

OKLAHOMA TAX COMMISSION
BASIC FINANCIAL STATEMENTS AND
AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

March 9, 2005

**TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith is the Oklahoma Tax Commission audit report for the fiscal year ended June 30, 2004. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

OKLAHOMA TAX COMMISSION
BASIC FINANCIAL STATEMENTS AND
AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Management's Discussion and Analysis

As management of the Oklahoma Tax Commission, we offer readers of the Agency's financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

- Total net assets of the Agency decreased 485.7% to (\$8.2) million during the fiscal year ending June 30, 2004. The primary reason for the decline was a deficit in the Ad Valorem Reimbursement Fund. Reimbursements from the fund exceeded cash resources available at June 30, 2004. This fund is a pass-through to counties and schools and is not used for the general operations of the Agency.
- The Agency's program revenues for the fiscal year increased 1.8% or \$.4 million over the prior year while expenses increased \$7 million or 6.3%.
- The assets of fiduciary funds which represents taxes held in trust for distribution to state and local governments and others totaled \$916.4 million at June 30, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Agency's overall financial status.

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

- The governmental statements tell 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 agency acts solely as trustee or agent for the benefit of others, to whom the resources in question belong.

See independent auditor's report.

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

Government-wide Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government'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 Agency's net assets and how they have changed. Net assets -- the difference between the Agency's assets and liabilities -- is one way to measure the Agency's financial health, or position.

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

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

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

Fund Financial Statements

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

All funds are required by State law.

The Agency has two kinds of funds:

- Governmental funds -- Most of the Agency's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that

See independent auditor's report.

can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency'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 Agency 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 Agency is responsible for ensuring that the assets reported in these funds are apportioned or distributed as provided by law. All of the Agency's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Agency's government-wide financial statements because the Agency cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net assets. The Agency's combined net assets decreased between fiscal years 2003 and 2004 to (\$8.2) million. Table A-1 illustrates the changes between the two years in more detail.

TABLE A-1
Oklahoma Tax Commission's Net Assets
(in millions of dollars)

	<u>Governmental</u>		<u>Percentage</u>
	<u>Activities</u>		<u>Change</u>
	<u>2003</u>	<u>2004</u>	<u>2003 - 2004</u>
Current and other asset	\$ 6.9	\$12.6	82.6%
Capital assets	<u>1.9</u>	<u>1.6</u>	(15.8)%
Total assets	8.8	14.2	61.4%
Long-term liabilities	3.4	3.0	(11.8)%
Other liabilities	<u>6.8</u>	<u>19.4</u>	185.3%
Total liabilities	10.2	22.4	119.6%
Net assets			
Invested in capital assets	1.9	1.6	(15.8)%
Unrestricted	<u>(3.3)</u>	<u>(9.8)</u>	(197.0)%
Total net assets	<u>(1.4)</u>	<u>(8.2)</u>	(485.7)%

Net assets of the Agency's governmental activities decreased 485.7% to (\$8.2) million. Unrestricted net assets showed a \$6.5 million decrease during the year due

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to constitutionally required reimbursements to counties from the Ad Valorem Reimbursement Fund as specified in 74 O.S. 2001, Section 194. Obligations for these reimbursements exceeded available funding at year end.

Statement of Activities

The Agency' s program revenues for the Fiscal year ending June 30, 2004 increased 1.8% or \$.4 million over the prior year while expenses increased \$7 million or 6.2%. The increase in expenses is primarily attributable to \$10.8 million in additional reimbursements to counties from the Ad Valorem Reimbursement Fund.

See Table A-2 below.

TABLE A-2
Comparison of Revenues and Expenses
(in millions of dollars)

	<u>2003</u>	<u>2004</u>	<u>Percentage Change 2003 - 2004</u>
Program Revenues:			
Charges for Services	\$ 22.1	\$ 22.5	1.8%
General Revenues:			
Taxes	21.9	24.6	12.3%
Fees	4.5	4.6	2.2%
Other	.0	.1	100.0 %
State Appropriations	46.3	44.6	(3.7)%
Transfers In	14.4	17.3	20.1%
Expenses:			
General Government	(112.9)	(120.0)	6.3%
Depreciation	(.6)	(.5)	(16.7)%
Change in Net Assets	(4.3)	(6.8)	(58.1)%

Fiduciary Fund Statements

The Agency, 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, 2004 the Agency maintained as a fiduciary \$916.4 million in total assets for others. Of that amount \$6.3 million was due to taxpayers for refunds and the balance is due to state entities, local government subdivisions and private entities.

See independent auditor's report.

BUDGET INFORMATION

Budget Versus Actual Variances

Budgeted charges to appropriations for the fiscal year exceeded actual totals by \$2,681,854 while budgeted resources were lower than actual resources available by \$12,853,253 resulting in a negative overall variance of \$10,171,399. The primary reason for the overall negative variance was because actual expected deposits from collection agency fees were significantly lower than budgeted reimbursements and available funds were less than actual reimbursements to counties and schools from the Ad Valorem Reimbursement Fund. A variance of \$30.9 million occurred between the original and final budget of the Ad Valorem Reimbursement Fund. The increase resulted from additional funds made available by the legislature in the last quarter of fiscal year 2004.

Next Year's Budget

The Agency budget for Fiscal Year 2005 was developed with available appropriations and estimated income from tax collections and fees associated with operating activities. The original budget totaled \$86.3 million, down \$37 million from the final budget of \$123.3 million for Fiscal Year 2004. The decrease in budget between Fiscal Years 2004 and 2005 consists primarily of a reduction in the amount available for reimbursements from the Ad Valorem Reimbursement Fund.

Of the \$86.3 million total budget, \$69.9 is designated as General Fund, representing expenditures necessary for the performance of the Agency's statutory functions, and auditing, collection and legal activities. The remaining \$16.4 million consists of \$11.6 million for the Ad Valorem Reimbursement Fund, \$4.6 million for the Waste Tire Indemnity Fund and \$200,000 for the Film Enhancement Rebate Fund.

CONTACTING THE AGENCY'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 Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional information, contact the Oklahoma Tax Commission's Comptroller's Office at 2501 North Lincoln, Oklahoma City, OK 73194.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

INDEPENDENT AUDITOR'S REPORT

**TO THE COMMISSIONERS OF THE
OKLAHOMA TAX COMMISSION**

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 (OTC), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2004, which collectively comprise OTC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the OTC's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

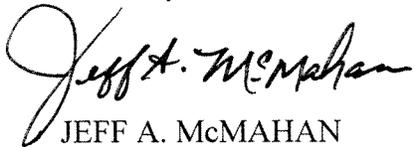
As discussed in Note 1.B., the basic financial statements of OTC are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Oklahoma that is attributable to the transactions of OTC. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005, on our consideration of the OTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 5 and budgetary comparison information on pages 23 through 25 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahon". The signature is written in black ink and is positioned above the printed name.

JEFF A. McMAHAN
State Auditor and Inspector

February 18, 2005

**OKLAHOMA TAX COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
ASSETS	
Current Assets:	
Cash	\$7,390,080
Investments	699
Accounts receivable	3,473
Taxes & fees receivable	5,182,802
Inventory	39,669
Total Current Assets	12,616,723
Noncurrent Assets:	
Capital assets (Net of accumulated depreciation)	1,575,254
Total Noncurrent Assets	1,575,254
TOTAL ASSETS	\$14,191,977
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$14,004,666
Deferred Revenue	\$4,978,465
Accrued Payroll	160,870
Compensated Absences	220,901
Total Current Liabilities	19,364,902
Noncurrent Liabilities:	
Compensated Absences	3,026,509
Total Noncurrent Liabilities:	3,026,509
TOTAL LIABILITIES	22,391,411
 NET ASSETS	
Invested in Capital Assets	1,575,254
Unrestricted (deficit)	(9,774,688)
TOTAL NET ASSETS	(\$8,199,434)

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

**OKLAHOMA TAX COMMISSION
STATEMENT OF ACTIVITIES
JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$120,086,561	\$20,477,061	\$2,071,535	(\$97,537,965)
Depreciation Expense	477,378			(477,378)
Total Governmental Activities	120,563,939	20,477,061	2,071,535	(98,015,343)
				Governmental Activities
Changes in net assets:				
Net (Expense) Revenue				(\$98,015,343)
General Revenues:				
Taxes:				
Personal and Corporate Income				24,450,767
Oklahoma Film Enhancement Rebate				115,187
Fees:				
Waste Tire				4,615,687
Other				113,785
State Appropriations				44,601,406
Transfers In				17,300,000
Total Revenues				91,196,832
Change in Net Assets				(6,818,511)
Net Assets - beginning				(1,419,940)
Prior Year Adjustment				39,017
Net Assets - ending				(\$8,199,434)

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

**OKLAHOMA TAX COMMISSION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General Fund	Waste Tire Indemnity Fund	Ad Valorem Reimbursement Fund	Non-Major Fund Oklahoma Film Enhancement Rebate Fund	Total Governmental Funds
ASSETS					
Cash	\$7,390,079			\$1	\$7,390,080
Investments		\$699			699
Accounts receivable			3,473		3,473
Taxes and fees receivable	1,180,599	53,397	3,948,806		5,182,802
Inventory	39,669				39,669
TOTAL ASSETS	<u>\$8,610,347</u>	<u>\$54,096</u>	<u>\$3,952,280</u>	<u>\$0</u>	<u>\$12,616,723</u>
LIABILITIES					
Accounts Payable	\$1,426,343	\$55,417	\$12,522,906		\$14,004,666
Deferred Revenue	4,978,465				4,978,465
Accrued Payroll	160,870				160,870
Compensated Absences	472				472
TOTAL LIABILITIES	<u>6,566,150</u>	<u>55,417</u>	<u>12,522,906</u>	<u>0</u>	<u>19,144,473</u>
FUND BALANCES					
Fund Balances:					
Reserved for Encumbrances	60,130				60,130
Reserved for Inventory	39,669				39,669
Unreserved	1,944,398	(1,321)	(8,570,626)		(6,627,549)
TOTAL FUND BALANCES	<u>2,044,197</u>	<u>(1,321)</u>	<u>(8,570,626)</u>	<u>0</u>	<u>(6,527,750)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$8,610,347</u>	<u>\$54,096</u>	<u>\$3,952,280</u>	<u>\$0</u>	<u>\$12,616,723</u>

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2004**

Total Fund Balances - Governmental Funds	(\$6,527,750)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds: These consist of :	
Furniture and Equipment	11,075,998
Accumulated Depreciation	(9,500,744)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Compensated Absences	<u>(3,246,938)</u>
Net Assets of Governmental Activities	<u>(\$8,199,434)</u>

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
JUNE 30, 2004

	General	Waste Tire Indemnity Fund	Ad Valorem Reimbursement Fund	Non-Major Fund Oklahoma Film Enhancement Rebate Fund	Total Governmental Funds
Revenues					
Taxes	\$16,406,023		\$24,450,767	\$115,187	\$40,971,977
Licenses Permits and Fees	3,991,160	\$4,615,687			8,606,847
Federal Revenue	2,071,535				2,071,535
Other	79,878	1,253	112,532		193,663
Total Revenues	<u>22,548,596</u>	<u>4,616,940</u>	<u>24,563,299</u>	<u>115,187</u>	<u>51,844,022</u>
Expenditures					
Current:					
Salaries and Benefits	43,542,727				43,542,727
Professional Services	6,462,392				6,462,392
Inter-Agency Personal Services	48,564				48,564
Travel	506,906				506,906
Miscellaneous Administrative	6,950,214				6,950,214
Rent of Buildings and Equipment	3,174,490				3,174,490
Maintenance	1,749,315				1,749,315
Supplies	1,669,967				1,669,967
Inter-Agency Administrative	489,159				489,159
Waste Tire Payments		4,407,019			4,407,019
Film Rebate Payments				123,204	123,204
Payments to Local Governments	128,205		50,199,358		50,327,563
Other Expenditures	140,224				140,224
Capital Outlay:					
Equipment	990,092				990,092
Capital Lease Payments	19,031				19,031
Total Expenditures	<u>65,871,286</u>	<u>4,407,019</u>	<u>50,199,358</u>	<u>123,204</u>	<u>120,600,867</u>
Revenues Over (Under) Expenditures	<u>(43,322,690)</u>	<u>209,921</u>	<u>(25,636,059)</u>	<u>(8,017)</u>	<u>(68,756,845)</u>
Other Financing Sources (Uses)					
State Appropriations	44,601,406				44,601,406
Transfers In			17,300,000		17,300,000
Total Other Financing Sources (Uses)	<u>44,601,406</u>	<u>0</u>	<u>17,300,000</u>	<u>0</u>	<u>61,901,406</u>
Net Change in Fund Balances	1,278,716	209,921	(8,336,059)	(8,017)	(6,855,439)
Fund Balance - Beginning of Year	765,481	(211,242)	(234,567)	8,017	327,689
Fund Balance - End of Year	<u>\$2,044,197</u>	<u>(\$1,321)</u>	<u>(\$8,570,626)</u>	<u>\$0</u>	<u>(\$6,527,750)</u>

Reconciliation of the change in fund balances of governmental funds to the Statement of Activities
June 30, 2004

Net change in fund balances - total governmental funds	(\$6,855,439)
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.	(325,203)
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 decrease in compensated absences.	362,131
Change in net assets of governmental activities	<u>(\$6,818,511)</u>

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

**OKLAHOMA TAX COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
JUNE 30, 2004**

ASSETS	
Cash	\$458,425,564
Investments	228,602,223
Accounts receivable	667,421
Taxes receivable	228,717,871
TOTAL ASSETS	<u>\$916,413,079</u>
LIABILITIES	
Tax Refunds Payable	6,281,775
Due to State General Funds	681,852,838
Due to Enterprise Funds	3,373,231
Due to Pension Trust Funds	22,852,432
Due to Higher Education Funds	6,957,336
Due to Other Accounts	6,079,543
Due to Local Governments	160,420,642
Due to Others	26,455,011
Amount to be Apportioned	2,140,271
TOTAL LIABILITIES	<u>\$916,413,079</u>

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

OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities and Equity
- E. Program Revenues

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**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

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. § 101 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 administrator 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, Account Maintenance, and Collections. The Revenue Administration department includes Tax Policy, Audit, Motor Vehicle, and Ad Valorem. The Support Services department includes Human Resources, Management Information Systems, Legal, and Management Services.

COMMISSION MEMBERS

Thomas E. Kemp, Jr., Chairman
Term Expires January, 2007

Jerry Johnson, Vice Chairman
Term Expires January, 2009

Connie Irby, Secretary-Member
Term Expires January, 2005

ADMINISTRATOR

Larry Shropshire, Administrator to the Commission

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. Summary of Significant Accounting Policies (cont...)

B. Basis of Presentation

Government-Wide Financial Statements:

The statement of net assets 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 Agency is involved only in governmental activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditure/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 Agency or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 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 Agency 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.

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. Summary of Significant Accounting Policies (cont...)

Fiduciary Funds (Not included in government wide statements)

Agency Funds

Agency funds account for assets held by the Agency in a purely custodial capacity. The reporting entity includes one agency fund. 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 above for description.

The agency's two major special revenue funds include:

Waste Tire 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.

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.

Non-Major Funds

The Agency has one non-major fund entitled the Oklahoma Film Enhancement Rebate Fund. The fund's purpose is for the payment of rebates to companies who produce films in the State of Oklahoma. All rebates are approved by the Oklahoma Film Office.

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 Assets and the Statement of Activities,

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. Summary of Significant Accounting Policies (cont...)

governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. No fiduciary funds are included in the agency-wide statement of net assets.

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 current assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, assets and liabilities resulting from exchange transactions are recognized when the exchange 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 accrual basis of accounting. Under the modified accrual basis of accounting, revenues and related current assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year; expenditures and liabilities are recognized when obligations are incurred as a result of receipt of goods and services. 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, 2004, has been reported in the Statement of Net Assets.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

D. Assets, Liabilities, and Equity

Inventories

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. Reported inventories are equally offset by a fund balance reserve, which indicates that it does not constitute "available spendable

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. Summary of Significant Accounting Policies (cont...)

resources" even though it is a component of total assets.

Capital Assets

The Department of Central Services (formerly the Office of Public Affairs), in accordance with 74 O.S. 2001, § 110.1 of the Oklahoma Statutes, has primary responsibility to maintain control of all property and equipment owned by the State of Oklahoma with a cost in excess of \$500. The Department of Central Services has delegated to each of the various state agencies the responsibility to maintain the accounting records for property and equipment purchased and used by each agency. 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.

Additional capital asset disclosures are presented in Note 4.

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 over 5 years 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 assets. Payments for employee vested annual leave for the year ended June 30, 2004, were made in the amount of \$203,008. Total amount outstanding at June 30, 2004, is \$3,247,410 of which \$3,026,509 is recorded as a long-term liability.

Reserve for Encumbrances

The reserve for encumbrances represents executed but unperformed purchase orders. In the accompanying governmental fund balance sheet, encumbrances are recorded as a reserve of fund balance if expected to be presented for payment by November 15 following the end of the fiscal year.

E. Program Revenues

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

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. Summary of Significant Accounting Policies (cont...)

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

Charges for Services	Statutorily the Agency 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 Agency. These types of revenues are specifically related to the government activity program.
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Operating Grants and Contributions	The Agency participates in a Federal grant program for the purpose of reimbursing direct expenses relating to motor fuel audits for tax evasion identification and compliance. These revenues are specifically attributed to the governmental activity.
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During FY-2004, per H.B. 2007, federal funds were appropriated from the Jobs and Growth Tax Relief Fund for essential agency services which produce revenue for the State of Oklahoma.

2. Pension Plan

Plan Description. Substantially all of the Oklahoma Tax Commission full-time state employees participate in the Oklahoma Public Employees Retirement Plan (the Plan), a division of the Oklahoma Public Employees Retirement System (OPERS), a multiple-employer cost-sharing defined benefit public employee retirement system. The official text governing the operation of the system, contributions, and the payment of benefits is found in Title 74, O.S. 2001, § 901, et. seq. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. This report can be obtained by writing to OPERS, PO Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. Active members for fiscal year 2004 made a 3.0% contribution on the first \$25,000 of wages, and 3.5% thereafter. State agencies have contributed 10% of active members' monthly salaries for fiscal year 2004. Contributions from the agency for fiscal years 2002, 2003 and 2004 totaled \$3,806,368, \$3,513,837 and \$3,269,318, respectively, equal to the established required contributions for each year.

- 2.1 In addition to the pension benefits described in Note 2, the State provides post-retirement health care benefits (OPEB). The Oklahoma Public Employees Retirement system (OPERS) by which the Oklahoma Tax Commission employees are covered, provides \$105 per month for all retirants who elect coverage at time of retirement. OPERS benefits are financed on a pay-as-you-go basis. OPERS fiscal year 2004 expenditures for the State were \$17,046,000.

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

2.1 Pension Plan (cont...)

OPERS funds post employment health care benefits as part of the overall retirement requirement. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations.

3. Deposits and Investments

At June 30, 2004, all cash and investments under the control of the State Treasurer were collateralized in accordance with 62 O.S. 2001, § 72.1., titled, "Security For Public Deposits Act."

A. Deposits

As of June 30, 2004, 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 Oklahoma Tax Commission's investments are categorized below per GASB Statement 3 to give an indication of the level of custodial risk assumed at year end. Category 1 includes investments that are insured, registered, or are held by the State or its agency in the name of the State. Category 2 includes uninsured and unregistered investments, which are held by the counterparties' trust department or agents in the name of the State. Category 3 includes uninsured and unregistered investments, held by counterparties, or their trust departments or agents, but not in the name of the State.

Investments for governmental and fiduciary funds at June 30, 2004, by investment type, are listed below:

	Carrying Amount Risk Categories			Reported Amount/ Fair Value
	1	2	3	
Repurchase Agreements				
<u>Governmental Funds</u>				
\$ 699	-	-		\$ 699
<u>Fiduciary (Agency) Fund</u>				
\$228,602,223	-	-		\$228,602,223

4. Capital Assets

In accordance with guidelines established by the Office of State Finance, 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 purchased in the governmental funds. A provision for depreciation has been recorded in the governmental activities of the Statement of Net Assets 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, 2004, was as follows:

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

4. Capital Assets (cont...)

Governmental Activities:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets-Net</u>
Beginning Balance	\$ 11,103,077	(\$9,213,090)	\$1,889,987
Increases	131,560	(438,361)	(306,801)
Decreases	<u>(158,639)</u>	<u>150,707</u>	<u>(7,932)</u>
Ending Balance	\$ 11,075,998	(\$9,500,744)	\$1,575,254

5. Operating Lease Commitments

The Oklahoma Tax Commission has commitments to lease certain buildings and equipment. Future minimum rental commitments for operating leases as of June 30, 2004, are as follows:

2005	\$ 2,600,000
2006	2,600,000
2007	2,600,000
2008	2,600,000
2009	<u>2,600,000</u>
Total Future Minimum Lease Payments	\$13,000,000

6. Due To Other Funds

Amounts due to other funds are presented in the Fiduciary Fund. To the extent that transactions between funds had not been executed at June 30, 2004, the balances are included.

7. Risk Management

The Risk Management Division of the Department of Central Services is empowered by the authority of 74 O.S. 2001, Section 85.34 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 state Risk 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. 2001, Section 154. The Risk 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 Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Risk Management Division.

**OKLAHOMA TAX COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

8. Long-Term Obligations

Long-term obligations at June 30, 2004, and changes for the fiscal year are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Compensated Absences	\$3,437,652	\$ 0	\$411,143	\$3,026,509
<u>Fiduciary (Agency) Fund</u>				
Claims and Judgements	\$ 616,000	\$ 0	\$616,000	\$ 0

9. 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. The General Counsel of the Commission has determined that an individual case is pending and could have a material effect on the Commission's financial statements. This case is designated as a reasonably possible loss and involves a protest to a corporate income tax assessment. The range of possible loss to the State is \$1 to \$500,000.

10. Net Assets Deficit

Total net assets on the Statement of Net Assets is stated at a negative balance at June 30, 2004. Due to the constitutional requirement to fully fund reimbursements to counties from the Ad Valorem Reimbursement Fund as specified in 74 O.S. 2001, Section 194, obligations exceeded available funding at year end. \$9,909,145 in unpaid claims were paid from funds available during the subsequent fiscal year. The Ad Valorem Reimbursement Fund is a pass through and not used for the general operations of the agency.

**REQUIRED SUPPLEMENTARY INFORMATION
OKLAHOMA TAX COMMISSION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$992,060	\$992,060	\$992,060	\$0
Resources (inflows)				
Taxes	16,739,000	16,739,000	16,343,512	(395,488)
Other Revenues	6,911,000	5,841,000	6,122,053	281,053
State Appropriations	44,601,406	44,601,406	44,601,406	0
Amount Available for Appropriation	69,243,466	68,173,466	68,059,031	(114,435)
Charges to Appropriations (outflows)				
Salaries and Benefits	43,636,772	44,183,087	43,542,727	640,360
Professional Services	7,789,000	8,374,000	6,462,392	1,911,608
Inter-Agency Personal Services	632,650	632,650	48,564	584,086
Travel	650,000	725,000	506,906	218,094
Miscellaneous Administrative	4,785,600	4,785,600	6,950,214	(2,164,614)
Rent of Buildings and Equipment	2,564,478	2,564,478	3,174,490	(610,012)
Maintenance	1,704,000	1,704,000	1,749,315	(45,315)
Supplies	1,276,000	1,276,000	1,669,967	(393,967)
Inter-Agency Administrative	3,461,405	3,461,405	489,159	2,972,246
Equipment	223,313	1,522,313	990,092	532,221
Capital Lease Payments	114,188	114,188	19,031	95,157
Other Expenditures	100,000	100,000	140,224	(40,224)
Payments to Local Governments	194,000	194,000	128,205	65,795
Total Charges to Appropriations	67,131,406	69,636,721	65,871,286	3,765,435
Budgetary Fund Balance - June 30	\$2,112,060	(\$1,463,255)	\$2,187,745	\$3,651,000

**BUDGETARY COMPARISON SCHEDULE - WASTE TIRE INDEMNITY FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	(\$100,004)	(\$100,004)	(\$100,004)	\$0
Resources (inflows)				
Tire Fees	4,439,000	4,439,000	4,814,091	375,091
Other Revenues	7,000	7,000	1,253	(5,747)
Amount Available for Appropriation	4,345,996	4,345,996	4,715,340	369,344
Charges to Appropriations (outflows)				
Waste Tire Reimbursements	4,446,000	4,446,000	4,407,019	38,981
Total Charges to Appropriations	4,446,000	4,446,000	4,407,019	38,981
Budgetary Fund Balance - June 30	(\$100,004)	(\$100,004)	\$308,321	\$408,325

**BUDGETARY COMPARISON SCHEDULE - AD VALOREM REIMBURSEMENT FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	(\$640,620)	(\$640,620)	(\$640,620)	\$0
Resources (inflows)				
Taxes	23,831,000	37,400,000	24,256,103	(13,143,897)
Transfers In	0	17,300,000	17,300,000	0
Other Revenue	0	0	112,532	112,532
Amount Available for Appropriation	23,190,380	54,059,380	41,028,015	(13,031,365)
Charges to Appropriations (outflows)				
County Reimbursements	18,131,000	49,000,000	50,199,358	(1,199,358)
Transfers to Other Funds	0	0	0	0
Total Charges to Appropriations	18,131,000	49,000,000	50,199,358	(1,199,358)
Budgetary Fund Balance - June 30	\$5,059,380	\$5,059,380	(\$9,171,343)	(\$14,230,723)

See independent auditor's report.

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO RSI**

Note A. Budgeting, Budgeting Control and Budgetary Reports

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

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on budget requests prepared by the various state agencies. The General Fund, Waste Tire Indemnity Fund, Ad Valorem Reimbursement Fund and the Oklahoma Film Enhancement Fund are the only funds for which an annual budget is legally adopted. The Governor has the power to approve or veto each line item appropriation. Any other changes to the budget must be approved by the Legislature in a supplemental appropriation. All 2004 appropriation line items of the State were within their authorized spending level.

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

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

See independent auditor's report.

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO RSI**

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

	General Fund	Waste Tire Indemnity Fund	Ad Valorem Reimbursement Fund
Sources/inflows of resources			
Actual amounts (budgetary basis) "Resources (inflows)" from the budgetary comparison schedule	\$67,066,971	\$4,815,344	\$41,668,635
Differences - budget to GAAP:			
State appropriations are inflows of budgetary resources but are not revenues for financial reporting purposes.	(44,601,406)	0	0
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	0	0	(17,300,000)
Accrual adjustments for receivables are made for financial reporting purposes but not for the budgetary comparison.	83,031	(198,404)	194,664
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$22,548,596</u>	<u>\$4,616,940</u>	<u>\$24,563,299</u>
Uses/outflows of resources			
Actual amounts (budgetary basis) " total charges to appropriations" from the budgetary comparison schedule	\$65,871,286	\$4,407,019	\$50,199,358
Differences - budget to GAAP:			
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	0	0	0
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$65,871,286</u>	<u>\$4,407,019</u>	<u>\$50,199,358</u>

See independent auditor's report.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oklahoma Tax Commission (OTC), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2004, which collectively comprise the Oklahoma Tax Commission's basic financial statements and have issued our report thereon dated February 18, 2005, which includes an explanatory paragraph stating that the basic financial statements of OTC are intended to present the financial position and results of operations of only that portion of the state of Oklahoma attributable to the transactions of OTC. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oklahoma Tax Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

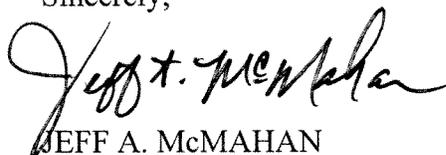
As part of obtaining reasonable assurance about whether the Oklahoma Tax Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

The American Institute of Certified Public Accountant's Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the Oklahoma Tax Commission and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



JEFF A. McMAHAN
State Auditor and Inspector

February 18, 2005