OKLAHOMA
TAX COMMISSION

Financial Statements and
Independent Auditor's Reports

For the fiscal year ended June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

OKLAHOMA TAX COMMISSION
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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Cindy Byrd, CPA | State Auditor & Inspector
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November 1, 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, 2019. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

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

Sincerely,

Cindy Byrd

CINDY BYRD, CPA

OKLAHOMA STATE AUDITOR AND INSPECTOR

OKLAHOMA TAX COMMISSION
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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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, 2019, 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, 2019, 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 Matter

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, 2019, 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.

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 4-9, the pension schedules on pages 49-50, and the other post-employment benefit (OPEB) schedules on pages 51-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 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 solely 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 the effectiveness of 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

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR AND INSPECTOR

November 1, 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, 2019.

FINANCIAL HIGHLIGHTS

- The Commission's total net position increased 116.16% from $4.95 million to $10.70 million during the fiscal year ending June 30, 2019. Fiscal year 2019 higher tax and fee collections over fiscal year 2018 by $7.68 million are the primary reason for the $5.75 million change in net position.

- The Commission's program revenues increased 8.19% from $48.46 million to $52.43 million while expenses increased 2.87% from $230.51 million to $237.12 million during the fiscal year ending June 30, 2019. Appropriations for fiscal year 2019 increased 6.53% from $42.73 to $45.52 million from fiscal year 2018.

- The assets of fiduciary funds, which represent taxes held in trust for distribution to state and local governments and others, totaled $2.04 billion at June 30, 2019.

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 additional detailed data. Following the statements is 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, 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 must be considered.

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 detailed information about the Commission's most significant funds and 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 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 2018 and 2019 to $10.70 million. During FY19 the Commission transfers in fund balance exceeded transfers out by $95.86 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, 2019 and 2018
(in millions of dollars)

	Governmental Activities		Increase	Percent
	2019	**2018**	(Decrease)	Change
Current And Other Assets	$ 62.95	$ 51.44	$ 11.51	22.38%
Noncurrent Assets	0.23	-	0.23	2300.00%
Capital Assets, Net of Depreciation	7.74	9.13	(1.39)	(15.22%)
Total Assets	70.92	60.57	10.35	17.09%
Deferred Outflows of Resources	7.30	9.92	(2.62)	(26.41%)
Current And Other Liabilites	55.07	48.25	6.82	14.13%
Noncurrent Liabilites	9.22	14.96	(5.74)	(38.37%)
Total Liabilities	64.29	63.21	1.08	1.71%
Deferred Inflow of Resources	3.23	2.33	0.90	38.63%
Net Position				
Invested In Capital Assets	7.74	9.13	(1.39)	(15.22%)
Unrestricted	2.96	(4.18)	7.14	(170.8%)
Total Net Position	$ 10.70	$ 4.95	$ 5.75	116.16%

Net position of the Commission's governmental activities increased 116.16% from $4.95 million to $10.70 million, and unrestricted net position increased 170.8% from ($4.18) million to $2.96 million during the fiscal year ending June 30, 2019. These increases are largely due to increased sales and uses taxes, computer enhancement fees, and state appropriations.

Invested in capital assets decreased 1.39% from $9.13 million to $7.74 million during the fiscal year ending June 30, 2019, primarily 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, 2019 increased 7.89% from $97.28 million to $104.96 over the prior year, while expenses increased 6.55% from 234.04 million to $240.59 million. 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 homeowners 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, 2019 and 2018
(in millions of dollars)

	Governmental Activities 2019	Governmental Activities 2018	Increase (Decrease)	Percent Change
Program Revenues:				
Charges for Services	$ 52.43	$ 48.46	3.97	8.19%
General Revenues				
Taxes	41.82	38.68	3.14	8.12%
Fees	10.13	9.88	0.25	2.53%
Other	0.58	0.26	0.32	123.08%
Total Revenues	**104.96**	**97.28**	**7.68**	**7.89%**
State Appropriations	45.52	42.73	2.79	6.53%
Transfers In	99.60	102.83	(3.23)	(3.14%)
Transfer Out	(3.74)	(4.18)	0.44	(10.53%)
Total Other Financing Sources (Uses)	**141.38**	**141.38**	**0.00**	0.00%
Expenses:				
General Government	(237.12)	(230.51)	(6.61)	2.87%
Depreciation	(3.47)	(3.53)	0.06	(1.70%)
Total Expenditures	**(240.59)**	**(234.04)**	**(6.55)**	**2.80%**
Change in Net Position	5.75	4.62	1.13	24.46%
Net Position - Fiscal Year Beginning	4.95	0.33	4.62	1400.00%
Net Position - Fiscal Year Ending	**$ 10.70**	**$ 4.95**	**$ 5.75**	**116.16%**

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, 2019 the Commission maintained as a fiduciary $2,044,308,048 in total assets for others. Of that amount $478,675,441 was due to taxpayers for refunds and the remaining 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 $13.59 million or 49.4% between fiscal years 2018 and 2019 from $27.51 million to $41.10 million. The fund's total liabilities and deferred inflows of revenue increased 63.80% between fiscal years 2018 and 2019 from $3.37 million to $5.52 million. This resulted in an increase in fund balance of 47.39% from $24.14 million to $35.58 million at June 30, 2019.

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 641.63% from $14,940 in fiscal year 2018 to $110,800 in fiscal year 2019. 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 fiscal year 2019; therefore, this fund is not included in the Governmental Fund Financial Statements.

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 $85,596 in fiscal year 2019.

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 fiscal year 2019 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 2019, payments totaling $5,315,144 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 Commission approved reimbursement claims to counties and schools totaling $143.10 million for fiscal year 2019. HB 2765 transferred in $99.6 million during fiscal year 2019 to pay the amount due to schools. The remaining balance of $45.37 million due to counties as of June 30, 2019 will be satisfied with fiscal years 2020 and 2021 collections. This deficit in funding available to cover current obligations is the reason for the deficit fund balance of $40.58 million as of June 30, 2019. Revenue projections for both fiscal years 2019 and 2020 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 $9.94 million while actual resources available were higher than budgeted resources by $51.37 million, resulting in a positive overall variance of $61.31 million.

Next Year's Budget

The Commission budget for Fiscal Year 2020 was developed with available appropriations and estimated income from tax collections and fees associated with operating activities. The original budget totaled $109.08 million, down $142.49 million from the final budget of $251.57 million for Fiscal Year 2019. The decrease in budget between Fiscal Years 2019 and 2020 consists primarily of a reduction in the amount available for reimbursements from the Ad Valorem Reimbursement Fund.

Of the $109.08 million total budget, $88.70 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 $20.38 million includes $8 million for the Oklahoma Film Enhancement Rebate Reimbursement Fund, $.10 million for the License Plate Special Program, $10.28 million for the Used Tire Recycling Indemnity Fund, and $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, Oklahoma City, OK 73194.

OKLAHOMA TAX COMMISSION
GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Current Assets:	
Cash	$ 41,685,701
Investments	62,030
Accounts Receivable	3,029,622
Taxes & Fees Receivable	6,139,240
Due From Agency Fund	11,730,868
Inventory	71,059
Prepaid Expense	225,926
Total Current Assets	62,944,446
Noncurrent Assets:	
Net OPEB Asset	230,011
Capital Assets (Net Of Accumulated Depreciation)	7,737,049
Total Noncurrent Assets	7,967,060
TOTAL ASSETS	$ 70,911,506
DEFERRED OUTFLOW OF RESOURCES	
Related To Pension	$ 6,563,262
Related To OPEB	739,291
Total Deferred Inflows of Resources	$ 7,302,553
LIABILITIES	
Current Liabilities:	
Accounts Payable	$ 51,420,527
Tax Refunds Payable	3,281,499
Accrued Payroll	68,366
Compensated Absences	298,432
Total Current Liabilities	55,068,824
Noncurrent Liabilities:	
Compensated Absences	2,905,824
Total OPEB Liability	2,845,045
Net Pension Liability	3,466,662
Total Noncurrent Liabilities	9,217,531
TOTAL LIABILITIES	$ 64,286,355
DEFERRED INFLOW OF RESOURCES	
Related To Pension	$ 2,530,646
Related To OPEB	697,552
Total Deferred Inflows of Resources	$ 3,228,198
NET POSITION	
Invested In Capital Assets	$ 7,737,049
Unrestricted (Deficit)	2,962,457
TOTAL NET POSITION	$ 10,699,506

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, 2019

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	$ 237,122,277	$ 52,433,851	$ -	$ (184,688,426)
Depreciation Expense - Unallocated	3,469,946	-	-	(3,469,946)
Total Governmental Activities	$ 240,592,223	$ 52,433,851	$ -	$ (188,158,372)

General Revenues:	
Taxes:	
Personal and Corporate Income	$ 41,820,376
License Plate	95,860
Fees:	
Used Tire Recycling Fee	10,029,414
Other	582,091
State Appropriations	45,525,057
Transfers In	99,600,000
Transfers Out	(3,742,051)
Total Revenues	$ 193,910,747
Change in Net Position	5,752,375
Net Position - Fiscal Year Beginning	$ 4,947,131
Net Position - Fiscal Year Ending	$ 10,699,506

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

OKLAHOMA TAX COMMISSION
BALANCE SHEET
GOVERNMENTAL FUNDS
6/30/2019

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
ASSETS:						
Cash	$ 30,936,831	$ 105,760	$ -	$ 10,643,109	$ 1	$ 41,685,701
Investments	-	-	62,030	-	-	62,030
Due from License Plate Program Fund	63,940	-	-	-	-	63,940
Due from Agency Fund	4,099,496	5,040	11,264	4,000,000	3,615,068	11,730,868
Accounts Receivable	2,630,215	-	16,832	-	382,575	3,029,622
Taxes and Fees Receivable	3,068,984	-	759,496	-	2,310,760	6,139,240
Inventory	71,059	-	-	-	-	71,059
Prepaid Expense	225,926	-	-	-	-	225,926
TOTAL ASSETS	$ 41,096,451	$ 110,800	$ 849,622	$ 14,643,109	$ 6,308,404	$ 63,008,386
DEFERRED OUTFLOW OF RESOURCES:						
Related to Tax Refunds Payable	$ -	$ -	$ -	$ -	$ 2,769,298	$ 2,769,298
TOTAL DEFERRED OUTFLOW OF RESOURCES	$ -	$ -	$ -	$ -	$ 2,769,298	$ 2,769,298
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 41,096,451	$ 110,800	$ 849,622	$ 14,643,109	$ 9,077,702	$ 65,777,684
LIABILITIES:						
Accounts Payable	$ 5,212,082	$ -	$ 838,726		$ 45,369,719	$ 51,420,527
Due to General Fund	-	63,940	-	-	-	63,940
Tax Refunds Payable	8,902	-	-	-	3,272,597	3,281,499
Accrued Payroll	68,366	-	-	-	-	68,366
Compensated Absences	11,710	-	-	-	-	11,710
TOTAL LIABILITIES	$ 5,301,060	$ 63,940	$ 838,726	$ -	$ 48,642,316	$ 54,846,042
DEFERRED INFLOW OF RESOURCES:						
Related to Accounts Receivable	$ 85,208	$ -	$ 7,683	$ -	$ 316,300	$ 409,191
Related to Taxes & Fees Receivable	130,285	-	22,000		698,546	850,831
TOTAL DEFERRED INFLOW OF RESOURCES:	$ 215,493	$ -	$ 29,683	$ -	$ 1,014,846	$ 1,260,022
FUND BALANCES:						
Nonspendable	$ 296,985	$ -	$ -	$ -	$ -	$ 296,985
Restricted	-	46,860	(18,787)	-	-	28,073
Committed	3,272,816	-	-	14,643,109	-	17,915,925
Unassigned	32,010,097	-	-	-	(40,579,460)	(8,569,363)
TOTAL FUND BALANCES	$ 35,579,898	$ 46,860	$ (18,787)	$ 14,643,109	$ (40,579,460)	$ 9,671,620
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 41,096,451	$ 110,800	$ 849,622	$ 14,643,109	$ 9,077,702	$ 65,777,684

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, 2019

Total Fund Balance - Governmental Funds			$ 9,671,620
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	41,892,941	
	Accumulated depreciation	(34,155,892)	
	Net capital assets		7,737,049
The net other post employment asset is not a financial resources and, therefore, is not reported in the funds-level Balance Sheet.			230,011
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	409,191	
	Taxes and fees receivable	850,831	
	Deferred inflow of resources		1,260,022
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.			(2,769,298)
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	6,563,262	
	Pension related deferred inflows	(2,530,646)	
	Net pension related deferred		4,032,616
	Other post-employment benefit related deferred outflows	739,291	
	Other post-employment benefit related deferred inflows	(697,552)	
	Net other post-employment benefit related deferred		41,739
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds-level Balance Sheet.			
	Compensated absences	(3,192,546)	
	Net pension liability	(3,466,662)	
	Total other post-employment benefit liability	(2,845,045)	
	Total liabilities		(9,504,253)
Net Position of Governmental Activities			$ 10,699,506

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, 2019

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
Revenues						
Taxes	$ 30,776,774	$ 95,860	$ -	$ 4,000,000	$ 37,776,570	$ 72,649,204
Licenses Permits and Fees	21,582,471	-	10,121,976	-	-	31,704,447
Other	57,059	-	1,951	-	580,140	639,150
Total Revenues	$ 52,416,304	$ 95,860	$ 10,123,927	$ 4,000,000	$ 38,356,710	$ 104,992,801
Expenditures						
Current:						
Salaries and Benefits	49,484,786	-	-	-	-	49,484,786
Professional Services	10,126,285	-	10,910	-	-	10,137,195
Inter-Agency Personal Services	64,517	-	-	-	-	64,517
Travel	723,837	-	-	-	-	723,837
Miscellaneous Administrative	7,349,251	-	-	-	-	7,349,251
Rent of Buildings and Equipment	2,848,650	-	-	-	-	2,848,650
Maintenance	6,961,549	-	-	-	-	6,961,549
Supplies	2,840,708	-	-	-	-	2,840,708
Waste Tire Payments	-	-	10,198,613	-	-	10,198,613
Film Rebate Payments	-	-	-	5,315,144	-	5,315,144
Payments to Local Governments	53,071	-	-	-	143,274,966	143,328,037
Transfer to Special Account Funds	-	63,940	-	-	-	63,940
Library Equipment	49,785	-	-	-	-	49,785
Reimbursement & Repayment - Other	-	-	-	-	-	-
Capital Outlay:						
Equipment	2,260,358	-	-	-	-	2,260,358
Total Expenditures	82,762,797	63,940	10,209,523	5,315,144	143,274,966	241,626,370
Revenues Over (Under) Expenditures	(30,346,493)	31,920	(85,596)	(1,315,144)	(104,918,256)	(136,633,569)
Other Financing Sources (Uses)						
State Appropriations	45,525,057	-	-	-	-	45,525,057
Transfers In	-	-	-	-	99,600,000	99,600,000
Transfers Out	(3,742,051)	-	-	-	-	(3,742,051)
Total Other Financing Sources (Uses)	41,783,006	-	-	-	99,600,000	141,383,006
Net Change in Fund Balances	11,436,513	31,920	(85,596)	(1,315,144)	(5,318,256)	4,749,437
Fund Balance - Fiscal Year Beginning	24,143,385	14,940	66,809	15,958,253	(35,261,204)	4,922,183
Fund Balance - Fiscal Year End	$ 35,579,898	$ 46,860	$ (18,787)	$ 14,643,109	$ (40,579,460)	$ 9,671,620

Reconciliation of the Change in Net Position of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	$ 4,749,437
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 depreciation and loss on disposal of capital assets exceeded capital outlays in the current period.	(1,394,197)
Accounts receivable and taxes and fees receivable recognized under the full accrual method of accounting were less because deferred revenues in the prior year exceeded current year deferrals under the 60-day rule.	(140,317)
Tax refunds payable recognized under the full accrual method of accounting were more because deferred revenue offsets in the current year exceeded prior year deferrals under the 60-day rule.	109,109
The amount by which the Commission's portion of the net pension liability ($5,534,878) decreased, deferred outflows related to the pension ($2,661,635) decreased, and deferred inflows related to the pension ($754,107) increased compared to the prior fiscal year.	2,119,136
The amount by which the Commission's portion of the net OPEB liabiltiy ($190,699) decreased, the net OPEB asset ($230,011) increased, total OPEB liability ($39,948) decreased, deferred outflows related to OPEB ($47,313) increased and deferred inflows related to OPEB ($144,137) increased compared to the prior fiscal year.	363,834
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.	(54,627)
Change in Net Position of Governmental Activities	$ 5,752,375

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, 2019

ASSETS		
Cash	$	645,503,049
Investments		469,139,405
Accounts Receivable		59,368,802
Taxes Receivable		870,296,792
TOTAL ASSETS	$	2,044,308,048
LIABILITIES		
Tax Refunds Payable	$	478,675,441
Due To State General Funds		1,041,163,407
Due To Enterprise Funds		899,209
Due To Pension Trust Funds		38,761,507
Due To Other Accounts/Entities		(6,358,937)
Due To Local Governments		491,062,368
Amount To Be Apportioned		105,053
TOTAL LIABILITIES	$	2,044,308,048

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

OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
INDEX

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

Charles Prater, Secretary-Member
Term Expires January, 2025

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 four 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.

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 fiscal year 2019 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, 2019, has been reported in the Statement of Net Position.

- Executory purchase orders and contracts are recorded as unassigned fund balance.

D. Assets, Liabilities, Deferred Outflows & Inflows, 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 through 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 fiscal year 19. 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, 2019, were made in the amount of $368,234. Total amount outstanding at June 30, 2019, is $3,204,256 of which $2,905,824 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 Note 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 Ad Valorem Reimbursement Fund transfers in were comprised of $99.60 million appropriated per HB 2765, Section 124.

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 $3.74 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. The retirement age is 65 for employees hired on or after November 1, 2011, but they may retire under the Rule of 90 if they are at least age 60. 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 $4,689,327 during fiscal year 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019, the Commission reported a liability of $3,466,662 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The 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, 2018. Based upon this information, the Commission's proportion was 1.77738284%.

For the year ended June 30, 2019, the Commission recognized pension expense of $2,570,190. At June 30, 2019, 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	$ -	$ 1,952,376
Changes of assumptions	1,490,850	-
Net difference between projected and actual earnings on pension plan investments	-	567,075
Changes in proportion and differences between Commission contributions and proportionate share of contributions	383,085	11,195
Commission contributions during the measurement date	-	-
Commission contributions subsequent to the measurement date	4,689,327	-
Total	$ 6,563,262	$ 2,530,646

Deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date totaling $4,689,327 will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. 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:

2020	$	1,898,947
2021		(161,499)
2022		(1,964,361)
2023		(429,798)
Total	$	(656,711)

Actuarial Assumptions - The total pension liability as of June 30, 2018, was determined based on an actuarial valuation prepared as of July 1, 2018, using the following actuarial assumptions:

- Investment return - 7.00% compounded annually net of investment expense and including inflation
- Salary increases - 3.5% to 9.5% per year including inflation
- Mortality rates - active participants and nondisabled pensioners - RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
- 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

The actuarial assumptions used in the July 1, 2018, 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, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	3.8%
U.S. Small Cap Equity	6.0%	4.9%
Non-US Equity	24.0%	9.2%
US Fixed	32.0%	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	$ 22,242,859	$ 3,466,661	$ (12,445,133)

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 $68,366.

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, 2019 which is also the measurement date.

Commission %	Net Pension Liability	Deferred Outflows	Deferred Inflows	Pension Expense
1.77738284%	$3,466,662	$6,563,262	$2,530,646	$2,570,190

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 FY2019, the Commission contributed $399,416 to the plan.

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, 2019 were $227,649.

OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - At June 30, 2019, the Commission reported a liability of $2,845,045 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2018. 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, 2018. Based upon this information, the Commission's proportion was 1.9459720%.

Changes of assumptions reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018 resulting in recognition of a deferred inflow of resources. In addition to the change in discount rate the plan adopted the Pub-2010 mortality tables issued by the Society of Actuaries.

For the year ended June 30, 2019, the Commission recognized OPEB expense of $166,667. At June 30, 2019, 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	$ -	$ 18,933
Changes of assumptions	-	89,663
Changes in proportion	3,527	$ -
Contributions during the measurement date	-	252
Commission contributions subsequent to the measurement date	227,649	-
Total	$ 231,176	$ 108,848

Deferred outflows of resources related to OPEB resulting from Commission contributions subsequent to the measurement date totaling $227,649 will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. 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:	
2020	$ (37,590)
2021	(37,590)
2022	(25,551)
2023	(4,589)
Total	$ (105,320)

Actuarial Assumptions - The total OPEB liability as of June 30, 2019, was determined based on an actuarial valuation prepared as of June 30, 2018 using the following actuarial assumptions:

- Mortality rates – Pub-2010 Combined Healthy Mortality Table, with a fully generational projection using Scale MP-2018

- Salary scale, retirement rate, withdrawal rate, and disability rate actuarial assumptions are based on rates for the various retirement systems that the Plan's participants are in, including:

  - Oklahoma Public Employees Retirement System
  - Oklahoma Law Enforcement Retirement System
  - Teachers' Retirement System of Oklahoma
  - Uniform Retirement System of Justices & Judges
  - 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, 2019, valuation is based on a measured date of July 1, 2018, with a measurement period of July 1, 2017 to July 1, 2018.

The discount rate was based on Bond Buyer Index.

Sensitivity of the Commission's 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 (2.87%) or 1-percentage-point higher (4.87%) than the current discount rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Employers' total OPEB liability	$ 3,035,808	$ 2,845,046	$ 2,667,496

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:

	1% Decrease (6.1% decreasing to 3.6%)	Current Discount (7.1% decreasing to 4.6%)	1% Increase (8.1% decreasing t 5.6%)
Employers' total OPEB liability	$ 2,588,926	$ 2,845,046	$ 3,142,355

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 $346,276.

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2019, the Commission reported an asset of $230,011 for its proportionate share of the net OPEB liability. The total OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. 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, 2018. Based upon this information, the Commission's proportion was 1.77738284%.

For the year ended June 30, 2019, the Commission recognized OPEB expense of $43,427. At June 30, 2019, 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	$ -	$ 361,634
Changes of assumptions	134,821	-
Net difference between projected and actual earnings on OPEB plan investments	-	213,295
Contributions during the measurement period	27,017	13,776
Commission contributions subsequent to the measurement date	346,276	-
Total	$ 508,114	$ 588,705

Deferred outflows of resources related to OPEB resulting from Commission contributions subsequent to the measurement date totaling $346,276 will be recognized as a reduction of the total OPEB liability (asset) in the year ended June 30, 2020. 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:	
2020	$ (111,156)
2021	(111,156)
2022	(111,156)
2023	(56,236)
2024	(33,776)
Thereafter	(3,386)
Total	$ (426,866)

Actuarial Assumptions - The net OPEB liability (asset) as of June 30, 2018, was determined based on an actuarial valuation prepared as if June 30, 2018 using the following actuarial assumptions:

- Investment return - 7.00% compounded annually net of investment expense and including inflation
- Salary increases - 3.5% to 9.5% per year including inflation
- Mortality rates - active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
- 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, 2018, 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, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	3.8%
U.S. Small Cap Equity	6.0%	4.9%
Non-US Equity	24.0%	9.2%
US Fixed	32.0%	1.4%
Total	100.0%	

Discount Rate - A single discount rate of 7.00% was used to measure the total OPEB liability as of June 30, 2018. 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.

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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Employers' Net OPEB Liability (Asset)	$ 366,204	$ (230,010)	$ (742,823)

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, 2019, 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, 2019, 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

Investment Type	Percentage of Total Invested	Percentage of Total by Issuer	Maturity Limit	Rating
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%	N/A	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, 2019, by investment type, are listed below:

	Carrying Amount	Reported Amount/ Fair Value
Repurchase Agreements:		
Governmental Funds	$ 62,030	$ 62,030
Agency Fund	$ 469,139,405	$ 469,139,405

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, 2019:

Investments Measured at Fair Value
June 30, 2019 ($ in millions)

	6/30/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
TREASURER'S PORTFOLIO				
POOLED INVESTMENTS				
U. S. TREASURY (Treasury Inflation-Protected Securities)	75.36		75.36	
MONEY MARKET MUTUAL FUND	46.64		46.64	
CERTIFICATES OF DEPOSIT	10.36		10.36	
U. S. AGENCIES	145.20		145.20	
MORTGAGED BACKED SECURITIES	188.30		188.30	
FOREIGN BONDS	1.94		1.94	
MUNICIPAL BONDS	.83		.83	
	468.63		468.63	

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, 2019. 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, 2019

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Receivables
Taxes:						
Individual & Corporate	$ -	$ -	$ -	$ 4,000,000	$ 6,308,403	$ 10,308,403
Sales and Use	1,784,376	-	-	-	-	1,784,376
Motor Vehicle	806,419	-	-	-	-	806,419
Alcohol & Beverage	330,234	-	-	-	-	330,234
Other Business Taxes	25,432	5,040	-	-	-	30,472
Waste Tire Fees	15,496	-	787,592	-	-	803,088
Other Fees	2,135,452	-	-	-	-	2,135,452
Computer Enhancement	4,701,286	-	-	-	-	4,701,286
Total Receivables	$ 9,798,695	$ 5,040	$ 787,592	$ 4,000,000	$ 6,308,403	$ 20,899,730

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 $1,081,665. 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. The estimated amount, totaling $178,357, 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 are estimated at $3,281,499, of which $2,769,298 is attributable to individual and corporate income taxes and 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, 2019 was as follows:

General Government Activities:

	Equipment	Accumulated Depreciation	Capital Assets – Net
Beginning Balance	$40,328,166	($31,196,921)	$9,131,245
Increases	2,075,749	(3,469,946)	(1,394,197)
Decreases	(493,962)	493,962	-
Ending Balance	$41,909,953	($34,172,905)	$7,737,048

Current year depreciation expense related to the General Government Activities was $3,469,946.

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 2019 was $2,888,856. 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

The amount due to the general fund presented in the Governmental Fund balance sheet is $63,940 and is due from the License Plate Program Fund for transfers made to designated agencies for the benefit of the sponsored organization.

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, 2019, 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, 2019, and changes for the fiscal year are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities				
Compensated Absences	$2,878,981	$2,480,387	$2,453,544	$2,905,824

The amount due within 1 year is $298,432.

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	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
Nonspendable						
Inventories	$ 71,059	$ -	$ -	$ -	$ -	$ 71,059
Prepaid Postage	225,926	-	-	-	-	225,926
Restricted						
License Plate Program	-	46,860	-	-	-	46,860
Used Tire Recycling	-	-	(18,787)	-	-	(18,787)
Committed						
Computer Enhancement Fund	3,272,816	-	-	-	-	3,272,816
Film Rebate Fund	-	-	-	14,643,109	-	14,643,109
Assigned	-	-	-	-	-	-
Unassigned	32,010,097	-	-	-	(40,579,460)	(8,569,363)
Total Fund Balances	$35,579,898	$ 46,860	$ (18,787)	$ 14,643,109	$ (40,579,460)	$ 9,671,620

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, 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 Sales Tax

Several claimant have filed an appeal of a denial of a claim for refund of sales tax and/or use tax. The General Counsel has deemed it is reasonably possible that the taxpayers are entitled to the following refunds:

• Sales tax refund denial protest	$ 1,869,853
• Sales tax refund denial protest	628,224
• Sales and use tax protest	1,028,768
• Sales tax refund denial protest	62,729,566
• Sales tax refund denial protest	13,110,000

14. Fund Balance Deficit

The Ad Valorem Reimbursement Fund is stated at a fund balance deficit of $40,579,460 at June 30, 2019. 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 $45,369,719 will be paid from funds available during the 2020 fiscal year. The Ad Valorem Reimbursement Fund is a pass through and is not used for the general operations of the Commission.

15. Subsequent Event

On July 9, 2020, the United States Supreme Court issued a decision in McGirt v. Oklahoma, McGirt 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 it 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.

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	2018
Commission's proportion of the net pension liability	1.719090%	1.666781%	1.589433%	1.664907%	1.777383%
Commission's proportionate share of the net pension liability	$ 3,101,387	$ 5,270,744	$ 10,675,972	$ 9,001,540	$ 3,466,662
Commission's covered payroll	$ 28,973,655	$ 29,465,012	$ 28,563,176	$ 29,414,288	$ 30,962,553
Commission's proportionate share of the net pension liability as a percentage of its covered payroll	10.70%	17.89%	37.38%	30.60%	11.20%
Plan fiduciary net position as a percentage of the total pension liability	97.90%	96.00%	62.24%	94.28%	97.96%

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 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 CONTRIBUTIONS
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Last 10 Fiscal Years (Dollar amounts in thousands)

	2014	2015	2016	2017	2018	2019
Contractually required contribution	$ 4,780,668	$ 4,861,727	$ 4,712,924	$ 4,480,704	$ 4,609,833	$ 4,689,327
Contributions in relation to the contractually required contribution	4,780,668	4,861,727	4,712,924	4,480,704	4,609,833	4,689,327
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered payroll	$ 28,973,745	$ 29,465,012	$ 28,563,176	$ 29,414,288	$ 30,962,553	$ 28,164,959
Contributions as a percentage of covered payroll	16.50%	16.50%	16.68%	15.23%	14.89%	16.65%

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 five 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)

	2017	2018
Commission's proportion of the net OPEB liability (asset)	1.665%	1.778%
Commission's proportionate share of the net OPEB (asset) liability	$ 190,699	$ (230,011)
Commission's covered payroll	$ 29,414,288	$ 30,962,553
Commission's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	0.65%	(0.74%)
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	96.50%	103.94%

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

Notes to Schedule:

Only the current fiscal year and one prior fiscal year are 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)

	2017	2018	2019*
Contractually required contribution	$ 313,595	$ 322,658	$ 346,276
Contributions in relation to the contractually required contribution	$ 313,595	$ 322,658	$ 346,276
Contribution deficiency (excess)	$ -	$ -	$ -
Commission's covered payroll	$ 29,414,288	$ 30,962,553	$ 28,164,959
Contributions as a percentage of covered payroll	1.07%	1.04%	1.23%

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.
* Calculation method changed in 2018 from computing covered employees for the Commission's employees to using the covered payroll presented by the Oklahoma Public Employees Retirement System's actuarial valuation and applying the Commission's allocation percentage.

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)

	2017	2018*
Commission's proportion of the total OPEB liability	1.94%	1.95%
Commission's proportionate share of the total OPEB liability	$ 2,844,993	$ 2,845,045
Commission's covered-employee payroll	$ 34,575,669	$ 29,920,662
Commission's proportionate share of the total OPEB liability (asset) as a percentage of its covered-employee payroll	8.34%	9.51%

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

There are not assets in a trust compliant with GASB Statement 75 for which to pay benefits.
* Calculation method changed in 2018 from computing covered employees for the Commission's employees to using the covered payroll presented by the Employees Insurance Group Division's actuarial valuation and applying the Commission's allocation percentage.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO THE 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, 2019, 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 November 1, 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 transactions 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 certain deficiencies in internal control, described in the accompanying finding schedule as items 19-695-001 and 19-695-100 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 findings 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.

Cindy Byrd

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR AND INSPECTOR

November 1, 2021

FINDING SCHEDULE

Reference Number: 19-695-001
State Agency: Oklahoma Tax Commission (the Commission)
Fund Type: Government-Wide; Governmental Funds: General Fund and License Plate Program Fund, Used Tire Recycling Indemnity Fund, Film Rebate Fund, Ad Valorem Reimbursement Fund; and Agency Fund
Other Information: Accounts Payable, Tax Refunds Payable, Capital Assets, and Expenditures

Effect: Accrual entries prepared for the financial statements contained misstatements, including material misstatements to some opinion units.

Cause: Accrual conversion entries were not adequately reviewed and approved. The Commission lacked adequate training and oversight in the preparation of the financial statement entries including, but not limited to, an understanding of Governmental Accounting Standards Board (GASB) standards and implementation.

Condition: Several of the Oklahoma Management and Enterprise Services (OMES) Generally Accepted Accounting Principles (GAAP) conversion packages used for the statewide Comprehensive Annual Financial Report (CAFR) preparation are also used to make accrual entries to prepare the Commission's financial statements. During CAFR and interim testing, State Auditor and Inspector's Office staff observed several errors in the approved GAAP Packages.

- *Accounts Payable* (GAAP Package I-1)/*Expenditures*
    - **Material misstatement in the License Plate Program Fund (LPPF).** *Accounts Payable* was overstated $63,940. Two LPPF claims (100% of the population) totaling $63,940 were coded to the incorrect fund and with the incorrect account number during state fiscal year 2019. Both claims were coded to the General Fund when they should have been coded to the LPPF. Additionally, both claims were coded to the wrong account number. Two journal vouchers were submitted to correct these mistakes during SFY 2020 and the Commission erroneously included the correcting amounts as accounts payable for the LPPF in the *Calculation of Accounts Payable Including State Agencies Schedule*. The amount should have been recorded as a *Due to General Fund.*

- *Accounts Payable* (GAAP Package I-1)
    - **Material misstatement in the Used Tire Recycling Indemnity Fund (UTRIF) -** *Accounts Payable* was understated $829,939. Three of eight (37.5%) of the UTRIF claims tested, totaling $829,939 met the criteria of accounts payable and were not included on GAAP Package I-1.
    - **Material misstatement in the Film Rebate Fund (FRF) -** *Accounts Payable* was overstated $1,191,407 because three of five (60%) FRF claims tested, totaling $1,191,407, were approved by the Oklahoma Film and Music Office and paid during fiscal year 2020. Therefore, these claims should not have been included as accounts payable and were erroneously included on GAAP Package I-1.
    - **Material misstatement in the Ad Valorem Reimbursement Fund (AdVRF) -** *Accounts Payable* was understated by $1,848,198 ($1,866,451 - $18,253): the Commission's calculation did not use the revised Allocation of 5 Year Reimbursements Report and overestimated payments owed by $18,253. The Commission also excluded two payments relating to state fiscal year 18 that were paid in July 2019 totaling $1,866,451.

- *Tax Refunds Payable* (GAAP Package E-1) – Agency Fund
    - Short-term tax refunds payable was understated by $179,059 in the Agency Fund because the methodology to determine payables was applied in reverse. Amounts owed from obligations approved *after* fiscal year end (6/30/2019) were included instead of amounts approved *before* fiscal year end.

- *Capital Assets* (GAAP Package H-1) – Government-wide
    - Depreciation Expense was overstated by $23,598 ($29,497 - $5,899). The Commission purchased telephone equipment at the end of April and depreciated half of the asset during SFY 2019 for a total depreciation expense of $29,497. The useful life should have been 5 years and $5,899 of depreciation expense should have been recorded.
    - An adjustment was made in SFY 2019 to include a component to the asset that was originally purchased in SFY 2015, but not included in the original amount capitalized. This adjustment should have increased the original cost by $16,755. Instead, the Commission included the adjustment as a current year addition.

After these issues were noted, the Commission hired a Director of Business Operations and the errors noted were corrected to properly account for the accounts payable, tax refunds payable and capital assets.

Recommendation: We recommend the Commission develop and document a more comprehensive method to prepare, review, and approve accrual entries for preparation of the Commission's financial statements.

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

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

10.03 – Design of Appropriate Types of Control Activities
10.13 – Segregation of Duties
13.05 – Data Processed into Quality Information
14.03 – Communication throughout the Entity

The Governmental Accounting, Auditing, and Financial Reporting Chapter 42, The Comprehensive Framework of Internal Control states, in part, "Managers are responsible for providing an accounting of their stewardship of the resources entrusted to their care. Such an accounting requires, at a minimum, the preparation of reliable financial reports for the benefit of those to whom managers are accountable (that is, those charged with governance) ...management alone is in a position to implement a system of internal control and to ensure that it continues to function properly. Consequently, management is primarily responsible for internal control. Management, not the governing body, is primarily responsible for internal control. The governing body, however, is responsible for overseeing management's performance. Therefore, the governing body is ultimately responsible for internal controls."

47 O.S. § 1135.8 states, "There is hereby created in the State Treasury a revolving fund for the Oklahoma Tax Commission, to be designated the "License Plate Special Program Assistance Revolving Fund"… and shall consist of any monies transferred thereto by paragraph 1 of subsection D of Section 6 of this act."

Agency Management Response:

- *Accounts Payable/Expenditures:*
  - Management has since set up voucher approval rules to route vouchers electronically to the appropriate approvers. Workflow automation and easy access to review online images and reports prior to the final voucher approval increase visibility to aid in correctly recording expenditures.

- *Accounts Payable/GAAP Packages:*
  - Management has simplified the process to calculate the payables for Package I. Procurement and Accounts Payable confer to reduce overstated encumbrances before running the reports in early September to include subsequent payments and remaining obligations reported in Package I.

- *Tax Refunds Payable:*
  - Management has implemented a review process and a template to aid in correctly calculating Tax Refunds Payable.

- *Capital Assets:*
  - Management has implemented a process to reconcile net book value in the State's Asset Management System monthly and use the system's reports at fiscal year-end to prepare Package H.

Reference Number: 19-695-100
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)/Deferred Inflows

Effect: *Taxes* and *Accounts Receivable and Due To* were understated/(overstated) by the respective amounts:

Government-wide Statement of Net Position	
Accounts Receivable	$ 2,661,147
Taxes Receivable	$ (2,596,114)
Charges for Services	$ 46,440
Personal and Corporate Income	$ 302,933
Tax Used Tire Recycling Fee	$ (284,340)

Agency Fund - Statement of Fiduciary Net Position	
Accounts Receivable	$ 17,646,838
Taxes Receivable	$243,504,330
Due to State General Funds	$187,286,371
Due to Enterprise Funds	$ 17,402,542
Due to Pension Trust Funds	$ 2,069,605
Due to Other Accounts/Entities	$ 9,388,881
Due to Local Governments	$ 45,003,769

The Commission's Governmental Fund statements were also understated/(overstated) by the respective amounts:

Governmental Fund Statement of Net Position

Accounts Receivable	
General Fund	$ 2,628,631
Used Tire Recycling Indemnity Fund (UTRIF)	$ (22,994)
Ad Valorem Reimbursement Fund	$ 55,510
Total Governmental Funds	$ 2,661,147
Taxes & Fees Receivable	
General Fund	$ (2,582,191)
UTRIF	$ (261,346)
Ad Valorem Reimbursement Fund	$ 247,423
Total Governmental Funds	$ (2,596,114)
Deferred Inflows	
General Fund	$ 215,994
Used Tire Recycling Indemnity Fund	$ 29,182
Ad Valorem Reimbursement Fund	$ 1,014,846
Total Governmental Funds	$ 1,260,022

Cause: The review process in place did not detect these 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. The Commission also only accounted for certain taxes, interest, and penalties in its full accrual 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.

- 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.
- Some taxes and accounts receivable were not included in the Commission's modified and full accrual calculations.
- 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 full and modified 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* amounts to *Due to* on the Statement of Fiduciary Net Position was inaccurate.
- The long-term *Taxes Receivable* balance had a 45% increase from the prior year. The

Commission made a change in its long-term taxes receivable methodology although there were no changes in circumstance or new information to warrant the change. For state fiscal year (SFY) 2019, the Commission included current year delinquent collections as well as delinquent collections prior to SFY 2019 (June 30, 2018 and before). In the prior year, the Commission only included delinquent collections prior to SFY 2018 (June 30, 2017 and before).

Recommendation: We recommend the Commission develop and document a method to determine and report all *Taxes Receivables* and *Accounts Receivables* in compliance with the applicable accrual basis of accounting, and properly allocate amounts they expect 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 16 – Financial Statements
Paragraph 73 – Agency Funds
Paragraph 107 – Agency Funds – balance due to Other Funds
Paragraph 107 – Fiduciary Funds

GASB 33 – *Recognition Standards*: Tax Revenues

Paragraph 16 – Derived Tax Revenue
Paragraph 30 – Nonexchange Transactions

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

GASB Concept Statement 1, paragraph 67 - Consistency

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.

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