) | (28.74%) |
| Current And Other Liabilities | 48.25 | 51.51 | (3.26) | (6.33%) |
| Noncurrent Liabilities | 14.96 | 21.41 | (6.45) | (30.13%) |
| Total Liabilities | 63.21 | 72.92 | (9.71) | (13.32%) |
| Deferred Inflow of Resources | 2.33 | 1.14 | 1.19 | 104.39% |
| Net Position | | | | |
| Invested In Capital Assets | 9.13 | 12.51 | (3.38) | (27.02%) |
| Unrestricted | (4.18) | (12.18) | 8.00 | (65.7%) |
| Total Net Position | \$ 4.95 | \$ 0.33 | \$ 4.62 | 1400.00% |
| (after prior period adjustment) | | | | |

Net position of the Commission's governmental activities increased \$4.62 million to \$4.95 million, and unrestricted net position increased by \$8.00 million during the year after a prior period adjustment restated the net position from \$9.48 million to \$0.33 million as of July 30, 2017. The increase is largely due to the decrease in pension liabilities by \$7.92 million after last year's restatement to implement GASB 75. The net decrease of \$3.38 million in capital assets is due to the decline of development costs associated with the Commission's integrated taxpayer software system.

Statement of Activities

The Commission's total revenues for the fiscal year ending June 30, 2018 increased 4.37% or \$4.07 million over the prior year while expenses increased \$20.79 million or 9.90%. The expense increase is primarily due to the increased reimbursements to counties and schools for lost Ad Valorem tax revenue from tax exemptions to qualified manufacturing facilities and double homestead exemptions granted to qualifying home owners as specified in 62 O.S., Section 193. See Table A-2 on the next page.

TABLE A-2
Summary of Changes in Net Position
Years Ended June 30, 2018 and 2017
(in millions of dollars)

| | Governmental Activities | | Increase | Percent |
|--------------------------------------|--------------------------------|-----------------|-------------------|-----------------|
| | 2018 | 2017 | (Decrease) | Change |
| Program Revenues: | | | | |
| Charges for Services | \$ 48.46 | \$ 49.42 | (0.96) | (1.94%) |
| Grants | - | - | - | 0.00% |
| General Revenues | | | | |
| Taxes | 38.68 | 33.41 | 5.27 | 15.77% |
| Fees | 9.88 | 10.26 | (0.38) | (3.70%) |
| Other | 0.26 | 0.12 | 0.14 | 116.67% |
| Total Revenues | 97.28 | 93.21 | 4.07 | 4.37% |
| State Appropriations | 42.73 | 44.03 | (1.30) | (2.95%) |
| Transfers In | 102.83 | 61.25 | 41.58 | 67.89% |
| Transfer Out | (4.18) | (5.36) | 1.18 | (22.01%) |
| Total Other Financing Sources | | | | |
| (Uses) | 141.38 | 99.92 | 41.46 | 41.49% |
| Expenses: | | | | |
| General Government | (230.51) | (209.72) | (20.79) | 9.9% |
| Depreciation | (3.53) | (3.59) | 0.06 | (1.67%) |
| Total Expenditures | (234.04) | (213.31) | (20.73) | 9.72% |
| Change in Net Position | 4.62 | (20.18) | 24.80 | (122.89%) |
| Net Position - Fiscal Year Beginning | 0.33 | 20.51 | (20.18) | (98.39%) |
| Net Position - Fiscal Year Ending | \$ 4.95 | \$ 0.33 | \$ 4.62 | 1400.00% |
| (after prior period adjustment) | | | | |

The Net Position – Fiscal Year Beginning has been restated due to an accounting change and adjustments made for accounts receivables, taxes and fee receivables and taxes refund payables, and pension and other post-employment liabilities, deferred outflows of resources and deferred inflows of resources. See Note 15.

Fiduciary Fund Statements

The Commission, acting on statutory authority and contractual agreements, collects taxes, licenses and fees, which are distributed to state and local governments and private entities. At June 30, 2018 the Commission maintained as a fiduciary \$1,916,395,800 in total assets for others. Of that amount \$444,671,515 was due to taxpayers for refunds and the balance is due to state entities, local government subdivisions and private entities.

FINANCIAL ANALYSIS OF THE COMMISSION'S INDIVIDUAL FUNDS

The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund

The General Fund is the primary operating fund of the Commission. The fund's total assets increased 3.38% between fiscal years 2017 and 2018 to \$27.51 million. The fund's total liabilities and deferred inflows of revenue decreased 44.66% between fiscal years 2017 and 2018 to \$3.37 million. This resulted in an overall increase in fund balance of \$3.63 million or 17.70%.

License Plate Program Fund

The License Plate Program Fund's purpose is to distribute proceeds from the sale of special license plates to designated agencies for the benefit of the sponsored organization. The fund's assets increased 937.50% from \$1,440 in fiscal year 2017 to \$14,940 in fiscal year 2018. The increase was due to the issuance of the new Bison License Plate. The distribution of the proceeds from the License Plate Program Fund takes place in December of each year. Since the proceeds of this program are from individual license plate purchases, this figure may change from year to year based on participation.

Oklahoma Tax Commission Compliance Fund

The Oklahoma Tax Commission Compliance Fund was created by SB 750 during the 2011 legislative session, which amended 68 O.S., 2001, Section 2702. This fund was established to reimburse a municipality for enhanced collections of state sales taxes pursuant to an agreement entered into between the municipality and the Commission. The Commission has budgeted for this fund since inception but to date has not entered into the stipulated agreement for enhanced collections. No revenues have been apportioned to this fund nor expenditures paid during FY18. This fund is included in the other information, which reports budget versus actual information but is not included in the Governmental Fund Financial Statements as no activity was recorded during FY18.

Used Tire Recycling Indemnity Fund

The Used Tire Recycling Indemnity Fund's purpose is to receive the proceeds from statutory fees assessed on tires sold in the state and to reimburse facilities for the disposal of waste tires from designated sites, provide payments for end users of tire products, and provide funds for soil erosion control. There was a decrease in fund balance of \$60,603 in FY18.

Oklahoma Tax Commission (OTC) Protest Fund

The Oklahoma Tax Commission Protest Fund's purpose is to reimburse all cases where it is alleged or claimed that fees or taxes of the state are in a whole or in part unconstitutional or otherwise invalid. If a written protest is made and a suit is filed in a timely manner, the fees or taxes paid under protest shall be retained in the appropriate "Protest Fund" pending a final determination of the suit as specified in 62 O.S., Section 206. Judgement was found in favor of the taxpayer and escrow funds for late/no file administrative penalty in the amount of \$219,676 plus interest were disbursed in FY18.

Film Rebate Fund

The Film Rebate Fund's purpose is to reimburse film companies a percentage of their expenses for producing films, television programs, or commercials in the State of Oklahoma. The Oklahoma Film and Music Office approves all claims from the fund and submits them for payment to the Commission. Four million dollars (\$4,000,000) was budgeted to the fund in FY18 to cover film projects under an agreement with the Oklahoma Film and Music Office. Film rebate payments are made after the film project is completed and expenditure reports have been audited by the Oklahoma Film and Music Office's outside audit firm. This timing difference between when an agreement is signed and funds are committed, and when the production is actually complete and audited for compliance, accounts for the variance in rebate payments from year to year. For fiscal year 2018, payments totaling \$2,474,485 were made to companies.

Ad Valorem Reimbursement Fund

The Ad Valorem Reimbursement Fund's purpose is to reimburse counties and schools for lost ad valorem tax revenue from tax exemptions to qualified manufacturing facilities and double homestead exemptions granted to qualifying homeowners as specified in 62 O.S., Section 193. The fund's FY18 liability for reimbursement to counties and schools totaled \$135.56 million. The remaining balance of \$39.62 million due to counties will be satisfied with FY19 collections. SB 1600 transferred in \$92.7 million for FY19 to go towards the \$93.97 million due to schools. This deficit in funding available to cover current obligations causes the deficit fund balance for FY18. Revenue projections for both FY18 and FY19 show minimal growth. The difference between the obligation due and current revenue collections available to satisfy the obligation continues to grow each year resulting in a fund balance deficit.

BUDGET INFORMATION

Budget versus Actual Variances

Budgeted charges to appropriations for the fiscal year exceeded actual totals by \$16.89 million while actual resources available were higher than budgeted resources by \$52.76 million, resulting in a positive overall variance of \$69.66 million.

Next Year's Budget

The Commission budget for Fiscal Year 2019 was developed with available appropriations and estimated income from tax collections and fees associated with operating activities. The original budget totaled \$107.58 million, down \$141.23 million from the final budget of \$248.81 million for Fiscal Year 2018. The decrease in budget between Fiscal Years 2018 and 2019 consists primarily of a reduction in the amount available for reimbursements from the Ad Valorem Reimbursement Fund.

Of the \$107.58 million total budget, \$90.64 million is designated as General Fund, representing expenditures necessary for the performance of the Commission's statutory functions, and auditing, collection and legal activities. The remaining \$16.94 million includes \$4 million for the Oklahoma Film Enhancement Rebate Reimbursement Fund, \$3 thousand for the License Plate Special Program, \$9.74 million for the Used Tire Recycling Indemnity Fund, and \$3.2 million for implementations to be made to the OneLink Integrated Tax System.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and the Executive and Legislative branches with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report or need additional information, contact the Oklahoma Tax Commission Comptroller's Office at 2501 North Lincoln, Oklahoma City, OK 73194.

**OKLAHOMA TAX COMMISSION
GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2018**

| | Governmental Activities |
|--------------------------------------|-----------------------------|
| ASSETS | |
| Current Assets: | |
| Cash | \$ 32,230,483 |
| Investments | 979,419 |
| Accounts Receivable | 1,982,126 |
| Taxes & Fees Receivable | 3,833,769 |
| Due From Agency Fund | 12,135,957 |
| Inventory | 78,174 |
| Prepaid Expense | 200,827 |
| Total Current Assets | <u>51,440,755</u> |
| Noncurrent Assets: | |
| Capital Assets (Net Of | |
| Accumulated Depreciation) | <u>9,131,246</u> |
| Total Noncurrent Assets | <u>9,131,246</u> |
| TOTAL ASSETS | <u><u>\$ 60,572,001</u></u> |
| DEFERRED OUTFLOW OF RESOURCES | |
| Related To Pension | \$ 9,224,897 |
| Related To OPEB | 691,978 |
| Total Deferred Inflows of Resources | <u>\$ 9,916,875</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | \$ 44,508,066 |
| Tax Refunds Payable | 3,437,442 |
| Accrued Payroll | 49,078 |
| Compensated Absences | 260,992 |
| Total Current Liabilities | <u>48,255,578</u> |
| Noncurrent Liabilities: | |
| Compensated Absences | 2,878,981 |
| Net OPEB Liability | 190,699 |
| Total OPEB Liability | 2,884,993 |
| Net Pension Liability | 9,001,540 |
| Total Noncurrent Liabilities | <u>14,956,213</u> |
| TOTAL LIABILITIES | <u>\$ 63,211,791</u> |
| DEFERRED INFLOW OF RESOURCES | |
| Related To Pension | \$ 1,776,539 |
| Related To OPEB | 553,415 |
| Total Deferred Inflows of Resources | <u>\$ 2,329,954</u> |
| NET POSITION | |
| Invested In Capital Assets | \$ 9,131,246 |
| Unrestricted (Deficit) | <u>(4,184,115)</u> |
| TOTAL NET POSITION | <u><u>\$ 4,947,131</u></u> |

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

**OKLAHOMA TAX COMMISSION
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--|-----------------------|-------------------------|--|--|
| | | Charges For Services | Operating Grants and Contributions | |
| Governmental Activities | | | | |
| General Government | \$ 230,507,443 | \$ 48,456,308 | \$ - | \$ (182,051,135) |
| Depreciation Expense - Unallocated | 3,527,272 | - | - | (3,527,272) |
| Total Governmental Activities | <u>\$ 234,034,715</u> | <u>\$ 48,456,308</u> | <u>\$ -</u> | <u>\$ (185,578,407)</u> |
| General Revenues: | | | | |
| Taxes: | | | | |
| Personal and Corporate Income | | | | \$ 38,598,758 |
| License Plate | | | | 78,620 |
| Fees: | | | | |
| Used Tire Recycling Fee | | | | 9,879,895 |
| Other | | | | 256,132 |
| State Appropriations | | | | 42,733,616 |
| Transfers In | | | | 102,825,352 |
| Transfers Out | | | | <u>(4,175,432)</u> |
| Total Revenues | | | | <u>\$ 190,196,941</u> |
| Change in Net Position | | | | 4,618,534 |
| Net Position - Fiscal Year Beginning (as restated) | | | | <u>\$ 328,597</u> |
| Net Position - Fiscal Year Ending | | | | <u>\$ 4,947,131</u> |

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

**OKLAHOMA TAX COMMISSION
BALANCE SHEET
GOVERNMENTAL FUNDS
6/30/2018**

| | General Fund | License Plate Program Fund | Used Tire Recycling Indemnity Fund | Film Rebate Fund | Ad Valorem Reimbursement Fund | Total Governmental Funds |
|---|----------------------|-------------------------------|--|------------------------|-------------------------------------|--------------------------------|
| ASSETS: | | | | | | |
| Cash | \$ 20,258,670 | \$ 13,560 | \$ - | \$ 11,958,253 | \$ - | \$ 32,230,483 |
| Investments | - | - | 979,419 | - | - | 979,419 |
| Due from Agency Fund | 3,728,552 | 1,380 | 864,218 | 4,000,000 | 3,541,807 | 12,135,957 |
| Accounts Receivable | 1,395,656 | - | 42,270 | - | 544,200 | 1,982,126 |
| Taxes and Fees Receivable | 1,852,892 | - | 84,514 | - | 1,896,363 | 3,833,769 |
| Inventory | 78,174 | - | - | - | - | 78,174 |
| Prepaid Expense | 200,827 | - | - | - | - | 200,827 |
| TOTAL ASSETS | \$ 27,514,771 | \$ 14,940 | \$ 1,970,421 | \$ 15,958,253 | \$ 5,982,370 | \$ 51,440,755 |
| DEFERRED OUTFLOW OF RESOURCES: | | | | | | |
| Related to Tax Refunds Payable | \$ - | \$ - | \$ - | \$ - | \$ 2,878,407 | \$ 2,878,407 |
| TOTAL DEFERRED OUTFLOW OF RESOURCES | \$ - | \$ - | \$ - | \$ - | \$ 2,878,407 | \$ 2,878,407 |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | \$ 27,514,771 | \$ 14,940 | \$ 1,970,421 | \$ 15,958,253 | \$ 8,860,777 | \$ 54,319,162 |
| LIABILITIES: | | | | | | |
| Accounts Payable | \$ 3,108,994 | \$ - | \$ 1,781,367 | \$ - | \$ 39,617,705 | \$ 44,508,066 |
| Tax Refunds Payable | 13,315 | - | - | - | 3,424,127 | 3,437,442 |
| Accrued Payroll | 49,078 | - | - | - | - | 49,078 |
| Compensated Absences | 2,054 | - | - | - | - | 2,054 |
| TOTAL LIABILITIES | \$ 3,173,441 | \$ - | \$ 1,781,367 | \$ - | \$ 43,041,832 | \$ 47,996,640 |
| DEFERRED INFLOW OF RESOURCES: | | | | | | |
| Related to Accounts Receivable | \$ 54,215 | \$ - | \$ 37,731 | \$ - | \$ 492,382 | \$ 584,328 |
| Related to Taxes & Fees Receivable | 143,730 | - | 84,514 | - | 587,767 | 816,011 |
| TOTAL DEFERRED INFLOW OF RESOURCES: | \$ 197,945 | \$ - | \$ 122,245 | \$ - | \$ 1,080,149 | \$ 1,400,339 |
| FUND BALANCES: | | | | | | |
| Nonspendable | \$ 279,001 | \$ - | \$ - | \$ - | \$ - | \$ 279,001 |
| Restricted | - | 14,940 | 66,809 | - | - | 81,749 |
| Committed | 324,629 | - | - | 15,958,253 | - | 16,282,882 |
| Unassigned | 23,539,755 | - | - | - | (35,261,204) | (11,721,449) |
| TOTAL FUND BALANCES | \$ 24,143,385 | \$ 14,940 | \$ 66,809 | \$ 15,958,253 | \$ (35,261,204) | \$ 4,922,183 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 27,514,771 | \$ 14,940 | \$ 1,970,421 | \$ 15,958,253 | \$ 8,860,777 | \$ 54,319,162 |

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

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2018**

| | |
|---|--------------|
| Total Fund Balance - Governmental Funds | \$ 4,922,183 |
|---|--------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds-level financial statements.

| | | |
|--------------------------|--------------|-----------|
| Furniture and equipment | 40,328,166 | |
| Accumulated depreciation | (31,196,920) | |
| Net capital assets | | 9,131,246 |

Some of the accounts receivable and taxes and fees receivable will be collected after year-end but are not available within 60 days to pay for the current period's expenditures; therefore, the related revenue is reported as a deferred inflow of resources on the funds-level Balance Sheet.

| | | |
|------------------------------|---------|-----------|
| Accounts receivable | 584,328 | |
| Taxes and fees receivable | 816,011 | |
| Deferred inflow of resources | | 1,400,339 |

Some of the tax refunds payable will be refunded after year-end but will not be issued within 60 days from current period's revenues; therefore, the related expenditures are reported as a deferred outflow of resources on the funds-level Balance Sheet.

(2,878,407)

Deferred outflow of resources and deferred inflow of resources are created as a result of various differences related to the pension and other post-employment benefits that are not recognized in the funds-level Balance Sheet.

| | | |
|-----------------------------------|-------------|-----------|
| Pension related deferred outflows | 9,224,897 | |
| Pension related deferred inflows | (1,776,539) | |
| Net pension related deferred | | 7,448,358 |

| | | |
|---|-----------|---------|
| Other post-employment benefit related deferred outflows | 691,978 | |
| Other post-employment benefit related deferred inflows | (553,415) | |
| Net other post-employment benefit related deferred | | 138,563 |

Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds-level Balance Sheet.

| | | |
|---|-------------|--------------|
| Compensated absences | (3,137,919) | |
| Net pension liability | (9,001,540) | |
| Net other post-employment benefits | (190,699) | |
| Total other post-employment benefit liability | (2,884,993) | |
| Total liabilities | | (15,215,151) |

| | |
|---|--------------|
| Net Position of Governmental Activities | \$ 4,947,131 |
|---|--------------|

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

OKLAHOMA TAX COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | General Fund | License Plate Program Fund | Used Tire Recycling Indemnity Fund | OTC Protest Fund | Film Rebate Fund | Ad Valorem Reimbursement Fund | Total Governmental Funds |
|--|----------------------|-------------------------------|--|------------------------|----------------------|-------------------------------------|--------------------------------|
| Revenues | | | | | | | |
| Taxes | \$ 29,150,934 | \$ 78,620 | \$ - | \$ - | \$ 4,000,000 | \$ 34,547,895 | \$ 67,777,449 |
| Licenses Permits and Fees | 19,278,026 | - | 9,832,398 | - | - | - | 29,110,424 |
| Other | 36,602 | - | 2,064 | 3,048 | - | 251,020 | 292,734 |
| Total Revenues | \$ 48,465,562 | \$ 78,620 | \$ 9,834,462 | \$ 3,048 | \$ 4,000,000 | \$ 34,798,915 | \$ 97,180,607 |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| Salaries and Benefits | 48,382,667 | - | - | - | - | - | 48,382,667 |
| Professional Services | 8,374,760 | - | - | - | - | - | 8,374,760 |
| Inter-Agency Personal Services | 52,627 | - | - | - | - | - | 52,627 |
| Travel | 643,586 | - | - | - | - | - | 643,586 |
| Miscellaneous Administrative | 7,341,262 | - | - | - | - | - | 7,341,262 |
| Rent of Buildings and Equipment | 2,992,152 | - | - | - | - | - | 2,992,152 |
| Maintenance | 10,019,726 | - | - | - | - | - | 10,019,726 |
| Supplies | 5,609,689 | - | - | - | - | - | 5,609,689 |
| Waste Tire Payments | 70,972 | - | 9,895,065 | - | - | - | 9,966,037 |
| Film Rebate Payments | - | - | - | - | 2,474,485 | - | 2,474,485 |
| Payments to Local Governments | - | - | - | - | - | 135,564,423 | 135,564,423 |
| Transfer to Special Account Funds | - | 65,120 | - | - | - | - | 65,120 |
| Library Equipment | 46,221 | - | - | - | - | - | 46,221 |
| Reimbursement & Repayment - Other | - | - | - | 219,676 | - | - | 219,676 |
| Capital Outlay: | | | | | | | |
| Equipment | 168,100 | - | - | - | - | - | 168,100 |
| Total Expenditures | 83,701,762 | 65,120 | 9,895,065 | 219,676 | 2,474,485 | 135,564,423 | 231,920,531 |
| Revenues Over (Under) Expenditures | (35,236,200) | 13,500 | (60,603) | (216,628) | 1,525,515 | (100,765,508) | (134,739,924) |
| Other Financing Sources (Uses) | | | | | | | |
| State Appropriations | 42,733,616 | - | - | - | - | - | 42,733,616 |
| Transfers In | 310,352 | - | - | - | - | 102,515,000 | 102,825,352 |
| Transfers Out | (4,175,432) | - | - | - | - | - | (4,175,432) |
| Total Other Financing Sources (Uses) | 38,868,536 | - | - | - | - | 102,515,000 | 141,383,536 |
| Net Change in Fund Balances | 3,632,336 | 13,500 | (60,603) | (216,628) | 1,525,515 | 1,749,492 | 6,643,612 |
| Fund Balance - Fiscal Year Beginning (as restated) | 20,511,049 | 1,440 | 127,412 | 216,628 | 14,432,738 | (37,010,696) | (1,721,429) |
| Fund Balance - Fiscal Year End | <u>\$ 24,143,385</u> | <u>\$ 14,940</u> | <u>\$ 66,809</u> | <u>\$ -</u> | <u>\$ 15,958,253</u> | <u>\$ (35,261,204)</u> | <u>\$ 4,922,183</u> |

**Reconciliation of the Change in Net Position of Governmental Funds to the
Statement of Activities**
For the Fiscal Year ended June 30, 2018

| | |
|--|----------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 6,643,612 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Capital outlays are reported as expenditures in the governmental funds. However, in the Statement of Activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation and loss on disposal of capital assets in the current period. | (3,374,132) |
| Accounts receivable and taxes and fees receivable recognized under the full accrual method of accounting were more because deferred revenues in the current year exceed prior year deferrals under the 60-day rule. | 89,106 |
| The amount by which the Commission's portion of the net pension liability (\$6,126,914) decreased, deferred outflows related to the pension (\$4,697,955) decreased, and deferred inflows related to the pension (\$634,244) increased compared to the prior fiscal year. | 794,715 |
| The amount by which the Commission's portion of the net OPEB liability (\$451,692) decreased, total OPEB liability (\$58,532) increased, deferred outflows related to OPEB (\$691,978) increased and deferred inflows related to OPEB (\$553,415) increased compared to the prior fiscal year. | 531,723 |
| Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These consist of an increase in compensated absences. | (66,490) |
| Change in Net Position of Governmental Activities | <u>\$ 4,618,534</u> |

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

OKLAHOMA TAX COMMISSION
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2018

ASSETS

| | |
|---------------------|-------------------------|
| Cash | \$ 589,155,506 |
| Investments | 469,935,123 |
| Accounts Receivable | 91,074,470 |
| Taxes Receivable | 766,230,701 |
| TOTAL ASSETS | \$ 1,916,395,800 |

LIABILITIES

| | |
|--------------------------------|-------------------------|
| Tax Refunds Payable | \$ 444,671,515 |
| Due To State General Funds | 933,567,696 |
| Due To Enterprise Funds | 19,849,859 |
| Due To Pension Trust Funds | 35,961,416 |
| Due To Other Accounts/Entities | 3,179,874 |
| Due To Local Governments | 479,035,939 |
| Amount To Be Apportioned | 129,501 |
| TOTAL LIABILITIES | \$ 1,916,395,800 |

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

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
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1. Summary of Significant Accounting Policies

The Oklahoma Tax Commission complies with generally accepted accounting principles (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Reporting Entity

The Oklahoma Tax Commission, as established under 68 O.S., Section 102 et seq., is a part of the primary government of the State of Oklahoma. The Oklahoma Tax Commission is composed of three members appointed by the Governor with the advice and consent of the State Senate, for six-year terms. No more than two members of the Tax Commission shall be, or shall have been in the previous six months, members of the same political party. The Oklahoma Tax Commission shall appoint an executive director who serves at the pleasure of the Commission and who shall be the administrative officer of the Commission and manage the activities of the employees.

The Commission is a full-time working body which is responsible for the administration and enforcement of state tax laws, the collection of a majority of all state-levied taxes, fees, and licenses, and the subsequent apportionment and allocation of revenue designated for various state agencies and local units of government. In its quasi-judicial capacity, the Commission has the authority to subpoena witnesses and records, administer oaths, and render decisions appealable directly to the State Supreme Court.

The organizational make-up of the Oklahoma Tax Commission includes three separate departments. These departments include Taxpayer Services, Revenue Administration, and Support Services. The Taxpayer Services department includes Taxpayer Assistance, Communications, Central Processing, and Account Maintenance. The Revenue Administration department includes Tax Policy, Compliance, Motor Vehicle, and Ad Valorem. The Support Services department includes Human Resources, Information Technology, Legal, and Management Services.

COMMISSION MEMBERS

Steve Burrage, Chairman
Term Expires January, 2021

Clark Jolley, Vice Chairman
Term expires January, 2023

Thomas E Kemp, Jr., Secretary-Member
Term Expires January, 2019

EXECUTIVE DIRECTOR

Tony Mastin, Executive Director to the Commission

B. Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The Commission is involved only in governmental activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Commission or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least ten (10) percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least five (5) percent of the corresponding total for all governmental funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Commission and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

Fiduciary Funds (Not included in Government-wide Statements)

Agency Fund

Agency fund accounts for assets held by the Commission in a purely custodial capacity. Since agency funds are custodial in nature, they do not involve the measurement of results of operations.

The Oklahoma Tax Commission is the official depository and collector of taxes for the State of Oklahoma, as well as for county and municipal governments in Oklahoma. The Oklahoma Tax Commission is responsible for the apportionment of monies collected for the State of Oklahoma.

Major Funds

The types of major funds utilized by the Oklahoma Tax Commission are as follows:

General Fund - See previous page for description.

The Commission's five major special revenue funds include:

License Plate Special Program Fund - The fund's purpose is to provide financial assistance to state agencies chosen by applicants for a special license plate program. Criteria in 47 O.S., Section 1135.7 must be met to qualify for issuance of the plates.

Used Tire Recycling Indemnity Fund - The fund's purpose is to receive the proceeds from statutory fees assessed on tires sold in the state and to reimburse facilities for the disposal of waste tires from designated sites, provide payments for end users of tire products and provide funds for soil erosion control.

Oklahoma Tax Commission (OTC) Protest Fund - The fund's purpose is to retain fees and taxes in cases where it is alleged or claimed that fees or taxes of the state are in a whole or in part unconstitutional or otherwise invalid. If a written protest is made and a suit is filed in a timely manner, the fees or taxes paid under protest shall be retained in the appropriate "Protest Fund" pending a final determination of the suit as specified in 62 O.S., Section 206.

Film Rebate Fund - The fund's purpose is to reimburse film companies for a percentage of their costs from producing films, television shows or commercials in the State of Oklahoma. The Film and Music Office approves all claims from the fund and submits them for payment to the Commission. The maximum amount that can be committed for FY2018 for future rebates is \$4 million.

Ad Valorem Reimbursement Fund - The fund's purpose is to reimburse counties and schools for lost ad valorem tax revenue from tax exemptions to qualified manufacturing facilities and double homestead exemptions granted to qualifying homeowners. The fund's income is based on one percent of net individual and corporate income tax revenues.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the Government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus.

The accounting objectives of this measurement focus are the determination of operating income and changes in net position. All assets and liabilities (whether current or non-

current) associated with their activities are reported. No fiduciary funds are included in the Government-wide Statement of Net Position.

In the fund financial statements all governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net position.

Basis of Accounting

In the Government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the full accrual basis of accounting. Under full accrual, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, assets, deferred outflows, liabilities, and deferred inflows resulting from exchange transactions are recognized when the underlying exchange transaction takes place.

In the fund financial statements, all governmental funds are maintained and reported on the modified accrual basis of accounting while agency funds are presented using the full accrual basis of accounting. Under modified accrual, revenues and related current assets and deferred outflows are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year; expenditures, liabilities and deferred inflows are recognized when obligations are incurred as a result of receipt of goods and services. Revenues are recognized as available when collected within 60 days of year-end. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2018, has been reported in the Statement of Net Position.
- Executory purchase orders and contracts are recorded as unassigned fund balance.

D. Assets, Liabilities, and Net Position/Fund Balance

Receivables

Receivables consist primarily of taxes, fees, penalties and interest. Amounts due from the agency fund, collected in June and apportioned in July, and the July and August collections for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior are recorded as revenues under the modified accrual basis of accounting. The Commission defines revenue as available if collected within 60 days after the fiscal year end. Since these accruals are based on actual collections, no allowance for uncollectible accounts is provided.

Historical data is used to estimate the revenue for taxes, fees, penalties and interest that will be collected within the new fiscal year beyond the measurable and available period of 60 days. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the amount is recorded as deferred inflows of resources.

Additional receivable disclosures are presented in Note 6.

On the Statement of Fiduciary Net Position, the Commission includes estimated receivables for amounts due from taxpayers for the fiscal year ending June 30, and prior year assessments for underpayments, penalties and interest. Concerning Gross Production receivables, accruals include collections, net of refunds, related to production periods in the current and prior fiscal years received in July and August of the new fiscal year, plus estimated collections related to production periods in the current and prior fiscal years expected to be received from September through June during the new fiscal year. Estimated collections are computed by applying average oil, gas, and petroleum excise tax percentages, calculated from collections apportioned during September – June of the current fiscal year, to collections related to the current and prior year production periods received in September through June during the current fiscal year period. All other receivables are computed as disclosed in Note 6.

Inventories and Prepaid Expenses

Inventories are valued at cost. The flow assumption used to determine cost is weighted average. The costs of inventories for the Oklahoma Tax Commission are recorded as expenditures when purchased. Payments made to vendors for services representing costs applicable to future accounting periods are recorded as prepaid items. Reported inventories and prepaid expenses are equally offset by a nonspendable fund balance designation, which indicates that it does not constitute available spendable resources even though it is a component of total assets.

Capital Assets

Capital assets held by the Oklahoma Tax Commission and reflected in the accompanying financial statements are stated at original cost or estimated cost as determined from available records maintained by the Commission, net of accumulated depreciation.

Assets valued by estimate represent less than one percent of total capitalized assets. The asset values were based on equipment fair market values at the time of acquisition.

Capital assets are depreciated using the straight-line with half-year convention method over the asset's useful life. Generally, estimated useful lives are as follows:

| | |
|---|------------|
| Office Furniture, Fixtures, and Equipment | 6-12 years |
| Information Systems | 3-10 years |
| Data Handling Equipment | 5-7 years |

Additional capital asset disclosures are presented in Note 7.

Accounts Payable

The Commission determines accounts payable by reviewing July and August payments. Management calculated existing encumbrances by utilizing a report of open purchase orders as of June 30 and subtracting July and August payable payments from that balance to arrive at an August 31 open encumbrance list. This list was reviewed to determine which encumbrances were payable for FY18. This amount was added to the July and August accounts payable payments to arrive at total payables as of June 30.

Tax Refunds Payable

Tax refunds payable consist primarily of amounts owed to taxpayers for overpayments or amended returns. July and August tax refunds for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior offset revenues under the modified accrual basis of accounting. The Commission defines revenue as available if collected within 60 days after the fiscal year end.

Historical data is used to estimate the tax refunds that will be disbursed within the new fiscal year beyond the available and measurable period of 60 days. In the government-wide financial statements, a corresponding amount is recorded to offset revenue. In the governmental fund financial statements, the amount is recorded as deferred outflows of resources.

Additional tax refunds payable disclosures are presented in Note 6.

On the Statement of Fiduciary Net Position, the Commission includes estimated tax refunds to taxpayers for overpayments or amended returns that will be issued in the new fiscal year. Concerning Gross Production refunds, legislation and time allowed for audit processes can result in refund requests shown in a payable category, but with the payment following in the long term and not the short term as seen with other refunds payable, even into the next fiscal year. Due to these variables, Gross Production refunds payable are based on the refund requests that have been entered into the refund system, in order to not understate the possible liability. All other tax refunds are computed as disclosed in Note 6.

Compensated Absences

Employees earn annual vacation at the average rate of 10 hours per month for up to 5 years' 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.

The general fund records expenditures when the employee is paid for annual leave, and the cost of accumulated annual leave is recorded in the Statement of Net Position. Payments for employee vested annual leave for the year ended June 30, 2018, were made in the amount of \$238,478. Total amount outstanding at June 30, 2018, is \$3,139,973 of which \$2,878,981 is recorded as a long-term liability.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance at the aggregate level of detail within the categories defined by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. See Note 12 and Notes 14 for additional information.

E. Program Revenues

In the Statement of Activities, revenues are derived directly from governmental activities and reported as program revenue.

The Commission has the following types of program revenues in the governmental activities:

| | |
|----------------------|---|
| Charges for Services | Statutorily the Commission is authorized to retain a percentage or fee associated with certain tax collections such as sales and use taxes, levied by local governments and collected through a contractual agreement by the Commission. These types of revenues are specifically related to the government activity program. |
|----------------------|---|

F. Transfers In/Transfers Out

The general fund received a transfer in of \$310,352 for a return of fiscal year 2017 0.7% funding cuts after the final reconciliation of fiscal year 2017 general revenue, required by the state's previous declaration of revenue failure for fiscal year 2017, was completed.

The Ad Valorem Reimbursement Fund transfers in were comprised of \$102.52 million appropriated per SB 860, Section 67.

The Information Technology Consolidation and Coordination Act, consolidated the Commission's information technology operations into the Office of Management and Enterprise Services, Information Services Division, which received \$4.18 million from the Joint Computer Enhancement Fund.

2. Pension Plan

Plan Description - The Commission, as the employer, participates in Oklahoma Public Employees Retirement Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). A separately issued independent auditor's report may be obtained from the Oklahoma 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.

Benefits Provided - OPERS provides retirement, disability, and death benefits to members of the plan.

-Eligible to participate

All permanent employees of the State of Oklahoma, and any other employer such as a county, county hospital, city or town, conservations district, 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.

-Period Required to Vest

Eight years of credited service.

-Eligibility for Distribution

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

Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 60 and Rule of 90 if the participant became a member on or after November 1, 2011. A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the

participant became a member on or after November 1, 2011.

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

-Benefits are calculated for each member category as follows:

- Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years.
- Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.
- Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

-Benefit Authorization

Benefits are established in accordance with 74 O.S., Chapter 29, Sections 901 through 935 as amended.

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

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

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

Contributions - The contribution rates for each member category of the Plan 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. Employees are required to contribute 3.5% of their annual pay. Participating entities are required to contribute 16.5% of the employees' annual pay. A portion of the contributions received by OPERS are allocated to the Supplemental Health Insurance program. Contributions to the pension plan from the Commission were \$4,609,833.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018, the Commission reported a liability of \$9,001,540 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The Commission's proportion of the net pension liability was based on the Commission's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2017. Based upon this information, the Commission's proportion was 1.66490707%.

For the year ended June 30, 2018, the Commission recognized pension expense of \$3,500,374. At June 30, 2018, the Commission 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 |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 1,609,731 |
| Changes of assumptions | 3,996,156 | - |
| Net difference between projected and actual earnings on pension plan investments | 402,116 | - |
| Changes in proportion and differences between Commission contributions and proportionate share of contributions | 216,792 | 166,808 |
| Commission contributions during the measurement date | - | - |
| Commission contributions subsequent to the measurement date | 4,609,833 | - |
| Total | <u>\$ 9,224,897</u> | <u>\$ 1,776,539</u> |

Deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date totaling \$4,609,833 will be recognized as a reduction of the

net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | | |
|-------|----|------------------|
| 2019 | \$ | 926,610 |
| 2020 | | 2,706,018 |
| 2021 | | 640,351 |
| 2022 | | (1,437,454) |
| Total | \$ | <u>2,835,525</u> |

Actuarial Assumptions - The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as of July 1, 2017, 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)
- No annual post-retirement benefit increases
- Assumed inflation rate - 2.75%
- Payroll growth - 3.5%
- 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 four years older than females
- Turnover - Varies from 1%-24%

The actuarial assumptions used in the July 1, 2017, valuation are based on the results of the most recent actuarial experience study, which covered the three-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 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, 2017, are summarized in the following table on the next page:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|-------------------|--|
| 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 Inflated Protected Securities | 3.5% | 0.7% |
| Rate Anticipation | 3.5% | 1.5% |
| Total | 100.0% | |

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, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the employers calculated using the discount rate of 7.00%, as well as what the Plan'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:

| | Rate | | |
|----------------------------------|---------------|--------------|----------------|
| | 6.00% | 7.00% | 8.00% |
| Employers' net pension liability | \$ 26,604,425 | \$ 9,001,540 | \$ (5,903,974) |

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.

Payables to Pension - The accrued payroll amount reflected on the Statement of Net Position in the amount of \$49,078.

Oklahoma Tax Commission 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, 2018 which is also the measurement date.

| Commission % | Net Pension Liability | Deferred Outflows | Deferred Inflows | Pension Expense |
|--------------|-----------------------|-------------------|------------------|-----------------|
| 1.66490707% | \$9,001,540 | \$9,224,897 | \$1,776,539 | \$3,500,374 |

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 Oklahoma Tax Commission's portion of the State's net pension liability has been recorded and reported.

Defined Contribution Plan - Pathfinder is the mandatory defined contribution plan for eligible state employees who first become employed by a participating employer on or after November 1, 2015 and have no prior participation in OPERS. Under this plan, members will choose a contribution rate which will be matched by their employer up to 7%, and members have the freedom to select and change their investments. A defined contribution plan like Pathfinder does not provide a guaranteed, lifetime source of income. The amount a participant has at retirement under a defined contribution plan is dependent upon how much was contributed over his/her career, how well those investments performed, and how quickly distributions are taken in retirement.

For the defined contribution members, the Commission sends to OPERS the difference between the OPERS required rate (16.50% for state members) and the amount required for the employer match in Pathfinder. For FY2018, the Commission contributed \$281,881 to the plan.

The beginning Net Position has a restatement due to the implementation of GASB 75. This restatement decreased the beginning Net Position and decreased Net Pension liability by \$7,921,333. See Note 15.

3. Other Post-Employment Benefits (OPEB)

Plan Description - The State of Oklahoma Implicit Rate Subsidy of Health Insurance OPEB Liability is associated with certain State agencies that participate in the Employee Group Insurance Division's (EGID) health insurance plan (the "Plan") and whose payroll is processed through the State's payroll system. EGID is a division of the Oklahoma 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.

The 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.

Benefits Provided - The Plan covers all current retirees of the Commission 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 June 30, 2018 were \$213,873.

OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - At June 30, 2018, the Commission reported a liability of \$2,884,993 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Commission's proportion of the total OPEB liability was based on the Commission's active employees of the plan relative to the total participation of the substantive plan as of June 30, 2017. Based upon this information, the Commission's proportion was 1.94280940%.

Changes of assumptions reflect a change in the discount rate from 2.85% in 2016 to 3.58% in 2017 resulting in recognition of a deferred inflow of resources.

For the year ended June 30, 2018, the Commission recognized OPEB expense of \$171,111. At June 30, 2018, the Commission 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 |
|--|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ - | \$ 112,579 |
| Commission contributions subsequent to the measurement date | 213,873 | - |
| Total | <u>\$ 213,873</u> | <u>\$ 112,579</u> |

Deferred outflows of resources related to OPEB resulting from Commission contributions subsequent to the measurement date totaling \$213,873 will be recognized as a reduction of the total

OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

| | | |
|-------|----|------------------|
| 2019 | \$ | (31,272) |
| 2020 | | (31,272) |
| 2021 | | (31,272) |
| 2022 | | (18,763) |
| Total | \$ | <u>(112,579)</u> |

Actuarial Assumptions - The total OPEB liability as of June 30, 2018, was determined based on an actuarial valuation prepared as of June 30, 2017 using the following actuarial assumptions:

- Mortality rates - RP-2006 Combined Healthy Mortality Table, with a fully generational projection using Scale MP-2017
- 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:
 - o Oklahoma Public Employees Retirement System
 - o Oklahoma Law Enforcement Retirement System
 - o Teachers' Retirement System of Oklahoma
 - o Uniform Retirement System of Justices & Judges
 - o Oklahoma Department of Wildlife Conservation Defined Benefit Pension Plan
- Plan participation - 40% of retired employees are assumed to participate in the Plan.
- Marital assumptions - Male participants: 25% who elect coverage are assumed to have a spouse who will receive coverage

Female participants: 15% who elect coverage are assumed to have a spouse who will receive coverage

Males are assumed to be 3 years older than their spouses
- Plan entry date is the date of hire
- Actuarial cost method - Entry age normal based upon salary
- Healthcare trend rate - 7.10% decreasing to 4.60%

The June 30, 2018, valuation is based on a measured date of July 1, 2017, with a measurement period of July 1, 2016 to July 1, 2017.

The discount rate was based on Bond Buyer Index.

Sensitivity of the Commissions Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate - The following presents the Commission's proportionate share of the total OPEB liability, as well as what the Commission's proportionate share of the total OPEB liability would

be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

| | 2.58% | Rate 3.58% | 4.58% |
|---------------------------------|--------------|---------------|--------------|
| Employers' total OPEB liability | \$ 3,079,337 | \$ 2,884,993 | \$ 2,704,028 |

Sensitivity of the Commission's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the Commission's proportionate share of the total OPEB liability, as well as what the Commission'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:

| | (6.10% decreasing to 3.60%) | Rate (7.10% decreasing to 4.60%) | (8.10% decreasing to 5.60%) |
|---------------------------------|--------------------------------|--|--------------------------------|
| Employers' total OPEB liability | \$ 2,647,867 | \$ 2,884,993 | \$ 3,159,658 |

4. Oklahoma Public Employees Retirement System - OPEB

Plan Description - The Commission, as the employer, 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.ok.gov/OPERS

Benefits Provided - OPERS pays a medical insurance supplement to eligible members who elect to maintain health insurance with the Oklahoma Employees Group Insurance Division (EGID) or other qualified insurance plan provided by the employer. 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.

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 as described in Note 2; from this amount OPERS allocates a portion of the contributions to the supplemental health insurance program. Contributions allocated to the OPEB plan from the Commission were \$322,658.

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2018, the Commission reported a liability of \$190,699 for its proportionate share of the net OPEB liability. The total OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Commission's proportion of the net OPEB liability was based on the Commission'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, 2017. Based upon this information, the Commission's proportion was 1.66490707%.

For the year ended June 30, 2018, the Commission recognized OPEB expense of \$116,810. At June 30, 2018, the Commission 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 |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 235,055 |
| Changes of assumptions | 155,322 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 205,781 |
| Contributions during the measurement period | 125 | - |
| Commission contributions subsequent to the measurement date | 322,658 | - |
| Total | <u>\$ 478,105</u> | <u>\$ 440,836</u> |

Deferred outflows of resources related to OPEB resulting from Commission contributions subsequent to the measurement date totaling \$322,658 will be recognized as a reduction of the total OPEB liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

| | |
|------------|---------------------|
| 2019 | \$ (66,325) |
| 2020 | (66,325) |
| 2021 | (66,325) |
| 2022 | (66,325) |
| 2023 | (14,880) |
| Thereafter | (5,208) |
| Total | <u>\$ (285,388)</u> |

Actuarial Assumptions - The net OPEB liability (asset) as of June 30, 2017, was determined based on an actuarial valuation prepared as if June 30, 2017 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)
- No annual post-retirement benefit increases
- Assumed inflation rate - 2.75%
- Payroll growth - 3.5%
- Actuarial cost method - Entry age
- Health Care Trend rate – Not applicable based on how the System is structured and benefit payments are made
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2017, valuation are based on the results of the most recent actuarial experience study, which covered the three-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 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, 2017, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|-------------------|--|
| 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% |
| Total | 100.0% | |

Discount Rate - A single discount rate of 7.00% was used to measure the total OPEB liability (asset) as of June 30, 2017. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 7.00%. Based on the stated assumptions and the projection of cash flows, the OPEB plan's fiduciary net position and future contributions were projected to be available to finance 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).

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate - The following presents the net OPEB liability (asset) of the employer calculated using the discount rate of 7.00%, as well as what the Plan's net 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 rate:

| | Rate | | |
|---------------------------------------|------------|------------|--------------|
| | (6.00%) | (7.00%) | (8.00%) |
| Employers' Net OPEB Liability (Asset) | \$ 753,246 | \$ 190,699 | \$ (292,936) |

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.ok.gov/OPERS.

5. Deposits and Investments

At June 30, 2018, all cash and investments under the control of the State Treasurer were collateralized in accordance with 62 O.S., Section 72.3, titled, "Security for Public Deposits Act."

A. Deposits

As of June 30, 2018, the bank balances of deposits are fully insured or collateralized with securities held by the State's agent in the State's name.

B. Investments

The State Treasurer maintains two investment portfolios. The Treasurer's Portfolio, which is used to manage the investments of all State monies that are under the control of the Treasurer where earnings accrue to the general fund of the State, and the State Agency Portfolio, for the investment of a limited number of state agencies specifically authorized by statute to direct the activities of certain funds and accounts where the earnings accrue to those funds and accounts. Ancillary to the Treasurer's Portfolio is an internal investment pool, OK INVEST, for all state funds and agencies that are considered part of the State of Oklahoma. All cash balances held through the State Treasurer for the Primary Government, Component Units and Fiduciary Funds earn a return through the OK INVEST pool program.

State Treasurer Investment Policy Diversification Limits

| <u>Investment Type</u> | <u>Percentage of Total Invested</u> | <u>Percentage of Total by Issuer</u> | <u>Maturity Limit</u> | <u>Rating</u> |
|--|---|--|---------------------------|--------------------|
| Treasuries | No Limit | No Limit | 10 Years | Aaa, AAA |
| Agencies | 50.0% | 35.0% | 10 years | Aaa, AAA |
| Mortgage-Backed Securities | 45.0% | No Limit | 7 Years ^d | Aaa, AAA |
| Certificate of Deposit (Collateralized/Insured) | No Limit | \$20 Million ^a | 365Days ^e | No Limit |
| Certificate of Deposit (Negotiable) | 7.5% | 2.5% | 180 Days ^e | A-1&P-1 |
| Bankers' Acceptances | 7.5% | 2.5% | 270 Days | A-1&P-1 |
| Commercial Paper | 7.5% | 2.5% ^b | 180 Days | A-1&P-1 |
| State and Local Government Obligations | 10.0% | 5.0% | 30 Years | f |
| Repurchase and Tri-party Repurchase Agreements | 30.0% | 10.0% ^c | 14 Days ^e | g |
| Foreign Bonds | 2.5% | h | 5 Years | A-/A3 or better |
| Money Market Mutual Fund | 30.0% | 10.0% | e | AAAm |

(a) Subject to the discretion of the State Treasurer to approve a greater amount per financial institution

(b) No more than 5% of outstanding commercial paper of an issuing corporation can be purchased

(c) Per Counterparty

(d) Average life should not exceed 7 years based on Bloomberg Prepayment speed using street consensus at the time of purchase

(e) Excluding weekends and holidays

- (f) Securities must not be less than investment grade at purchase
- (g) Counterparties must have a minimum short-term debt rating of A-1, or the equivalent by Moody's Investor Service and Standard & Poors
- (h) Must be listed as an industrialized country by the International Monetary Fund

Investments for governmental and fiduciary funds at June 30, 2018, by investment type, are listed below:

| | <u>Carrying Amount</u> | <u>Reported Amount/ Fair Value</u> |
|---------------------------|----------------------------|--|
| Repurchase Agreements: | | |
| <u>Governmental Funds</u> | \$ 979,419 | \$ 979,419 |
| <u>Agency Fund</u> | \$ 469,935,123 | \$ 469,935,123 |

Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the State, or counterparty or the counterparty's trust department but not in the State's name. All investments held by the State Treasurer are insured, registered, or held in the name of the State Treasurer.

Fair Value Measurement

With the implementation of GASB 72 Fair Value Measurement and Application, the Commission categorizes its fair value measurements, except for investment in nonparticipating interest earning investment contracts (e.g. nonnegotiable certificates of deposit) which are stated at cost, within the fair value hierarchy established by generally accepted accounting principles. Fair value measurement is provided by the custodian for assets they hold using guidelines that recognize a three-tiered fair value hierarchy. The portfolio has the following recurring fair value measurements as of June 30, 2018:

Investments Measured at Fair Value

June 30, 2018 (\$ in millions)

| | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | |
|--|---|--|---------------------------------------|-----------|
| | 6/30/2018 | (Level 1) | (Level 2) | (Level 3) |
| TREASURER'S PORTFOLIO | | | | |
| POOLED INVESTMENTS | | | | |
| U. S. TREASURY (Treasury Inflation-Protected Securities) | 2.13 | | 2.13 | |
| MONEY MARKET MUTUAL FUND | 45.93 | | 45.93 | |
| CERTIFICATES OF DEPOSIT | 17.69 | | 17.69 | |
| U. S. AGENCIES | 214.36 | | 214.36 | |
| MORTGAGED BACKED SECURITIES | 185.86 | | 185.86 | |
| FOREIGN BONDS | 1.70 | | 1.70 | |
| MUNICIPAL BONDS | 2.84 | | 2.84 | |
| | 470.51 | | 470.51 | |

Level 1 securities are valued using prices quoted in an active market.

Level 2 securities are comprised of observable market-based inputs, such as a matrix pricing technique inclusive of an evaluated bid methodology.

Level 3 securities are comprised of unobservable inputs.

Fair value according to GASB 72 focuses particular attention on the price that would be received to sell the asset (exit price) and not the price that would be required to acquire the asset (entry price). The valuation technique used was the “market approach” using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Stated fair value in the financial statements is determined by the custodial relationship existing at June 30, 2018. The custodian’s hierarchy level for fixed income is classified as a level 2 assessment due to fair value observable inputs using market-based pricing and an evaluated price provided by an independent pricing vendor or broker/dealer. Reporting at the lowest input level when fair value inputs are from more than one level is guidance from GASB 72.

6. Receivables and Tax Refunds Payable

Receivables represent taxes and fees due from the agency fund, amounts owed by taxpayers for the fiscal year ending June 30, and prior year assessments for underpayments, penalties and interest. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended returns for the current and prior years.

Receivables, as presented on the government-wide Statement of Net Position, are detailed by major tax type as follows:

**Receivables by Tax Type
As of June 30, 2018**

| | <u>General Fund</u> | <u>License Plate</u> | <u>Used Tire Recycling</u> | <u>Film Rebate</u> | <u>Ad Valorem Reimbursement</u> | <u>Total Receivables</u> |
|------------------------|---------------------|----------------------|--------------------------------|---------------------|-------------------------------------|------------------------------|
| Taxes: | | | | | | |
| Individual & Corporate | \$ - | \$ - | \$ - | \$ 4,000,000 | \$ 5,982,370 | \$ 9,982,370 |
| Sales and Use | 1,794,966 | - | - | - | - | 1,794,966 |
| Motor Vehicle | 542,817 | - | - | - | - | 542,817 |
| Alcohol & Beverage | 232,397 | - | - | - | - | 232,397 |
| Other Business Taxes | 81,006 | 1,380 | - | - | - | 82,386 |
| Waste Tire Fees | 44,017 | - | 991,002 | - | - | 1,035,019 |
| Other Fees | 1,654,125 | - | - | - | - | 1,654,125 |
| Computer Enhancement | 2,564,327 | - | - | - | - | 2,564,327 |
| Other Receivable | 63,445 | - | - | - | - | 63,445 |
| Total Receivables | <u>\$ 6,977,100</u> | <u>\$ 1,380</u> | <u>\$ 991,002</u> | <u>\$ 4,000,000</u> | <u>\$ 5,982,370</u> | <u>\$ 17,951,852</u> |

Individual and corporate taxes, sales and use taxes, and business taxes and fees and the corresponding penalties and interest receivable accruals include collections received during the 60 day available period, plus estimated collections related to current fiscal and prior year tax returns expected to be received within the new fiscal year beyond the measurable and available period. Estimated collections are computed based on delinquent collections received during the current fiscal year period and total \$1,288,149. This amount is recorded as deferred inflows of resources on the governmental funds balance sheet.

Major motor vehicle taxes and fees and the corresponding penalties and interest receivable accruals include collections received during the 60-day available period, plus estimated collections related to the current and prior fiscal years expected to be received within the new fiscal year beyond the measurable and available period. Estimated collections are computed by averaging delinquent collections for the major motor vehicle tax and fees received in September, January, May, and June during the current fiscal year period and extrapolating the results. This estimated amount totals \$112,190 and is recorded as deferred inflows of resources on the governmental funds balance sheet.

Tax refunds payable include refunds issued during the 60-day available period, plus estimated refunds related to the current and prior fiscal year tax returns expected to be issued within the new fiscal year beyond the measurable and available period. Estimated refunds are computed based on refunds issued for current and prior year tax returns from September through June during the current fiscal year. An additional layer of estimation is applied to individual income tax refunds issued during peak season by computing average monthly refunds issued during February through April for tax returns related to the current and prior fiscal year. Tax refunds payable total \$3,437,442, of which \$2,878,407 of the \$3,424,127 attributable to individual and corporate income taxes are recorded as deferred outflows of resources on the governmental funds balance sheet.

7. Capital Assets

In accordance with guidelines established by the Office of Management and Enterprise Services, capital assets reflected in the accompanying financial statements are those with a cost in excess of \$25,000. Expenditures for capital assets are recorded as period costs when the assets are recorded in the governmental funds. A provision for depreciation has been recorded in the governmental activities of the Statement of Net Position and Statement of Activities. The depreciation method used for capital assets is straight-line with half-year convention. Capital asset activity for the year ended June 30, 2018 was as follows:

General Government Activities:

| | <u>Equipment</u> | <u>Accumulated Depreciation</u> | <u>Capital Assets – Net</u> |
|-------------------|---------------------|-------------------------------------|---------------------------------|
| Beginning Balance | \$40,786,207 | (\$28,280,830) | \$12,505,377 |
| Increases | 153,140 | (3,527,272) | (3,374,132) |
| Decreases | (611,181) | 611,181 | - |
| Ending Balance | <u>\$40,328,166</u> | <u>(\$31,196,921)</u> | <u>\$9,131,245</u> |

Current year depreciation expense related to the General Government Activities was \$3,527,272.

8. Operating Lease Commitments

The Oklahoma Tax Commission has commitments to lease certain buildings, equipment, telecommunications equipment, data processing software, and other miscellaneous rentals. Rental expense for fiscal year 2018 was \$2,955,175. The majority of leases is from one to five years with renewable lease terms and contains a 30-day cancellation clause.

9. Due To Other Accounts/Entities

Amounts due to other funds are presented in the Statement of Fiduciary Net Position. To the extent that transactions between funds had not been executed at June 30, 2018, the balances are included.

10. Risk Management

The Capital Asset Management Division of the State's Office of Management and Enterprise Services is empowered by the authority of 74 O.S., Section 85.58A 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 organization and bodies.

The Capital Asset Management Division 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, an agency or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act, as provided by 51 O.S., Section 154. The Capital Asset Management Division oversees the 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 Capital Asset Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Division.

11. Long-Term Obligations

Long-term obligations at June 30, 2018, and changes for the fiscal year are as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|--------------------------------|------------------------------|------------------|-------------------|---------------------------|
| <u>Governmental Activities</u> | | | | |
| Compensated Absences | \$2,812,201 | \$2,464,704 | \$2,397,924 | \$2,878,981 |

The amount due within 1 year is \$260,992.

Net Pension Liability - See Note 2 above.

12. Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balances at the aggregate level of detail within the categories defined by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The table below represents the detailed amount of fund balance available to each functional level of government within those categories.

| | General Fund | OTC Protest Fund/ License Plate Program Fund | Used Tire Recycling Indemnity Fund | Film Rebate Fund | Ad Valorem Reimbursement Fund | Total Governmental Funds |
|---------------------------|---------------------|--|---|----------------------|-------------------------------------|--------------------------------|
| Nonspendable | | | | | | |
| Inventories | \$ 78,174 | \$ - | \$ - | \$ - | \$ - | \$ 78,174 |
| Prepaid Postage | 200,827 | - | - | - | - | 200,827 |
| Restricted | | | | | | |
| License Plate Program | - | 14,940 | - | - | - | 14,940 |
| Used Tire Recycling | - | - | 66,809 | - | - | 66,809 |
| Committed | | | | | | |
| Computer Enhancement Fund | 324,629 | - | - | - | - | 324,629 |
| Film Rebate Fund | - | - | - | 15,958,253 | - | 15,958,253 |
| Assigned | - | - | - | - | - | - |
| Unassigned | 23,539,755 | - | - | - | (35,261,204) | (11,721,449) |
| Total Fund Balances | <u>\$24,143,385</u> | <u>\$ 14,940</u> | <u>\$ 66,809</u> | <u>\$ 15,958,253</u> | <u>\$ (35,261,204)</u> | <u>\$ 4,922,183</u> |

Nonspendable fund balance represents amounts that are not in spendable form. These amounts are not expected to be converted to cash. The Commission's nonspendable fund balance is comprised of inventories and prepaid items such as postage.

Restricted fund balance represents the amount due to a state entity sponsoring a license plate program as authorized by 47 O.S., Section 1135.8, escrowed corporate penalty payments paid in protest authorized by 62 O.S., Section 206, and used tire recycling fees authorized under by 27A O.S., Section 2-11-401.2.

Committed fund balance represents amounts designated for computer enhancement projects such as the development of the integrated tax system as authorized by 68 O.S., Section 265 and amounts committed under the Film Rebate Fund.

Under GAAP reporting, the nonspendable and restricted fund balance categories are considered to be restricted fund balance. The committed, assigned and unassigned fund balances are considered to be unrestricted fund balance. Generally when the state has both restricted and unrestricted resources available, the restricted balances will be used first as expenditures are incurred as long as conditions that created the restriction are met. When unrestricted fund balance is used, the order of use would generally be committed, then assigned, and finally unassigned.

13. Litigation and Contingencies

The Oklahoma Tax Commission is party to numerous lawsuits of which the outcome is uncertain. There are numerous lawsuits pending before the Oklahoma Tax Commission that, in the aggregate, could have a material effect on the Commission's financial statements. However, the outcome at this time is uncertain. Additionally, there are numerous tax assessments under taxpayer protest that could have a material effect on the Commission's financial statements. It is reasonably possible that these assessments could result in gains to the state. However, an estimate of such gains cannot be made. The General Counsel of the Commission has determined the individual cases which could have a material effect on the Commission's financial statements. Those cases are as follows:

Refund of Income Tax

Claimant has filed an appeal of a denial of a claim for refund of income tax. The General Counsel has deemed it is reasonably possible that the taxpayer is entitled to the refund of \$933,079.

Denial of Multiple Injury Trust Fund rebate

Claimant protested denial of multiple injury trust fund rebate request. The General Counsel has deemed the payment of the \$37,192,410 from the Oklahoma Tax Commission to the taxpayer as reasonably possible.

14. Fund Balance Deficit

The Ad Valorem Reimbursement Fund is stated at a fund balance deficit at June 30, 2018. Due to the constitutional requirement to fully fund reimbursements to counties from the Ad Valorem Reimbursement Fund as specified in 62 O.S. 2001, Section 193, obligations exceeded available funding at year end. Unpaid claims of \$35,261,204 will be paid from funds available during the 2019 fiscal year. The Ad Valorem Reimbursement Fund is a pass through and is not used for the general operations of the Commission.

15. Prior Period Adjustments

During fiscal year 2018, an accounting change and adjustments were made that required the restatement of net position or fund balances as follows:

Restatement to Net Position/Fund Balances

| | Net Position | Governmental Fund Balances | | | | | |
|--|-------------------|----------------------------|----------------------------|------------------------------------|-------------------|----------------------|-------------------------------|
| | Government-Wide | General Fund | License Plate Program Fund | Used Tire Recycling Indemnity Fund | OTC Protest Fund | Film Rebate Fund | Ad Valorem Reimbursement Fund |
| June 30, 2017, as Previously Reported | \$ 9,475,983 | \$ 20,450,616 | \$ 1,440 | \$ (698,996) | \$ 216,628 | \$ 14,432,738 | \$ (36,464,976) |
| Change to Adopt Full Accrual - Receivables | 1,311,233 | - | - | - | - | - | - |
| Change to Adopt Full Accrual - Refunds | (2,878,407) | - | - | - | - | - | - |
| Additional Tax Receivable Accrual | 845,529 | 845,529 | - | - | - | - | - |
| Additional Tax Refunds Accrual | (559,003) | (13,283) | - | - | - | - | (545,720) |
| Correction of Prior Year Errors | 54,595 | (771,813) | - | 826,408 | - | - | - |
| GASB Statement No. 75 | (7,921,333) | - | - | - | - | - | - |
| June 30, 2017, as Restated | <u>\$ 328,597</u> | <u>\$ 20,511,049</u> | <u>\$ 1,440</u> | <u>\$ 127,412</u> | <u>\$ 216,628</u> | <u>\$ 14,432,738</u> | <u>\$ (37,010,696)</u> |

Beginning with fiscal year end 2018, the Commission accrues accounts receivable, taxes and fees receivable, and tax refunds payable on the accrual basis of accounting using the economic resources measurement focus, following GASB standards for governments. In prior years, accounts receivable and taxes and fees receivable were accrued in accordance with modified accrual basis of accounting using the current financial resources measurement focus.

- The change to accrue receivables using the full accrual basis resulted in an increase of \$1,311,243 in the beginning net position.
- The change to accrue tax refunds payable using the full accrual basis resulted in a decrease of \$2,878,407 in the beginning net position.

A correction was made to accrue taxes and fees receivable for additional tax types not previously accrued in prior years under the modified accrual basis, resulting in an increase of \$845,529 in the beginning net position and the general fund balance.

- Local government sales, use, and lodging taxes, penalty and interest accruals totaled \$613,740.
- Motor vehicle taxes and fees totaled \$62,158.
- Additional business taxes and fees totaled \$169,631.

A correction was made to extend the calculation period from one week to the 60-day measurable and available period to accrue income tax and business tax refunds in accordance with the modified accrual basis, resulting in a decrease of \$559,003 in the beginning net position, a decrease of \$13,283 in the beginning general fund balance, and a decrease of \$545,720 in the beginning ad valorem fund balance.

Prior year receivable accrual corrections resulted in an increase of \$54,595 in the beginning net position, an increase of \$826,408 in the used tire recycling indemnity fund balance, and a decrease of \$771,813 in the general fund balance.

- A correction was made to reduce the beginning net position and the general fund balance for an accrual due from agency fund recorded twice for \$771,813.

- A correction was made to reclassify waste tire fees and penalties and interest receivables totaling \$826,408 from the agency fund to the beginning used tire recycling indemnity fund balance.

The beginning net position was restated due to the implementation of GASB 75. This restatement decreased the beginning net position and decreased net pension liability by \$4,452,481, total other postemployment benefits liability by \$2,826,461, and net other postemployment benefits liability by \$642,391, for a total of \$7,921,333.

16. Subsequent Event

On July 9, 2020, the United States Supreme Court issued a decision in *McGirt v. Oklahoma*, 591 U.S. ____ (2020) holding the Muskogee (Creek) Nation Reservation was never disestablished. The *McGirt* Court specifically held that the decision applies only to criminal matters under the Major Crimes Act, and therefore the Commission has not changed its processes, procedures, or interpretations of existing laws as a result of *McGirt*. In the event a court of competent jurisdiction expands the *McGirt* ruling to tax matters, the resulting cumulative financial impact could be material. At this time, the Office of General Counsel is not able to predict when a court decision regarding the potential expansion of *McGirt* may be issued.

**OKLAHOMA TAX COMMISSION
OTHER INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget - Positive (Negative) |
|--------------------------------------|-------------------------|----------------------|---|--|
| | Original | Final | | |
| Budgetary Fund Balance, July 1 | \$ 11,663,169 | \$ 14,402,170 | \$ 11,068,619 | \$ (3,333,551) |
| Resources (inflows) | | | | |
| Taxes | 35,466,174 | 35,754,174 | 30,661,674 | (5,092,500) |
| Other Revenues | 13,470,000 | 13,470,000 | 17,675,334 | 4,205,334 |
| State Appropriations | 43,025,648 | 42,733,616 | 42,733,616 | - |
| Amount Available for Appropriation | <u>103,624,991</u> | <u>106,359,960</u> | <u>102,139,243</u> | <u>(4,220,717)</u> |
| Charges to Appropriations (outflows) | | | | |
| Salaries and Benefits | 51,087,431 | 51,087,431 | 48,382,667 | 2,704,764 |
| Professional Services | 9,501,681 | 9,402,231 | 8,374,760 | 1,027,471 |
| Inter-Agency Personal Services | 38,100 | 38,100 | 52,627 | (14,527) |
| Travel | 1,156,160 | 1,156,160 | 643,586 | 512,574 |
| Miscellaneous Administrative | 8,305,824 | 8,305,824 | 7,341,262 | 964,562 |
| Rent of Buildings and Equipment | 4,042,300 | 4,042,300 | 2,992,152 | 1,050,148 |
| Maintenance | 6,719,948 | 9,719,948 | 10,019,726 | (299,778) |
| Supplies | 5,820,078 | 5,820,078 | 5,609,689 | 210,389 |
| Equipment | 5,350,000 | 5,350,000 | 168,100 | 5,181,900 |
| Buildings - Renovation | | | - | - |
| Library Equipment | 39,750 | 39,750 | 46,221 | (6,471) |
| Payments to Local Governments | | | - | - |
| Total Charges to Appropriations | <u>92,061,272</u> | <u>94,961,823</u> | <u>83,630,790</u> | <u>11,331,033</u> |
| Budgetary Fund Balance - June 30 | <u>\$ 11,563,719</u> | <u>\$ 11,398,137</u> | <u>\$ 18,508,453</u> | <u>\$ 7,110,316</u> |

The notes to the Other Information are an integral part of this schedule.

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - TAX COMMISSION COMPLIANCE FUND
FOR THE YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget - Positive (Negative) |
|--------------------------------------|-------------------------|-----------|---|--|
| | Original | Final | | |
| Budgetary Fund Balance, July 1 | \$ - | \$ - | \$ - | \$ - |
| Resources (inflows) | | | | |
| Taxes | 1,000,000 | 1,000,000 | - | (1,000,000) |
| Amount Available for Appropriation | 1,000,000 | 1,000,000 | - | (1,000,000) |
| Charges to Appropriations (outflows) | | | | |
| Other Expenditures | 1,000,000 | 1,000,000 | - | 1,000,000 |
| Total Charges to Appropriations | 1,000,000 | 1,000,000 | - | 1,000,000 |
| Budgetary Fund Balance - June 30 | \$ - | \$ - | \$ - | \$ - |

The notes to the Other Information are an integral part of this schedule.

**BUDGETARY COMPARISON SCHEDULE - LICENSE PLATE PROGRAM FUND
FOR THE YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget - Positive (Negative) |
|--------------------------------------|-------------------------|-----------|---|--|
| | Original | Final | | |
| Budgetary Fund Balance, July 1 | \$ 1,320 | \$ 1,320 | \$ 1,320 | \$ - |
| Resources (inflows) | | | | |
| Taxes | 20,000 | 65,120 | 77,500 | 12,380 |
| Amount Available for Appropriation | 21,320 | 66,440 | 78,820 | 12,380 |
| Charges to Appropriations (outflows) | | | | |
| Other Expenditures | 20,000 | 20,000 | 65,120 | (45,120) |
| Total Charges to Appropriations | 20,000 | 20,000 | 65,120 | (45,120) |
| Budgetary Fund Balance - June 30 | \$ 1,320 | \$ 46,440 | \$ 13,700 | \$ (32,740) |

The notes to the Other Information are an integral part of this schedule.

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - USED TIRE RECYCLING INDEMNITY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget - Positive (Negative) |
|--------------------------------------|-------------------------|---------------------|---|--|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary Fund Balance, July 1 | \$ 4,814,549 | \$ 4,814,549 | \$ 348,496 | \$ (4,466,053) |
| Resources (inflows) | | | | |
| Tire Fees | 11,000,000 | 11,000,000 | 9,792,746 | (1,207,254) |
| Other Revenues | | | 2,064 | 2,064 |
| Amount Available for Appropriation | <u>15,814,549</u> | <u>15,814,549</u> | <u>10,143,306</u> | <u>(5,671,243)</u> |
| Charges to Appropriations (outflows) | | | | |
| Waste Tire Reimbursements | 12,038,000 | 12,038,000 | 9,966,037 | 2,071,963 |
| Other Expenditures | | | | - |
| Transfers to Other Funds | | | | - |
| Total Charges to Appropriations | <u>12,038,000</u> | <u>12,038,000</u> | <u>9,966,037</u> | <u>2,071,963</u> |
| Budgetary Fund Balance - June 30 | <u>\$ 3,776,549</u> | <u>\$ 3,776,549</u> | <u>\$ 177,269</u> | <u>\$ (3,599,280)</u> |

The notes to the Other Information are an integral part of this schedule.

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - FILM REBATE FUND
FOR THE YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget - Positive (Negative) |
|--------------------------------------|-------------------------|---------------------|---|--|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary Fund Balance, July 1 | \$ 8,607,182 | \$ 8,607,182 | \$ 14,432,711 | \$ 5,825,529 |
| Resources (inflows) | | | | |
| Taxes | 4,000,000 | 4,000,000 | - | (4,000,000) |
| Transfers In | - | - | - | - |
| Other Revenue | - | - | - | - |
| Amount Available for Appropriation | <u>12,607,182</u> | <u>12,607,182</u> | <u>14,432,711</u> | <u>1,825,529</u> |
| Charges to Appropriations (outflows) | | | | |
| Film Rebate Payments | 5,000,000 | 5,000,000 | 2,474,485 | 2,525,515 |
| Transfers to Other Funds | - | - | - | - |
| Total Charges to Appropriations | <u>5,000,000</u> | <u>5,000,000</u> | <u>2,474,485</u> | <u>2,525,515</u> |
| Budgetary Fund Balance - June 30 | <u>\$ 7,607,182</u> | <u>\$ 7,607,182</u> | <u>\$ 11,958,226</u> | <u>\$ 4,351,044</u> |

The notes to the Other Information are an integral part of this schedule.

**BUDGETARY COMPARISON SCHEDULE - PROTEST PENALTY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget - Positive (Negative) |
|--------------------------------------|-------------------------|----------------|---|--|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary Fund Balance, July 1 | \$ - | \$ - | \$ - | \$ - |
| Resources (inflows) | | | | |
| Taxes | 219,446 | 219,676 | 3,048 | (216,628) |
| Amount Available for Appropriation | <u>219,446</u> | <u>219,676</u> | <u>3,048</u> | <u>(216,628)</u> |
| Charges to Appropriations (outflows) | | | | |
| Other Expenditures | 219,446 | 219,676 | 219,676 | - |
| Total Charges to Appropriations | <u>219,446</u> | <u>219,676</u> | <u>219,676</u> | <u>-</u> |
| Budgetary Fund Balance - June 30 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (216,628)</u> | <u>\$ (216,628)</u> |

The notes to the Other Information are an integral part of this schedule.

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - AD VALOREM REIMBURSEMENT FUND
FOR THE YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance with Final Budget - Positive (Negative) |
|--------------------------------------|-------------------------|------------------------|---|--|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary Fund Balance, July 1 | \$ (20,265,759) | \$ (99,566,190) | \$ (38,971,282) | \$ 60,594,908 |
| Resources (inflows) | | | | |
| Taxes | 41,066,146 | - | 34,246,844 | 34,246,844 |
| Transfers In | - | 135,573,973 | 102,515,000 | (33,058,973) |
| Other Revenue | - | - | 251,020 | 251,020 |
| Amount Available for Appropriation | <u>20,800,387</u> | <u>36,007,783</u> | <u>98,041,582</u> | <u>62,033,799</u> |
| Charges to Appropriations (outflows) | | | | |
| County Reimbursements | 41,066,146 | 135,573,973 | 135,564,423 | 9,550 |
| Transfers to Other Funds | - | - | - | - |
| Total Charges to Appropriations | <u>41,066,146</u> | <u>135,573,973</u> | <u>135,564,423</u> | <u>9,550</u> |
| Budgetary Fund Balance - June 30 | <u>\$ (20,265,759)</u> | <u>\$ (99,566,190)</u> | <u>\$ (37,522,841)</u> | <u>\$ 62,043,349</u> |

The notes to the Other Information are an integral part of this schedule.

See independent auditor's report.

OTHER INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO OI

Note A. Budgeting, Budgeting Control and Budgetary Reports

The State annual budget is prepared on the cash basis utilizing encumbrance accounting. Encumbrances represent executed but unperformed purchase orders. In the accompanying budgetary comparison schedules, encumbrances are recorded as expenditures for budgetary purposes if expected to be presented for payment by November 15 following the end of the fiscal year and as unassigned fund balance in the governmental funds balance sheet for GAAP purposes. Since the budgetary basis differs from generally accepted accounting principles, budget and actual amounts in the accompanying Budgetary Comparison Schedules - Budget and Actual (Non-GAAP Budgetary Basis) are presented on the budgetary basis.

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on budget requests prepared by the various state agencies. The General Fund, License Plate Program Fund, Tax Commission Compliance Fund, Used Tire Recycling Indemnity Fund, Ad Valorem Reimbursement Fund and the Oklahoma Film Enhancement Fund are the only funds for which an annual budget is legally adopted. The Governor has the power to approve or veto each line item appropriation. Any other changes to the budget must be approved by the Legislature in a supplemental appropriation. All 2018 appropriation line items of the State were within their authorized spending level.

The legal level of budgetary control is maintained at the line item level (i.e. General Operations, Personal Services, Duties, etc.) identified in the appropriation acts. Budgets may be modified subject to statutory limits on transfers. The Director of the Office of Management and Enterprise Services can approve transfers between line items up to 25%. Agencies can obtain approval from the Contingency Review Board to transfer up to an additional 15%; however, all transfers are subject to review by the Joint Legislative Committee on Budget and Program Oversight to determine if the transfer tends to effectuate or subvert the intention and objectives of the Legislature.

Current policy allows agencies to use unexpended monies for one-time purchases or non-recurring expenditures in the next fiscal year. This policy provides an incentive for management to distribute resources efficiently; however, it is subject to annual approval by the Legislature. Unexpended balances not carried forward to the new fiscal year by November 15 may: 1) lapse to unrestricted balances and be available for future appropriation, 2) lapse to restricted balances and be available for future appropriations restricted for specific purposes as defined by statute, or 3) be non-fiscal, and may be spent from one to 30 months from the date of appropriation.

Note B. Excess of Expenditures Over Appropriations

Expenditures from the Ad Valorem Reimbursement Fund exceeded the amount available for appropriation due to inadequate funding for all claims submitted. Legislative appropriations and income tax receipts were used to fully fund claims subsequent to year-end.

See independent auditor's report.

OTHER INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO OTHER INFORMATION

Note C - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

| | General Fund | License Plate Program Fund | Used Tire Recycling Indemnity Fund | Film Rebate Fund | Reimbursement & Repayment - Other | Ad Valorem Reimbursement Fund |
|---|----------------------|-------------------------------|--|---------------------|---|-------------------------------------|
| Sources/inflows of resources | | | | | | |
| Actual amounts (budgetary basis) "Resources (inflows)" from the budgetary comparison schedule | \$ 91,070,624 | \$ 77,500 | \$ 9,794,810 | \$ - | \$ 3,048 | \$ 34,497,864 |
| Differences - budget to GAAP: | | | | | | |
| State appropriations are inflows of budgetary resources but are not revenues for financial reporting purposes. | (42,733,616) | - | - | - | - | - |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes. | - | - | - | - | - | - |
| Accrual adjustments for receivables are made for financial reporting purposes but not for the budgetary comparison. | 128,554 | 1,120 | 39,652 | 4,000,000 | - | 301,051 |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>\$ 48,465,562</u> | <u>\$ 78,620</u> | <u>\$ 9,834,462</u> | <u>\$ 4,000,000</u> | <u>\$ 3,048</u> | <u>\$ 34,798,915</u> |
| Uses/outflows of resources | | | | | | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 83,701,762 | \$ 65,120 | \$ 9,895,065 | \$ 2,474,485 | \$ 219,676 | \$ 135,564,423 |
| Differences - budget to GAAP: | | | | | | |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes. | - | - | - | - | - | - |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>\$ 83,701,762</u> | <u>\$ 65,120</u> | <u>\$ 9,895,065</u> | <u>\$ 2,474,485</u> | <u>\$ 219,676</u> | <u>\$ 135,564,423</u> |

See independent auditor's report.

Schedules of Required Supplementary Information
SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Last 10 Fiscal Years (Dollar amounts in thousands)

| | 2014 | 2015 | 2016 | 2017* |
|--|---------------|---------------|---------------|---------------|
| Commission's proportion of the net pension liability | 1.719090% | 1.666781% | 1.589433% | 1.664907% |
| Commission's proportionate share of the net pension liability | \$ 3,101,387 | \$ 5,270,744 | \$ 10,675,972 | \$ 9,001,540 |
| Commission's covered payroll | \$ 28,973,655 | \$ 29,465,012 | \$ 28,563,176 | \$ 29,414,288 |
| Commission's proportionate share of the net pension liability as a percentage of its covered payroll | 10.70% | 17.89% | 37.38% | 30.60% |
| Plan fiduciary net position as a percentage of the total pension liability | 97.90% | 96.00% | 62.24% | 94.28% |

The amounts present for each fiscal year were determined as of 6/30.

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.

* Only the current and prior three fiscal years are presented because 10-year data is not yet available.

The net pension liability for fiscal year 2017 was restated due to the restatement of other post-employment benefits at OPERS.

Schedules of Required Supplementary Information
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Last 10 Fiscal Years (Dollar amounts in thousands)

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 4,780,668 | \$ 4,861,727 | \$ 4,712,924 | \$ 4,480,704 | \$ 4,609,833 |
| Contributions in relation to the contractually required contribution | <u>4,780,668</u> | <u>4,861,727</u> | <u>4,712,924</u> | <u>4,480,704</u> | <u>4,609,833</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Commission's covered payroll | \$ 28,973,745 | \$ 29,465,012 | \$ 28,563,176 | \$ 29,414,288 | \$ 30,962,553 |
| Contributions as a percentage of covered payroll | 16.50% | 16.50% | 16.68% | 15.23% | 14.89% |

The amounts present for each fiscal year were determined as of 6/30.

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.

Only the current and prior four fiscal years are presented because 10-year data is not yet available.

Schedules of Required Supplementary Information
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
SUPPLEMENTAL HEALTH INSURANCE SUBSIDIARY PLAN
Last 10 Fiscal Years (Dollar amounts in thousands)

| | <u>2017</u> |
|---|---------------|
| Commission's proportion of the net OPEB liability (asset) | 1.665% |
| Commission's proportionate share of the net OPEB liability | \$ 190,699 |
| Commission's covered payroll | \$ 29,414,288 |
| Commission's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll | 0.65% |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 96.50% |

The amounts present for the fiscal year were determined as of 6/30.

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

Schedules of Required Supplementary Information
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS
SUPPLEMENTAL HEALTH INSURANCE SUBSIDIARY PLAN
Last 10 Fiscal Years (Dollar amounts in thousands)

| | <u>2018</u> | <u>2017</u> |
|--|---------------|---------------|
| Contractually required contribution | \$ 322,658 | \$ 313,595 |
| Contributions in relation to the contractually required contribution | \$ 322,658 | \$ 313,595 |
| Contribution deficiency (excess) | \$ - | \$ - |
| Commission's covered payroll | \$ 30,962,553 | \$ 29,414,288 |
| Contributions as a percentage of covered payroll | 1.04% | 1.07% |

The amounts present for the fiscal year were determined as of 6/30.

Notes to Schedule:

Only the current and prior fiscal years are presented because 10-year data is not yet available.

Schedules of Required Supplementary Information
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE TOTAL OPEB LIABILITY
STATE OF OKLAHOMA IMPLICIT RATE SUBSIDY
Last 10 Fiscal Years (Dollar amounts in thousands)

| | <u>2017</u> |
|--|---------------|
| Commission's proportion of the total OPEB liability | 1.94% |
| Commission's proportionate share of the total OPEB liability | \$ 2,844,993 |
| Commission's covered-employee payroll | \$ 34,575,669 |
| Commission's proportionate share of the total OPEB liability (asset) as a percentage of its covered-employee payroll | 8.34% |

The amounts present for each fiscal year were determined as of 6/30.

Notes to Schedule:

GASB Statement 75 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 75 and is the latest available at the date of publication.

**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 COMMISSIONERS OF THE
OKLAHOMA TAX COMMISSION**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oklahoma Tax Commission, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Oklahoma Tax Commission's basic financial statements, and have issued our report thereon dated May 18, 2021. The report includes an emphasis of matter paragraph stating the financial statements of the Oklahoma Tax Commission are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Oklahoma Tax Commission.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oklahoma Tax Commission'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 Tax Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oklahoma Tax Commission'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying finding schedule as item 18-695-100 that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oklahoma Tax Commission'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*.

Oklahoma Tax Commission's Response to Findings

Oklahoma Tax Commission's response to the finding identified in our engagement is described in the accompanying finding schedule. Oklahoma Tax Commission's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

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.

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



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR AND INSPECTOR

May 18, 2021

FINDING SCHEDULE

Reference Number: 18-695-100

State Agency: Oklahoma Tax Commission (the Commission)

Fund Type: Agency Funds (Fiduciary); Government-Wide/Governmental Funds

Other Information: Accounts Receivable/Taxes Receivables/Due To (Agency Fund Only)

Effect: *Taxes and Accounts Receivable and Due To* were understated by the respective amounts.

Government-wide Statement of Net Position

| | |
|-----------------------------------|--------------|
| Accounts Receivable | \$ 602,398 |
| Taxes Receivable | \$ 646,637 |
| Charges for Services | \$ 42,101 |
| Personal and Corporate Income Tax | \$ 1,080,150 |
| Used Tire Recycling Fee | \$ 126,784 |

Agency Fund - Statement of Fiduciary Net Position

| | |
|----------------------------|---------------|
| Accounts Receivable | \$ 84,326,634 |
| Taxes Receivable | \$471,019,293 |
| Due to State General Funds | \$290,713,193 |
| Due to Enterprise Funds | \$ 15,924,445 |
| Due to Pension Trust Funds | \$ 7,232,677 |
| Due to Other Accounts | \$ 4,726,158 |
| Due to Local Governments | \$236,749,454 |

The Commission Governmental Fund statements were also misstated.

Governmental Fund Statement of Net Position

Accounts Receivable (understated)

| | |
|--|-------------------|
| General Fund | \$ 67,746 |
| Used Tire Recycling Indemnity Fund (UTRIF) | \$ 42,270 |
| Ad Valorem Reimbursement Fund | <u>\$ 492,382</u> |
| Total Governmental Funds | \$ 602,398 |

Taxes & Fees Receivable

| | |
|---|-------------------|
| General Fund (overstated) | \$ (25,645) |
| UTRIF (understated) | \$ 84,514 |
| Ad Valorem Reimbursement Fund (understated) | <u>\$ 587,768</u> |
| Total Governmental Funds | \$ 646,637 |

Deferred Inflows (understated)

| | |
|------------------------------------|---------------------|
| General Fund | \$ 197,942 |
| Used Tire Recycling Indemnity Fund | \$ 122,245 |
| Ad Valorem Reimbursement Fund | <u>\$ 1,080,150</u> |
| Total Governmental Funds | \$ 1,400,337 |

Cause: The financial statement preparation and review process the Commission has in place did not detect the *Taxes Receivable* and *Accounts Receivable* misstatements, nor detect errors in the method currently being used by the Commission to allocate *Taxes Receivable* and *Accounts Receivable* to *Due to*.

The Commission only accounted for certain taxes, interest, and penalties collected in July and August and due to the Commission at year-end, which does not comply with the required GAAP full accrual basis accounting. In addition, not all tax types were included in the July and August calculation.

Condition: The Commission's financial statements did not include all *Taxes* and *Accounts Receivables* at year end and errors were found in the *Due To* allocations.

- Full accrual was not used to report *Taxes* and *Accounts Receivable* on the **Government-wide Statement of Net Position** and the **Agency Fund - Statement of Fiduciary Net Position**. Only the modified accrual (taxes, penalties and interest due to the Commission as of June 30, 2018 and received between July 1, 2018 to August 30, 2018) was used. Based on the of definition of **accrual accounting**, the **taxes earned and expected to be collected by the Commission as of June 30 should be included in the reported taxes and accounts receivable balances**.
- The Commission erroneously excluded the local government sales tax and lodging tax amount from the *Taxes Receivable* and *Accounts Receivable* on the Statement of Fiduciary Net Position – Agency Fund.
- All Short-term Taxes and Accounts Receivable were not included in the Commission's modified accrual calculation.
- Motor Vehicle and Gross Production Tax revenues, which are kept in a separate system from the main OneLink General Ledger system, were not included in the Commission's accrual calculation.
- Gross production taxes can be paid without filing a report. Therefore, the Commission did not have sufficient detailed support behind these tax payments to determine if these collections should be taxes receivable at year end.
- Motor vehicle taxes are reported by multiple external sources in batch form. The underlying detailed support for the transactions remains with the external source. This makes it impossible for the Commission to determine if collections should be receivables at year end.
- Allocation of the *Taxes* and *Accounts Receivable* amount to *Due to* on the Statement of Fiduciary Net Position was inaccurate.

Recommendation: We recommend the Commission develop and document a method to determine and report all *Taxes Receivables* and *Accounts Receivables* in compliance with the accrual basis of accounting, and properly allocate amounts they are expected to collect on behalf of others to ensure compliance with Oklahoma Statutes and GAAP. This method should include all taxes, interest, and penalties earned as of year-end. This methodology should include obtaining the detailed support for the gross production tax collections as close to the tax payment date as possible and develop a process to gather detail of transactions from external sources to determine the taxes receivable at the year-end.

We also recommend the Commission develop financial statement preparation policies and procedures, as well as implement a review process to detect omissions of information from the financial statements. The design should ensure the Commission's financial statements are prepared in accordance with GAAP and are fairly stated.

Criteria: A basic objective of GAAP is to provide accurate, reliable, and timely information through a proper review and approval process.

Governmental Accounting Standards Board Statement Number 34 ([GASB 34](#))

Paragraph 73 – Agency Funds

Paragraph 107 – Agency Funds – balance due to Other Funds

Paragraph 107 – Fiduciary Funds

[GASB 33](#) – *Recognition Standards: Tax Revenues*

The Governmental Accounting, Auditing, and Financial Reporting Chapter 7, *Measurement Focus and Basis of Accounting*

[68 O.S.](#) § 1353 A.1.a, 2, 4, and 5 – Sales Tax Code: Apportionment of Revenues

[68 O.S.](#) § 1370.9 A.5 – Streamlined Sales and Use Tax Administration Act: Lodging Tax

[68 O.S.](#) § 1371 – Streamlined Sales and Use Tax Administration Act: Authority to Contract to Assess, Collect and Enforce Sales Tax

The United States Government Accountability Office ([GAO](#)) [Standards for Internal Control in the Federal Government](#)

10.03 – Design of Appropriate Types of Control Activities

11.03 – Design of the Entity’s Information System (obtaining and processing information)

11.05 - Design of the Entity’s Information System (evaluating information processing)

11.06 – Design of Appropriate Types of Control Activities

13.02 – Identification of Information Requirements

Agency Management Response: Management has since adopted the full accrual basis of accounting to report Taxes and Accounts Receivable on the Government-wide Statement of Net Position and the Agency Fund - Statement of Fiduciary Net Position. Included in both the full accrual and modified accrual estimates are all major tax types, including motor vehicle, gross production, and local government sales tax and lodging tax. Allocation of the *Taxes* and *Accounts Receivable* amount to *Due to* on the Statement of Fiduciary Net Position is calculated based on statutory apportionment regulations.



Cindy Byrd, CPA | State Auditor & Inspector

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