

FINANCIAL AUDIT

# OKLAHOMA TAX COMMISSION

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS

For the fiscal year ended June 30, 2013



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

**OKLAHOMA TAX COMMISSION  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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# Oklahoma State Auditor & Inspector

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

April 16, 2014

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

This is the audit report of the Oklahoma Tax Commission for the year ended June 30, 2013. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

**OKLAHOMA TAX COMMISSION  
FINANCIAL STATEMENTS AND  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Table of Contents**

	<b>Page</b>
Independent Auditor’s Report of the State Auditor and Inspector .....	1
Management’s Discussion and Analysis.....	3
 Basic Financial Statements	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position .....	8
Statement of Activities .....	9
 <i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds and Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities.....	11
Statement of Net Position – Fiduciary Funds .....	12
Notes to Basic Financial Statements .....	13
Required Supplementary Information.....	24
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.....	30
Schedule of Findings.....	32



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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 and each major fund of the Oklahoma Tax Commission, as of and for the year ended June 30, 2013, 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 opinions 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 and each major fund of the Oklahoma Tax

Commission as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 1, the financial statements of the Oklahoma Tax Commission are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the Oklahoma Tax Commission. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2013, 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.

***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 3-7 and budgetary comparison information on pages 24-29 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 April 16, 2014, on our consideration of the Oklahoma Tax Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oklahoma Tax Commission's internal control over financial reporting and compliance.



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

April 16, 2014

## **Management's Discussion and Analysis**

As management of the Oklahoma Tax Commission (the 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, 2013.

### **FINANCIAL HIGHLIGHTS**

- Total net position of the Commission increased 24.31% to \$47.56 million during the fiscal year ending June 30, 2013.
- The Commission revenues for the fiscal year increased 5.5% or \$5.77 million over the prior year while expenses increased to \$133 million for the year. Appropriations for FY13 remained unchanged from FY12.
- The assets of fiduciary funds, which represent taxes held in trust for distribution to state and local governments and others, totaled \$1.23 billion at June 30, 2013.

### **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 Commission.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall 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 agency acts solely as trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of 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 Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

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

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

### **Fund Financial Statements**

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

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

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

## **FINANCIAL ANALYSIS OF THE COMMISSION AS A WHOLE**

### **Net Position**

The Commission's combined net position increased between fiscal years 2012 and 2013 to \$47.56 million. Table A-1 illustrates the changes between the two years in more detail.

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

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2012</u>	<u>2013</u>	<u>2012- 2013</u>
Current and other assets	\$59.72	\$57.30	(4.05%)
Capital assets	<u>10.72</u>	<u>12.15</u>	13.34%
<b>Total assets</b>	<b>\$70.44</b>	<b>\$69.45</b>	<b>(1.41%)</b>
Long-term liabilities	2.95	2.73	(7.46%)
Other liabilities	<u>29.23</u>	<u>19.16</u>	(34.45%)
<b>Total liabilities</b>	<b>\$32.18</b>	<b>\$21.89</b>	<b>(31.98%)</b>
Net position			
Invested in capital assets	10.72	12.15	13.34%
Unrestricted	<u>27.54</u>	<u>35.41</u>	28.58 %
<b>Total net position</b>	<b><u>\$38.26</u></b>	<b><u>\$47.56</u></b>	<b>24.31%</b>

Net position of the Commission's governmental activities increased \$9.3 million to \$47.56 million. This increase is due in large part to a reduction of Ad Valorem accounts payable from FY12 to FY13. Unrestricted net position showed a \$7.87 million increase during the year.

### Statement of Activities

The Commission's revenues for the fiscal year ending June 30, 2013 increased 5.5% or \$5.77 million over the prior year while expenses increased \$.98 million or .74%. State-wide tax collections have been trending upward over the last several years. Commission charges for services are directly related to specific taxes. As these tax collections increase, the charges for services increase as well. Expenditures stayed relatively unchanged with the slight increase being attributable to increased software maintenance costs. See Table A-2 below.

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

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2012</u>	<u>2013</u>	<u>2012 - 2013</u>
Program Revenues:			
Charges for Services	\$59.23	\$61.66	4.10%
Grants	.00	.00	0%
General Revenues:			
Taxes	37.42	39.30	5.02%
Fees	8.32	8.96	7.69%
Other	<u>.01</u>	<u>.83</u>	8200%.
<b>Total Revenues</b>	<b>\$104.98</b>	<b>\$110.75</b>	<b>5.5%</b>
State Appropriations	46.92	46.92	0%
Transfers In	00.00	20.50	100.00%
Transfers Out		(35.80)	100.00%
Expenses:			
General Government	(130.34)	(131.25)	.70%
Depreciation	<u>(1.75)</u>	<u>(1.82)</u>	4.00%
<b>Total Expenses</b>	<b>(\$132.09)</b>	<b>(\$133.07)</b>	<b>.74%</b>
Change in Net Position	19.80	9.30	(53.03)%
Net Position - beginning	18.46	38.26	107.26%
Prior Year Adjustment	<u>0.00</u>	<u>0.00</u>	0.00%
<b>Net Position – Ending</b>	<b><u>\$38.26</u></b>	<b><u>\$47.56</u></b>	<b>24.31%</b>

## **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, 2013 the Commission maintained as a fiduciary \$1,232,186,307 in total assets for others. Of that amount \$14.58 million was due to taxpayers for refunds and the balance is due to state entities, local government subdivisions and private entities.

## **FINANCIAL ANALYSIS OF THE COMMISSION'S INDIVIDUAL FUNDS**

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

### **General Fund**

The general fund is the primary operating fund of the Commission. The fund's total assets decreased 14.85% between fiscal years 2012 and 2013 to \$45.6 million due to transfers to the special cash fund of the State Treasury of \$14.2 million and to the Office of Management and Enterprise Services of \$21.6 million. The fund's total liabilities decreased 19.50% between fiscal years 2012 and 2013 to \$2.4 million. This reduction relates to a decrease in compensated absences. This resulted in an overall decrease in fund balance of \$7.36 million or 14.57%.

### **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 organization being sponsored. This fund has one participating agency and has experienced a downward trend in plate sales since inception. The fund's assets lowered 22.95% from fiscal year 2012 to 2013 while expenditures decreased 12.37% during the same period.

### **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. The fund's total assets increased 415.16% between fiscal years 2012 and 2013 to \$2,550,816 while there was a \$.7 million or 7.95% increase in revenue. The fund's total liabilities increased 71.6% between fiscal years 2012 and 2013, while expenditures decreased 7.92%. This resulted in an overall increase in fund balance of \$1,554,698. Delays in payments to qualifying facilities accounted for the increase in assets and liabilities and decrease in expenditures while the expansion to all agricultural vehicles subject to the used tire recycling fee accounted for the increase in revenue.

### **Film Rebate Fund**

The Film Rebate Fund's purpose is to reimburse film companies for producing films or commercials in the State of Oklahoma. The Oklahoma Film Office approves all claims from the fund and submits them for payment to the Commission. The Film Rebate fund is a revolving fund which allows for the timing differences between the prequalification for rebate, completion of the project, the audit of the rebate claim and the actual payment of the claim. The maximum payments from the Fund each fiscal year is \$5 million. For fiscal year 2013 payments were made to companies totaling \$833,755.

## **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 reimbursement total has been on an upward trend for several years. The fund's total assets decreased 6.72% between fiscal years 2012 and 2013 to \$4.26 million due to an increase in lost ad valorem revenue to schools and counties, while there was a \$3.11 million or 9.72% increase in revenue due to increased collections from individual and corporate income tax and the one time appropriation of funds. Obligations for constitutionally required reimbursements to counties from the Ad Valorem Reimbursement Fund, as specified in 62 O.S. § 193, exceeded available funding at year-end resulting in a fund balance deficit.

## **BUDGET INFORMATION**

### **Budget versus Actual Variances**

Budgeted charges to appropriations for the fiscal year exceeded actual totals by \$11,261,129 with the savings realized in the area of personnel costs. Actual resources available were higher than budgeted resources by \$21,943,899 due to overall increase in state-wide tax collections which result in higher charges for services. The combined result of lower charges to appropriations and increased resources resulted in a positive overall variance of \$33,205,028.

### **Next Year's Budget**

The Commission budget for Fiscal Year 2014 was developed with available appropriations and estimated income from tax collections and fees associated with operating activities. The original budget totaled \$121.31 million, down \$25.69 million from the final budget of \$147 million for Fiscal Year 2013. The decrease in budget between Fiscal Years 2013 and 2014 consists primarily of a reduction in the amount available for reimbursements from the Ad Valorem Reimbursement Fund.

Of the \$121.31 million total budget, \$83.03 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 \$38.28 million includes \$5 million for private collection agencies/data warehouse payments, \$.5 million for general revenue fund-OSU, \$18.76 million for the Ad Valorem Reimbursement Fund, \$8 million for the Used Tire Recycling Indemnity Fund, \$5 million for the Oklahoma Film Enhancement Rebate Reimbursement Fund, \$1 million for the Tax Commission Compliance Fund and \$.02 million for the License Plate Special Program.

## **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

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

**OKLAHOMA TAX COMMISSION  
GOVERNMENT-WIDE  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash	\$42,600,724
Investments	2,532,576
Accounts receivable	10,804
Taxes & fees receivable	12,084,625
Inventory	70,408
Total Current Assets	57,299,137
Noncurrent Assets:	
Capital assets (Net of accumulated depreciation)	12,148,204
Total Noncurrent Assets	12,148,204
<b>TOTAL ASSETS</b>	<b>\$69,447,341</b>
 <b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$18,751,084
Accrued Payroll	74,000
Compensated Absences	329,220
Total Current Liabilities	19,154,304
Noncurrent Liabilities:	
Compensated Absences	2,732,710
Total Noncurrent Liabilities	2,732,710
<b>TOTAL LIABILITIES</b>	<b>21,887,014</b>
 <b>NET POSITION</b>	
Invested in Capital Assets	12,148,204
Unrestricted (deficit)	35,412,123
<b>TOTAL NET POSITION</b>	<b>47,560,327</b>

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

**OKLAHOMA TAX COMMISSION  
GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES  
JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$131,243,732	\$61,656,018	\$0	(\$69,587,714)
Depreciation Expense	\$1,823,474			(\$1,823,474)
Total Governmental Activities	\$133,067,206	\$61,656,018	\$0	(\$71,411,188)
General Revenues:				
Taxes:				
Personal and Corporate Income				39,293,637
License Plate				4,680
Fees:				
Used Tire Recycling Fee				8,962,830
Other				829,219
State Appropriations				46,915,944
Transfers In				20,497,673
Transfers Out				(35,792,815)
Total Revenues				80,711,168
Change in Net Position				9,299,980
Net Position - beginning				38,260,347
Net Position - ending				\$47,560,327

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

**OKLAHOMA TAX COMMISSION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$37,671,177	\$780	\$0	\$4,925,991	\$2,776	\$42,600,724
Investments	0	0	\$2,532,576	0	0	2,532,576
Accounts receivable	0	0	0	0	10,804	10,804
Taxes and fees receivable	7,817,284	160	18,240	0	4,248,941	12,084,625
Inventory	70,408					70,408
<b>TOTAL ASSETS</b>	<b>\$45,558,869</b>	<b>\$940</b>	<b>\$2,550,816</b>	<b>\$4,925,991</b>	<b>\$4,262,521</b>	<b>\$57,299,137</b>
<b>LIABILITIES</b>						
Accounts Payable	\$2,311,643		\$1,200,665		\$15,238,776	\$18,751,084
Accrued Payroll	74,000					74,000
Compensated Absences	18,910					18,910
<b>TOTAL LIABILITIES</b>	<b>2,404,553</b>	<b>0</b>	<b>1,200,665</b>	<b>0</b>	<b>15,238,776</b>	<b>18,843,994</b>
<b>FUND BALANCES</b>						
Nonspendable	104,843					104,843
Restricted		940	1,350,151			1,351,091
Committed	22,654,078			4,925,991		27,580,069
Unassigned	20,395,395				(10,976,255)	9,419,140
<b>TOTAL FUND BALANCES</b>	<b>43,154,316</b>	<b>940</b>	<b>1,350,151</b>	<b>4,925,991</b>	<b>(10,976,255)</b>	<b>38,455,143</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$45,558,869</b>	<b>\$940</b>	<b>\$2,550,816</b>	<b>\$4,925,991</b>	<b>\$4,262,521</b>	<b>\$57,299,137</b>

**Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Position  
June 30, 2013**

Total Fund Balance - Governmental Funds	\$38,455,143
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. These consist of :	
Furniture and Equipment	22,143,833
Accumulated Depreciation	(9,995,629)
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>(3,043,020)</u>
Net Position of Governmental Activities	<u>\$47,560,327</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, 2013**

	General	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$30,047,092	\$4,680		\$5,000,000	\$34,293,637	\$69,345,409
Licenses Permits and Fees	31,562,761		\$8,962,830			40,525,591
Other	46,165		22,923		806,296	875,384
<b>Total Revenues</b>	<u>61,656,018</u>	<u>4,680</u>	<u>8,985,753</u>	<u>5,000,000</u>	<u>35,099,933</u>	<u>110,746,384</u>
<b>Expenditures</b>						
<b>Current:</b>						
Salaries and Benefits	45,820,526					45,820,526
Professional Services	11,861,940		0			11,861,940
Inter-Agency Personal Services	14,863					14,863
Travel	664,754					664,754
Miscellaneous Administrative	4,700,618					4,700,618
Rent of Buildings and Equipment	3,179,798					3,179,798
Maintenance	4,248,470					4,248,470
Supplies	3,767,117					3,767,117
Waste Tire Payments			7,431,055			7,431,055
Film Rebate Payments				833,755		833,755
Building Renovation	979,090					979,090
Payments to Local Governments	(445)				46,289,325	46,288,880
Transfer to Special Account Funds		4,960				4,960
Other Expenditures	81,605					81,605
<b>Capital Outlay:</b>						
Equipment	4,822,252					4,822,252
<b>Total Expenditures</b>	<u>80,140,588</u>	<u>4,960</u>	<u>7,431,055</u>	<u>833,755</u>	<u>46,289,325</u>	<u>134,699,683</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(18,484,570)</u>	<u>(280)</u>	<u>1,554,698</u>	<u>4,166,245</u>	<u>(11,189,392)</u>	<u>(23,953,299)</u>
<b>Other Financing Sources (Uses)</b>						
State Appropriations	46,915,944					46,915,944
Transfers In					20,497,673	20,497,673
Transfers Out	(35,792,815)					(35,792,815)
<b>Total Other Financing Sources (Uses)</b>	<u>11,123,129</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,497,673</u>	<u>31,620,802</u>
<b>Net Change in Fund Balances</b>	(7,361,441)	(280)	1,554,698	4,166,245	9,308,281	7,667,503
Fund Balance - Beginning of Year	50,515,757	1,220	(204,547)	759,746	(20,284,536)	30,787,640
Fund Balance - End of Year	<u>\$43,154,316</u>	<u>\$940</u>	<u>\$1,350,151</u>	<u>\$4,925,991</u>	<u>(\$10,976,255)</u>	<u>\$38,455,143</u>

**Reconciliation of the change in net position of governmental funds to the Statement of Activities**  
**JUNE 30, 2013**

Net Change in Fund Balances - Total Governmental Funds	7,667,503
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.	1,426,959
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.	205,518
<b>Change in Net Position of Governmental Activities</b>	<u>9,299,980</u>

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

**OKLAHOMA TAX COMMISSION**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**AGENCY FUND**  
**JUNE 30, 2013**

<b>ASSETS</b>	
Cash	\$585,365,950
Investments	392,635,322
Accounts receivable	2,083,409
Taxes receivable	252,101,626
<b>TOTAL ASSETS</b>	<b><u>\$1,232,186,307</u></b>
<b>LIABILITIES</b>	
Tax Refunds Payable	14,576,631
Due to State General Funds	913,787,884
Due to Enterprise Funds	3,661,808
Due to Pension Trust Funds	40,838,057
Due to Other Accounts	8,147,681
Due to Local Governments	236,201,703
Due to Other Entities	14,870,885
Amount to be Apportioned	101,658
<b>TOTAL LIABILITIES</b>	<b><u>\$1,232,186,307</u></b>

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 Net Position/Fund Balance
- E. Program Revenues

**NOTE 2. PENSION PLAN**

**NOTE 3. DEPOSITS AND INVESTMENTS**

- A. Deposits
- B. Investments

**NOTE 4. CAPITAL ASSETS**

**NOTE 5. OPERATING LEASE COMMITMENTS**

**NOTE 6. DUE TO OTHER FUNDS**

**NOTE 7. RISK MANAGEMENT**

**NOTE 8. LONG-TERM OBLIGATIONS**

**NOTE 9. GOVERNMENT FUND – FUND BALANCE RESERVES AND DESIGNATIONS**

**NOTE 10. LITIGATION AND CONTINGENCIES**

**NOTE 11. FUND BALANCE DEFICIT**

**NOTE 12. TRANSFERS IN/TRANSFERS OUT**

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. § 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

Thomas E. Kemp, Jr., Chairman  
Term Expires January, 2019

Jerry Johnson, Vice Chairman  
Term Expires January, 2015

Dawn Cash, Secretary-Member  
Term Expires January, 2017

EXECUTIVE DIRECTOR

Tony Mastin, Executive Director to the Commission

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

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 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 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 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 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 Funds

Agency funds account for assets held by the Commission 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.

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

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:

**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.

**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.

**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 Title 47, Section 1135.7 must be met to qualify for issuance of the plates.

**Film Rebate Fund** - The Film Rebate Fund's purpose is to reimburse film companies for producing films 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 payments from the fund each fiscal year is \$5 million.

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, 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

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

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 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. 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, 2013, has been reported in the Statement of Net Position.
- Executory purchase orders and contracts are recorded as unassigned fund balance.

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

**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 non-spendable 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.

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

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 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 with 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 Position. Payments for employee vested annual leave for the year-ended June 30, 2013, were made in the amount of \$239,810. Total amount outstanding at June 30, 2013, is \$3,061,930 of which \$2,732,710 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 9 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.
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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. § 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 73152 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 2013 made a 3.5% contribution on wages. State agencies contributed 16.5% of active members' monthly salaries for fiscal year 2013. Contributions from the Commission for fiscal years 2011, 2012 and 2013 totaled \$4,911,543, \$5,057,609 and \$4,827,834 respectively, equal to the established required contributions for each year.

- 2.1.1 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 retirees who elect coverage at time of retirement. OPERS benefits are financed on a pay-as-you-go basis.

There is no OPEB obligation information available specific to the Oklahoma Tax Commission. 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, 2013, all cash and investments under the control of the State Treasurer were collateralized in accordance with 62 O.S. § 72.1, titled, "Security for Public Deposits Act."

A. Deposits

As of June 30, 2013, 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.

3. Deposits and Investments (cont...)

**State Treasurer Investment Policy Diversification Limits**

<u>Investment Type</u>	<u>Percentage of Total Invested</u>	<u>Percentage of Total by Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
U.S. Government Agency Mortgage Backed Securities	45.0%	No Limit	7 Years	AAA
U.S. Government Agency Securities	50.0%	35.0%	10 years	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35 Million per financial institution		365 Days	N/A
Negotiable Certificates of Deposit	7.5%	2.5%	180 Days	A-1&P-1
Bankers Acceptance	7.5%	2.5%	270 Days	A-1&P-1
Commercial Paper	7.5%	2.5%	180 Days	A-1&P-1
State and Local Government Obligations	10.0%	5.0%	30 Years	AAA
Repurchase and Tri-party Repurchase Agreements	30.0%	10.0%	14 Days	A-1
Money Market Mutual Fund	30.0%	10.0%	1 Day	AAA
Foreign Government Bonds	2.5%	2.5%	5 Years	A-/A3 or better

Investments for governmental and fiduciary funds at June 30, 2013, by investment type, are listed below:

	<u>Carrying Amount</u>	<u>Reported Amount/ Fair Value</u>
Repurchase Agreements:		
<u>Governmental Funds</u>	\$ 2,532,576	\$ 2,532,576
<u>Agency Fund</u>	\$392,635,322	\$392,635,322

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.

4. 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, 2013 was as follows:

General Government Activities:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets – Net</u>
Beginning Balance	\$19,027,200	(\$ 8,305,955)	\$ 10,721,245
Prior Year Adjustment	(\$419,562)	23,309	(396,253)
Adjusted Beginning Balance	\$ 18,607,638	(\$ 8,282,646)	\$ 10,324,992
Increases	3,967,936	(1,823,474)	2,144,462
Decreases	(431,741)	110,491	(321,250 )
Ending Balance	<u>\$ 22,143,833</u>	<u>(\$ 9,995,629)</u>	<u>\$ 12,148,204</u>

Current year depreciation expense related to the General Government Activities was \$1,823,474.

5. 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 2013 was \$3,179,798. The majority of leases are from one to five years with renewable lease terms and contain a 30 day cancellation clause.

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, 2013, the balances are included.

7. Risk Management

The Division of Capital Assets Management of the State’s Office of Management and Enterprise Services is empowered by the authority of 74 O.S. § 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 Division of Capital Assets Management is authorized to settle claims of the State and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the State, 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. § 154. The Division of Capital Assets Management 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 Division of Capital Assets Management is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Division of Capital Assets Management.

8. Long-Term Obligations

Long-term obligations at June 30, 2013, and changes for the fiscal year are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Compensated Absences	\$2,947,466	\$2,395,059	\$2,609,815	\$2,732,710

The amount due within 1 year is \$329,220.

9. 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*. The table below represents the detailed amount of fund balance available to each functional level of government within those categories.

	<u>General Fund</u>	<u>License Plate Program Fund</u>	<u>Used Tire Recycling Indemnity Fund</u>	<u>Film Rebate Fund</u>	<u>Ad Valorem Reimbursement Fund</u>	<u>Total Governmental Funds</u>
Nonspendable						
Inventories	\$70,408					\$70,408
Prepaid Postage	34,435					34,435
Restricted						
License Plate Program		\$940				940
Used Tire Recycling Indemnity Fund			\$1,350,151			1,350,151
Committed						
Computer Enhancement Fund	22,654,078					22,654,078
Film Rebate Fund				\$4,925,991		4,925,991
Assigned						0
Unassigned	20,395,395				(\$10,976,255)	9,419,140
<b>Total Fund Balances</b>	<u>\$43,154,316</u>	<u>\$940</u>	<u>\$1,350,151</u>	<u>\$4,925,991</u>	<u>(\$10,976,255)</u>	<u>\$38,455,143</u>

Nonspendable fund balance represents amounts that are not in spendable form. These amounts are not expected to be converted to cash. The Commission's forms of nonspendable fund balance are 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 Title 47, Section 1135.8 and used tire recycling fees authorized under by Title 27A, Section 2-11-401.2.

Committed fund balance represents amounts designated for computer enhancement projects such as the development of an integrated tax system as authorized by Title 68, Section 265 and any FY 2013 amounts available for reimbursement by the Film Rebate Fund.

9. Governmental Fund – Fund Balance Reserves and Designations (cont...)

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.

10. 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.

11. Fund Balance Deficit

The Ad Valorem Reimbursement Fund is stated at a deficit fund balance at June 30, 2013. Due to the constitutional requirement to fully fund reimbursements to counties from the Ad Valorem Reimbursement Fund as specified in 62 O.S. 2001, § 193, obligations exceeded available funding at year end. \$15,238,776 in unpaid claims was 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 Commission.

12. Transfers In/Transfers Out

Transfers in were comprised of \$20.5 million appropriated to the Ad Valorem Reimbursement Fund.

Transfers out of \$14.2 million from the Oklahoma Tax Commission and Office of Management and Enterprise Services Joint Computer Enhancement Fund to the Special Cash fund of the Oklahoma State Treasury were authorized by the annual appropriations bill, SB1975, Section 149. HB 1304, 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 \$21.6 million from the Joint Computer Enhancement Fund.

**OKLAHOMA TAX COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget -
	Original	Final	(See Note A )	Positive (Negative)
Budgetary Fund Balance, July 1	\$50,329,979	\$50,329,979	\$50,329,979	\$0
Resources (inflows)				
Taxes	24,860,000	24,860,000	31,053,742	6,193,742
Other Revenues	13,191,000	13,191,000	31,490,826	18,299,826
State Appropriations	46,915,944	46,915,944	46,915,944	0
Amount Available for Appropriation	<u>135,296,923</u>	<u>135,296,923</u>	<u>159,790,491</u>	<u>24,493,568</u>
Charges to Appropriations (outflows)				
Salaries and Benefits	48,829,600	49,404,600	45,820,526	3,584,074
Professional Services	12,792,027	12,792,027	11,861,940	930,087
Inter-Agency Personal Services	32,000	32,000	14,863	17,137
Travel	678,500	678,500	664,754	13,746
Miscellaneous Administrative	5,145,300	5,145,300	4,700,618	444,682
Rent of Buildings and Equipment	3,560,000	3,560,000	3,179,798	380,202
Maintenance	3,844,560	3,844,560	4,248,470	(403,910)
Supplies	4,304,000	4,304,000	3,767,117	536,883
Equipment	5,752,500	5,752,500	4,822,252	930,248
Buildings - Renovation	900,000	900,000	979,090	(79,090)
Other Expenditures	38,000	38,000	81,605	(43,605)
Payments to Local Governments	0	0	-445	445
Total Charges to Appropriations	<u>85,876,487</u>	<u>86,451,487</u>	<u>80,140,588</u>	<u>6,310,899</u>
 Budgetary Fund Balance - June 30	 <u>\$49,420,436</u>	 <u>\$48,845,436</u>	 <u>\$79,649,903</u>	 <u>\$30,804,467</u>

The notes to the Required Supplementary Information are an integral part of this schedule.  
See Independent Auditor's Report.

**BUDGETARY COMPARISON SCHEDULE - TAX COMMISSION COMPLIANCE FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Budgeted Amounts</b>		Actual Amounts (Budgetary Basis) (See Note A )	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$0	\$0	\$0	\$0
Resources (inflows)				
Taxes	1,000,000	1,000,000	0	(1,000,000)
Amount Available for Appropriation	1,000,000	1,000,000	0	(1,000,000)
Charges to Appropriations (outflows)				
Other Expenditures	0	0	0	0
Total Charges to Appropriations	0	0	0	0
Budgetary Fund Balance - June 30	\$1,000,000	\$1,000,000	\$0	(\$1,000,000)

**BUDGETARY COMPARISON SCHEDULE - LICENSE PLATE PROGRAM FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Budgeted Amounts</b>		Actual Amounts (Budgetary Basis) (See Note A )	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$1,220	\$1,220	\$1,220	\$0
Resources (inflows)				
Taxes	20,000	20,000	4,660	(15,340)
Amount Available for Appropriation	21,220	21,220	5,880	(15,340)
Charges to Appropriations (outflows)				
Other Expenditures	20,000	20,000	4,960	15,040
Total Charges to Appropriations	20,000	20,000	4,960	15,040
Budgetary Fund Balance - June 30	\$1,220	\$1,220	\$920	(\$300)

The notes to the Required Supplementary Information are an integral part of these schedules.  
See Independent Auditor's Report.

**BUDGETARY COMPARISON SCHEDULE - USED TIRE RECYCLING INDEMNITY FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Budgeted Amounts</b>		Actual Amounts (Budgetary Basis) (See Note A )	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	(\$204,547)	(\$204,547)	(\$204,547)	\$0
Resources (inflows)				
Tire Fees	8,195,000	8,195,000	8,967,512	772,512
Other Revenues	5,000	5,000	22,923	17,923
Amount Available for Appropriation	<u>7,995,453</u>	<u>7,995,453</u>	<u>8,785,888</u>	<u>790,435</u>
Charges to Appropriations (outflows)				
Waste Tire Reimbursements	8,200,000	8,200,000	7,431,055	768,945
Other Expenditures				0
Transfers to Other Funds				0
Total Charges to Appropriations	<u>8,200,000</u>	<u>8,200,000</u>	<u>7,431,055</u>	<u>768,945</u>
Budgetary Fund Balance - June 30	<u><u>(\$204,547)</u></u>	<u><u>(\$204,547)</u></u>	<u><u>\$1,354,833</u></u>	<u><u>\$1,559,380</u></u>

**BUDGETARY COMPARISON SCHEDULE - FILM REBATE FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Budgeted Amounts</b>		Actual Amounts (Budgetary Basis) (See Note A )	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$759,746	\$759,746	\$759,746	\$0
Resources (inflows)				
Taxes	5,000,000	5,000,000	5,000,000	0
Transfers In				0
Other Revenue				0
Amount Available for Appropriation	<u>5,759,746</u>	<u>5,759,746</u>	<u>5,759,746</u>	<u>0</u>
Charges to Appropriations (outflows)				
Film Rebate Payments	5,000,000	5,000,000	833,755	4,166,245
Transfers to Other Funds				0
Total Charges to Appropriations	<u>5,000,000</u>	<u>5,000,000</u>	<u>833,755</u>	<u>4,166,245</u>
Budgetary Fund Balance - June 30	<u><u>\$759,746</u></u>	<u><u>\$759,746</u></u>	<u><u>\$4,925,991</u></u>	<u><u>\$4,166,245</u></u>

The notes to the Required Supplementary Information are an integral part of these schedules.  
See Independent Auditor's Report.

**BUDGETARY COMPARISON SCHEDULE - AD VALOREM REIMBURSEMENT FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget -
	<u>Original</u>	<u>Final</u>	<u>(See Note A )</u>	<u>Positive (Negative)</u>
Budgetary Fund Balance, July 1	(\$20,284,536)	(\$20,284,536)	(\$20,284,536)	\$0
Resources (inflows)				
Taxes	31,500,000	50,784,620	34,603,560	(16,181,060)
Transfers In		8,447,673	20,497,673	12,050,000
Other Revenue			806,296	806,296
Amount Available for Appropriation	<u>11,215,464</u>	<u>38,947,757</u>	<u>35,622,993</u>	<u>(3,324,764)</u>
Charges to Appropriations (outflows)				
County Reimbursements	18,557,032	46,289,325	46,289,325	0
Transfers to Other Funds				0
Total Charges to Appropriations	<u>18,557,032</u>	<u>46,289,325</u>	<u>46,289,325</u>	<u>0</u>
Budgetary Fund Balance - June 30	<u>(\$7,341,568)</u>	<u>(\$7,341,568)</u>	<u>(\$10,666,332)</u>	<u>(\$3,324,764)</u>

The notes to the Required Supplementary Information are an integral part of this schedule.  
See Independent Auditor's Report.

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

Note A. Budgeting, Budgeting Control and Budgetary Reports

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

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on budget requests prepared by the various state agencies. The General Fund, License Plate Program Fund, Tax Commission Compliance Fund, Used Tire Recycling Indemnity Fund, Ad Valorem Reimbursement Fund and the Oklahoma Film Enhancement Fund are the only funds for which an annual budget is legally adopted. The Governor has the power to approve or veto each line item appropriation. Any other changes to the budget must be approved by the Legislature in a supplemental appropriation. All 2013 appropriation line items of the State were within their authorized spending level.

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

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

Note B. Excess of Expenditures Over Appropriations

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

See Independent Auditor's Report.

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

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

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund
<b>Sources/inflows of resources</b>					
Actual amounts (budgetary basis) "Resources (inflows)" from the budgetary comparison schedule	\$109,460,512	\$4,660	\$8,990,435	\$5,000,000	\$35,409,856
Differences - budget to GAAP:					
State appropriations are inflows of budgetary resources but are not revenues for financial reporting purposes.	(46,915,944)				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.					
Accrual adjustments for receivables are made for financial reporting purposes but not for the budgetary comparison.	(888,550)	20	(4,682)	0	(309,923)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$61,656,018</u>	<u>\$4,680</u>	<u>\$8,985,753</u>	<u>\$5,000,000</u>	<u>\$35,099,933</u>
<b>Uses/outflows of resources</b>					
Actual amounts (budgetary basis) " total charges to appropriations" from the budgetary comparison schedule	\$80,140,588	\$4,960	\$7,431,055	\$833,755	\$46,289,325
Differences - budget to GAAP:					
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	0	0	0	0	0
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$80,140,588</u>	<u>\$4,960</u>	<u>\$7,431,055</u>	<u>\$833,755</u>	<u>\$46,289,325</u>

See Independent Auditor's Report.



# Oklahoma State Auditor & Inspector

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

### TO THE COMMISSIONERS OF THE OKLAHOMA TAX COMMISSION

We have audited 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, the financial statements of the governmental activities and each major fund of the Oklahoma Tax Commission as of and for the year ended June 30, 2013, 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 April 16, 2014. The report includes an emphasis of matter paragraph stating that the financial statements of the Oklahoma Tax Commission are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Oklahoma Tax Commission.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oklahoma Tax Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oklahoma Tax Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oklahoma Tax Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings to be a material weakness (13-695-003).

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. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies (13-695-005).

### 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*.

### **The Oklahoma Tax Commission's Response to Findings**

The Oklahoma Tax Commission's response to the findings identified in our audit are described in the accompanying schedule of findings. The Oklahoma Tax Commission's response was not subjected to the auditing procedures applied in the audit of 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



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

April 16, 2014

## SCHEDULE OF FINDINGS

**Reference Number:** 13-695-003

**State Agency:** Oklahoma Tax Commission (the Commission)

**Fund Type:** Government-Wide; Governmental Funds; Agency Fund

**Other Information:** Revenue/Cash

**Criteria/Condition:** The Office of Management and Enterprise Services (OMES) Procedures Manual Chapter 500 states, in part, “Each state agency and institution authorized to use an agency clearing account shall furnish the Director of State Finance monthly reports showing the balances and transactions within each account and a reconciliation of the balance shown on the Treasurer's statement to the account balance as shown in the agency records. . . . The monthly reports shall be submitted on OSF Forms Number 11. . . . These reports are designed with three parts to: (A) summarize the receipts and disbursements of the accounts by receipt and expenditure codes; (B) confirm the ending cash and investment balances; and (C) reconcile the agency's records to the State Treasurer's records, explaining any discrepancies. The reports are to be submitted whether or not transactions occurred during the month, signed by the chief fiscal officer of the reporting agency and filed with the Division of Central Accounting and Reporting not later than the 10th day of the following month.”

As of October 2013, the OSF Form 11 was not completed for any of the 12 months during state fiscal year (SFY) 2013 for the Commission’s account number 1695 (PeopleSoft account number 79901), nor for 3 of the 12 months during SFY 2013 for the Commission’s account number 1695C.

A basic objective of Generally Accepted Accounting Principles is to provide accurate and reliable information.

As of October 2013, the cash reconciliation was not completed for 7 of the 12 months during state fiscal year (SFY) 2013.

**Cause/Effect:** The Commission does not have adequate internal controls in place to ensure OSF Form 11 reconciliations and cash reconciliations are performed in a timely manner. The Commission did not comply with the above stated requirements for OSF Form 11 reconciliations or basic objectives of Generally Accepted Accounting Principles. Without timely reconciliations accounts may be inaccurate due to error and/or fraud and cause financial statements to be misstated.

**Recommendation:** We recommend the Commission implement procedures to ensure OSF Form 11 reconciliations are performed within 10 days of months end as stated in the OMES Procedures Manual. We also recommend the Commission implement procedures to ensure cash reconciliations are performed within 10 days of months end.

**Agency Management Response:** With the mandate for electronic payment and receipt of funds and changes at the State Treasurer’s Office, reconciliation of the clearing account (1695) has become problematic. Management Services Division (MSD) is currently in the process of reviewing and updating reconciliation processes for these changes in data collection. Based on the review of the reconciliation process MSD has begun a daily review and reconciliation between the Treasurer’s statement and the Agency accounts. This daily review enables the Agency to catch discrepancies on both sides in a timely manner. The agency has authorized an additional FTE in Management Services to facilitate the performance of daily review and timely rendering of monthly and annual reporting. The new review processes will ensure that, in the future, the OMES Form 11 reconciliations will be performed as suggested.

During FY13 employees involved in the monthly cash and expenditure reconciliations left the agency. Adequate knowledge transfer was conducted between the successor and predecessor employees. Due to

unforeseen circumstances the successor employee was unavailable during the preparation of the monthly cash and expenditure reconciliations. OTC recognizes the need for adequate documentation of processes and cross training among employees involved in the annual reporting process. OTC has authorized additional FTE's to meet the increasing needs for timely reporting and adequate review of agency financial information.

**Reference Number:** 13-695-005

**State Agency:** Oklahoma Tax Commission (the Commission)

**Fund Type:** Government-wide; Governmental Funds: General Fund, Ad Valorem Reimbursement Fund; Agency Fund

**Other Information:** Taxes Receivable

**Criteria/Condition:** A component objective of an effective internal control system is to ensure policies/procedures for performing essential duties are followed to ensure financial reporting information is accurate and reliable through proper review and approval.

The Office of Management and Enterprise Services (OMES) generally accepted accounting principles (GAAP) Conversion Manual for GAAP Package E-1: Taxes Receivable and Refunds Payable Conversion Package states, "Taxes Receivable are taxes that parties outside state government owe the state at June 30. A receivable is recorded at June 30 for all taxes due on or before June 30 when the agency knows the exact amount or has enough information to reasonably estimate the amount of revenue that will be received, and at June 30, the agency has not yet collected the cash."

Eleven of 90 taxes receivable balances tested were doubled. After further review by the Commission, the OneLink reports used to prepare OMES GAAP Package E-1 included the pending payment, as well as the posted payment, but did not include the reversal of the pending payment. After the error was brought to the Commission's attention, new parameters were used to create updated reports.

**Cause/Effect:** GAAP Package E-1: Taxes Receivable and Refunds Payable Summary was prepared by the Commission from OneLink reports with erroneous parameters. During state fiscal year 2013, the Commission was in the process of converting to the OneLink system. The parameters needed for the GAAP Package E-1 were discussed between the Commission's Management Services Division and IT. The OneLink reports were not extensively reviewed for accuracy prior to approval and submission of GAAP Package E-1 to the OMES. As a result, the taxes receivable amount reported on the GAAP Package was overstated by \$164,624,671.

**Recommendation:** We recommend the Commission implement policies/procedures to ensure GAAP Packages are properly reviewed and approved by someone other than the preparer. Review procedures should include a comparison of the prior and current year amounts reported on the GAAP Package and an investigation of any large variances. The importance of these policies/procedures should be emphasized to the Commission staff.

**Agency Response:** During FY13 employees involved in the preparation of CAFR information left the agency. Adequate knowledge transfer was conducted between the successor and predecessor employees. Due to unforeseen circumstances the successor employee was unavailable during the preparation of GAAP Package E-1: Taxes Receivable and Refunds Payable Summary. OTC recognizes the need for adequate documentation of processes and cross training among employees involved in the annual reporting process. OTC has authorized additional FTE's to meet the increasing needs for timely reporting and adequate review of agency financial information.

**Auditor Response:** The misstatement was corrected by the Commission.



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