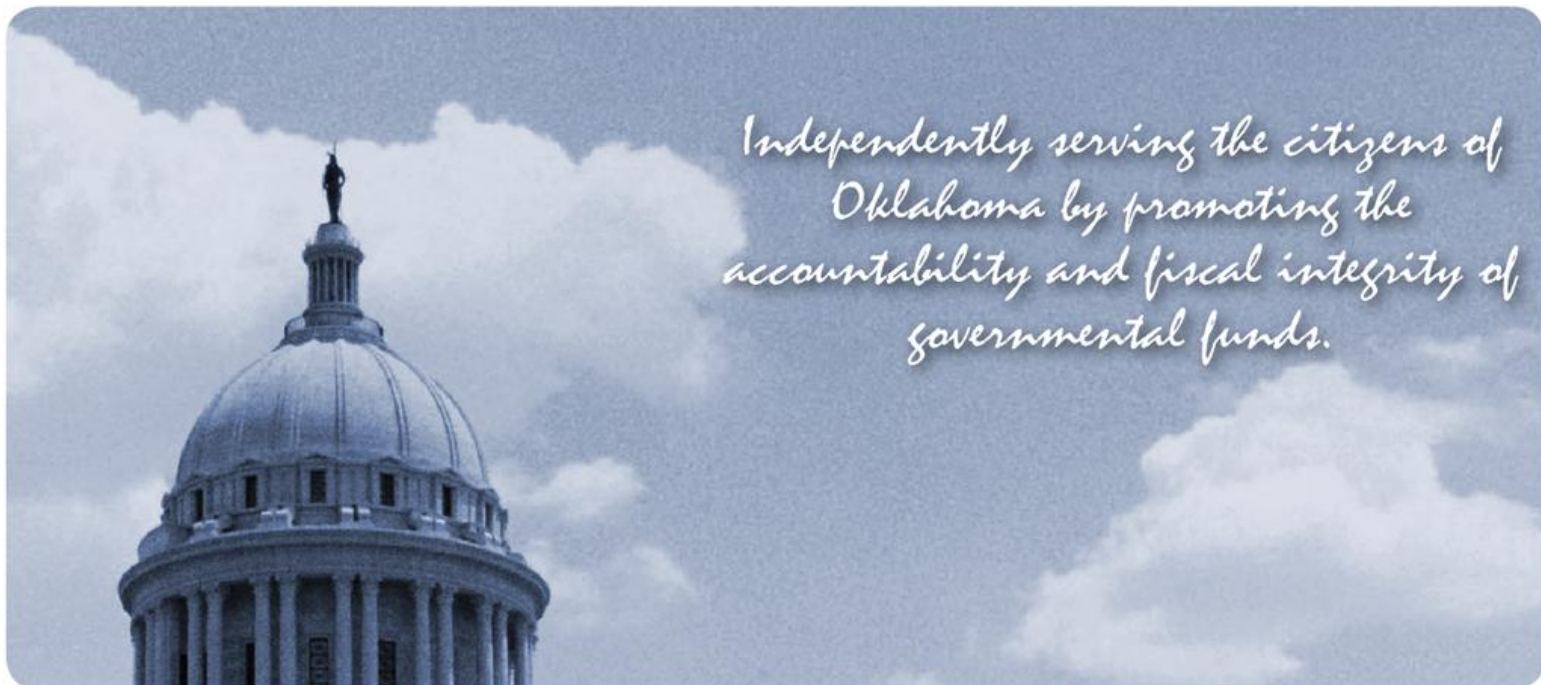


FINANCIAL AUDIT

OKLAHOMA TAX COMMISSION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

For the fiscal year ended June 30, 2014



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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, 2014**

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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

December 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, 2014. 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, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**OKLAHOMA TAX COMMISSION
 FINANCIAL STATEMENTS AND
 INDEPENDENT AUDITOR’S REPORTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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, 2014, 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.

Opinion

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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Oklahoma Tax Commission are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the Oklahoma Tax Commission. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oklahoma Tax Commission's basic financial statements. The budgetary comparison information on pages 27-32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

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

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

December 16, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- Total net position of the Agency decreased 56.16% to \$20.85 million during the fiscal year ending June 30, 2014.
- The Agency revenues for the fiscal year decreased 5.20% or \$5.76 million over the prior year while expenses increased to \$158 million for the year. Appropriations for FY14 remained unchanged from FY13.
- The assets of fiduciary funds, which represent taxes held in trust for distribution to state and local governments and others, totaled \$1.33 billion at June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the 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 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 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 position includes all of the Agency'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 position and how they have changed. Net position -- 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 position is 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 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 Agency 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 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 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 position. 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 position

The Agency's combined net position decreased between fiscal years 2013 and 2014 to \$20.85 million. During FY14 the Agency transfers out of fund balance exceeded transfers in by \$20.25 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>2013</u>	<u>2014</u>	<u>2013- 2014</u>
Current and other assets	\$57.30	\$35.40	(38.22%)
Capital assets	12.15	16.13	32.76%
Total assets	\$69.45	\$51.53	(25.80%)
Long-term liabilities	2.73	2.90	6.23%
Other liabilities	19.16	27.78	44.99%
Total liabilities	\$21.89	\$30.68	40.16%
Net position			
Invested in capital assets	12.15	16.13	32.76%
Unrestricted	35.41	4.72	(86.67 %)
Total net position	\$47.56	\$20.85	(56.16%)

Net position of the Agency's governmental activities decreased \$26.71 million to \$20.85 million. Net transfers to the Special Cash Fund of the State Treasury of \$20.25 million and increases of \$6.2 million in Ad Valorem fund liabilities account for this decrease in net position. Unrestricted net position showed a \$30.69 million decrease during the year. Capital assets increased 32.76% due to the complete refresh of the State's motor vehicle licensing agents' computer network and the development costs associated with the agency's integrated taxpayer software system. The net increase of \$3.98 million in fixed assets coupled with the increase in Ad Valorem liabilities and decrease in available cash account for the decrease in unrestricted net position.

Statement of Activities

The Agency's revenues for the fiscal year ending June 30, 2014 decreased 5.20% or \$5.76 million over the prior year while expenses increased \$25.29 million or 19.01%. 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>2013</u>	<u>2014</u>	<u>2013 - 2014</u>
Program Revenues:			
Charges for Services	\$61.66	\$61.30	(.58%)
Grants	.00	.00	0.00%
General Revenues:			
Taxes	39.30	34.28	(12.77%)
Fees	8.96	9.21	2.79%
Other	.83	.20	(75.90%)
Total Revenues	\$110.75	\$104.99	(5.20%)
State Appropriations	46.92	46.92	0.00%
Transfers In	20.50	25.52	24.49%
Transfer Out	(35.8)	(45.78)	27.88%
Expenses:			
General Government	(131.25)	(155.65)	18.59%
Depreciation	(1.82)	(2.71)	48.90%
Total Expenses	(\$133.07)	(\$158.36)	19.01%
Change in Net Position	9.30	(26.71)	(387.22)%
Net Position - beginning	38.26	47.56	24.31%
Prior Year Adjustment	0.00	0.00	0.00%
Net Position – Ending	\$47.56	\$20.85	(56.16)%

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, 2014 the Agency maintained as a fiduciary \$1,331,221,329 in total assets for others. Of that amount \$63.42 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 AGENCY'S INDIVIDUAL FUNDS

The Agency 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 Agency. The fund's total assets decreased 45.40% between fiscal years 2013 and 2014 to \$24.9 million. This decrease is primarily the result of net transfers to the Special Cash Fund of the State Treasury of \$20.25 million. The fund's total liabilities increased 111.6% between fiscal years 2013 and 2014 to \$5.1 million. The increase resulted from payables to the Agency's third party license plate vendor and COTS software developer. This resulted in an overall decrease in fund balance of \$23.37 million or 54.15%.

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. The fund's assets increased 6.38% from fiscal year 2013 to 2014 while expenditures decreased 15.73% 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 increase in fund balance of \$2.4 million is a result of the accumulation of funds for the payment of dump site remediation.

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 Agency. The maximum commitments from the Fund each fiscal year is \$5 million. For fiscal year 2014 payments were made to companies totaling \$5,217,687. Projections for FY15 indicate that \$5 million in rebates are committed to film projects currently in production. Film rebate payments are made after the film project is completed and expenditure reports have been audited by the Oklahoma Film Office's outside audit firm. This timing difference accounts for the increase in rebate payments made during FY2014.

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 as specified in 62 O.S. § 193. The fund's FY14 liability for reimbursement to counties and schools totaled \$64.3 million. As of June 30, 2014 fund 285 collections available to satisfy FY14 claims totaled \$17.7 million. HB 2127 transferred in \$25.5 million to cover the \$43.2 million due to schools. The remaining balance of \$21.1 million due to counties will be satisfied with FY15 collections. This deficit in funding available to cover current obligations causes the deficit fund balance for FY14. Current projections of the FY15 liability show the total liability remaining approximately the same as FY14. However, the projections for FY16 show the liability growing to approximately \$80 million due to the large number of wind generation facilities on line in 2015. Revenue projections for both FY15 and FY16 show minimal growth. The difference between the obligation due and current revenue collections available to satisfy the obligation continue to grow each year resulting in a fund balance deficit.

BUDGET INFORMATION

Budget versus Actual Variances

Budgeted totals for appropriations for the fiscal year exceeded actual totals by \$5.1 million while actual resources available were higher than budgeted resources by \$10.5 million resulting in a positive overall variance of \$15.6 million. Actual revenues were higher than budgeted revenues due to collections into the Joint Computer Enhancement Fund exceeding original estimates. Personnel costs were less than the original estimate accounting for the positive variance in expenditures.

Next Year's Budget

The Agency budget for Fiscal Year 2015 was developed with available appropriations and estimated income from tax collections and fees associated with operating activities. The original budget totaled \$109.11 million, down \$58.3 million from the final budget of \$167.41 million for Fiscal Year 2014. The decrease in budget between Fiscal Years 2014 and 2015 consists primarily of a reduction in the amount available for reimbursements from the Ad Valorem Reimbursement Fund.

Of the \$109.11 million total budget, \$83.52 million 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 \$25.58 million includes \$.47 million intended for the general revenue fund – OSU, \$5 million to private collection agencies/data warehouse, \$.02 million for the License Plate Special Program, \$1 million for the Tax Commission Compliance Fund, \$10 million for the Used Tire Recycling Indemnity Fund, \$5 million for the Oklahoma Film Enhancement Rebate Reimbursement Fund and \$4.09 million for the Ad Valorem Reimbursement 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 Comptroller's Office at 2501 North Lincoln, Oklahoma City, OK 73194.

**OKLAHOMA TAX COMMISSION
GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash	\$18,642,997
Investments	5,085,047
Accounts receivable	66,427
Taxes & fees receivable	11,548,978
Inventory	53,710
Total Current Assets	<u>35,397,159</u>
Noncurrent Assets:	
Capital assets (Net of accumulated depreciation)	<u>16,128,099</u>
Total Noncurrent Assets	<u>16,128,099</u>
TOTAL ASSETS	<u><u>\$51,525,258</u></u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$27,504,063
Accrued Payroll	71,997
Compensated Absences	204,364
Total Current Liabilities	<u>27,780,424</u>
Noncurrent Liabilities:	
Compensated Absences	<u>2,895,829</u>
Total Noncurrent Liabilities	<u>2,895,829</u>
TOTAL LIABILITIES	<u><u>\$30,676,253</u></u>
 NET POSITION	
Invested in Capital Assets	16,128,099
Unrestricted (deficit)	4,720,906
TOTAL NET POSITION	<u><u>\$20,849,005</u></u>

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

**OKLAHOMA TAX COMMISSION
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$155,652,769	\$61,305,487	\$0	(\$94,347,282)
Depreciation Expense - unallocated	\$2,714,614			(\$2,714,614)
Total Governmental Activities	<u>\$158,367,383</u>	<u>\$61,305,487</u>	<u>\$0</u>	<u>(\$97,061,896)</u>
General Revenues:				
Taxes:				
Personal and Corporate Income				34,282,420
License Plate				4,240
Fees:				
Used Tire Recycling Fee				9,205,423
Other				202,133
State Appropriations				46,915,944
Transfers In				25,523,000
Transfers Out				<u>(45,782,585)</u>
Total Revenues				<u>70,350,575</u>
Change in Net Position				(26,711,321)
Net Position - beginning				<u>47,560,326</u>
Net Position - ending				<u>\$20,849,005</u>

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

**OKLAHOMA TAX COMMISSION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
ASSETS						
Cash	\$17,373,278	\$880	\$0	\$1,268,838	\$1	\$18,642,997
Investments	0	0	\$5,085,047	0	0	5,085,047
Accounts receivable	0	0	0	0	66,427	66,427
Taxes and fees receivable	7,447,326	120	0	0	4,101,532	11,548,978
Inventory	53,710					53,710
TOTAL ASSETS	<u>\$24,874,314</u>	<u>\$1,000</u>	<u>\$5,085,047</u>	<u>\$1,268,838</u>	<u>\$4,167,960</u>	<u>\$35,397,159</u>
LIABILITIES						
Accounts Payable	\$4,989,051		\$1,370,055		\$21,144,957	\$27,504,063
Accrued Payroll	71,997					71,997
Compensated Absences	27,062					27,062
TOTAL LIABILITIES	<u>5,088,110</u>	<u>0</u>	<u>1,370,055</u>	<u>0</u>	<u>21,144,957</u>	<u>27,603,122</u>
FUND BALANCES						
Nonspendable	571,308					571,308
Restricted		1,000	3,714,992			3,715,992
Committed	13,472,428			1,268,838		14,741,266
Unassigned	5,742,468				(16,976,997)	(11,234,529)
TOTAL FUND BALANCES	<u>19,786,204</u>	<u>1,000</u>	<u>3,714,992</u>	<u>1,268,838</u>	<u>(16,976,997)</u>	<u>7,794,037</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$24,874,314</u>	<u>\$1,000</u>	<u>\$5,085,047</u>	<u>\$1,268,838</u>	<u>\$4,167,960</u>	<u>\$35,397,159</u>

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014**

Total Fund Balance - Governmental Funds	\$7,794,037
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	28,667,529
Accumulated Depreciation	(12,539,430)
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>(3,073,131)</u>
Net Position of Governmental Activities	<u>\$20,849,005</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, 2014

	General	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
Revenues						
Taxes	\$28,238,804	\$4,240		\$1,560,534	\$32,721,886	\$62,525,464
Licenses Permits and Fees	33,031,945		\$9,205,423			42,237,368
Other	34,738		91,485		110,648	236,871
Total Revenues	<u>61,305,487</u>	<u>4,240</u>	<u>9,296,908</u>	<u>1,560,534</u>	<u>32,832,534</u>	<u>104,999,703</u>
Expenditures						
Current:						
Salaries and Benefits	45,873,838					45,873,838
Professional Services	10,124,347					10,124,347
Inter-Agency Personal Services	16,686					16,686
Travel	748,726					748,726
Miscellaneous Administrative	4,257,874					4,257,874
Rent of Buildings and Equipment	2,864,688					2,864,688
Maintenance	5,798,565					5,798,565
Supplies	4,378,506					4,378,506
Waste Tire Payments			6,932,066			6,932,066
Film Rebate Payments				5,217,687		5,217,687
Building Renovation	6,937					6,937
Payments to Local Governments	611,562				64,356,276	64,967,838
Transfer to Special Account Funds		4,180				4,180
Other Expenditures	38,896					38,896
Capital Outlay:						
Equipment	11,086,333					11,086,333
Total Expenditures	<u>85,806,958</u>	<u>4,180</u>	<u>6,932,066</u>	<u>5,217,687</u>	<u>64,356,276</u>	<u>162,317,167</u>
Revenues Over (Under) Expenditures	<u>(24,501,471)</u>	<u>60</u>	<u>2,364,842</u>	<u>(3,657,153)</u>	<u>(31,523,742)</u>	<u>(57,317,464)</u>
Other Financing Sources (Uses)						
State Appropriations	46,915,944					46,915,944
Transfers In					25,523,000	25,523,000
Transfers Out	(45,782,585)					(45,782,585)
Total Other Financing Sources (Uses)	<u>1,133,359</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,523,000</u>	<u>26,656,359</u>
Net Change in Fund Balances	(23,368,112)	60	2,364,842	(3,657,153)	(6,000,742)	(30,661,105)
Fund Balance - Beginning of Year	43,154,316	940	1,350,150	4,925,991	(10,976,255)	38,455,142
Fund Balance - End of Year	<u>\$19,786,204</u>	<u>\$1,000</u>	<u>\$3,714,992</u>	<u>\$1,268,838</u>	<u>(\$16,976,997)</u>	<u>\$7,794,037</u>

Reconciliation of the change in net position of governmental funds to the Statement of Activities
JUNE 30, 2014

Net change in fund balances - total governmental funds	(30,661,105)
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.	3,979,895
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.	(30,111)
Change in net position of governmental activities	<u>(26,711,321)</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, 2014**

ASSETS	
Cash	\$639,344,186
Investments	408,693,339
Accounts receivable	7,728,777
Taxes receivable	275,455,027
TOTAL ASSETS	<u><u>\$1,331,221,329</u></u>
 LIABILITIES	
Legal Judgements and Claims	\$600,902
Tax Refunds Payable	63,415,395
Due to State General Funds	901,899,778
Due to Enterprise Funds	3,854,937
Due to Pension Trust Funds	43,965,129
Due to Other Accounts	63,928,312
Due to Local Governments	244,299,483
Due to Other Entities	8,998,279
Amount to be Apportioned	259,114
TOTAL LIABILITIES	<u><u>\$1,331,221,329</u></u>

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

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

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

A. Reporting Entity

The Oklahoma Tax Commission, as established under 68 O.S. § 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 Agency is involved only in governmental activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues.

Fund Financial Statements:

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

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.

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 agency's four major special revenue funds include:

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

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

Film Rebate Fund - The fund's purpose is to reimburse film companies for 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 Agency. The maximum commitments from the Fund each fiscal year is \$5 million.

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

In the fund financial statements all governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements

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, 2014, 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.

Accounts Payable

Prior to FY14 the Oklahoma Tax Commission calculated accounts payable and encumbrances payable to arrive at total accounts payable at year end utilizing a review process of a system generated encumbrance report as of August 31 and accounts payable payments made during July and August following the close of the fiscal year. As of June 30, 2014 payables were determined following a review of July and August payments as in the past. However a departure from the previous methodology occurred when the encumbrance payable report was not available to management. Management calculated existing encumbrances by utilizing a report of open purchase orders as of June 30 and subtracting July and August payable payments from that balance to arrive at an August 31 open encumbrance list. This list was reviewed to determine which encumbrances were payable for FY14. This amount was added to the July and August accounts payable payments to arrive at total payables as of June 30.

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, 2014, were made in the amount of \$174,451. Total amount outstanding at June 30, 2014, is \$3,100,193 of which \$2,895,829 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 10 for additional information.

E. Program Revenues

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

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.

F. Transfer In/Transfer Out

Transfers in were comprised of \$25.5 million appropriated to the Ad Valorem Reimbursement Fund per SB 2127, Section 133.

Transfers out of \$7 million from the Oklahoma Tax Commission and Office of Management and Enterprise Services Joint Computer Enhancement Fund; \$10 million from the Oklahoma Tax Commission Revolving fund and \$5 million from the Oklahoma Tax Commission Reimbursement Fund to the Special Cash fund of the Oklahoma State Treasury were authorized by the FY15 annual appropriations bill, SB 2127, Section 148-150. Transfer out of \$11.2 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 occurred in July 2013 as authorized by the FY14 annual appropriations bill, HB 2301, Section 136. 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 \$12.6 million from the Joint Computer Enhancement Fund.

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 2014 made a 3.5% contribution on wages. State agencies contributed 16.5% of active members' monthly salaries for fiscal year 2014. Contributions from the agency for fiscal years 2012, 2013 and 2014 totaled \$5,057,609, \$4,827,834 and \$4,780,653 respectively, equal the established required contributions for each year.

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, 2014, all cash and investments under the control of the State Treasurer were collateralized in accordance with 62 O.S. § 72.3, titled, "Security for Public Deposits Act."

A. Deposits

As of June 30, 2014, 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. Treasury Bills, Notes and Bonds	No Limit	No Limit	10 Years	AAA
U.S. Government Agency Securities	50.0%	35.0%	10 years	AAA
U.S. Government Agency Mortgage Backed Securities	45 %	No Limit	7 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 Bonds	2.5%	2.5%	5 Years	A-/A3 or better

Investments for governmental and fiduciary funds at June 30, 2014, by investment type, are listed below:

	<u>Carrying Amount</u>	<u>Reported Amount/ Fair Value</u>
Repurchase Agreements:		
<u>Governmental Funds</u>	\$ 5,085,047	\$ 5,085,047
<u>Agency Fund</u>	\$408,693,339	\$408,693,339

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, 2014 was as follows:

General Government Activities:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets – Net</u>
Beginning Balance	\$22,143,833	(\$ 9,995,629)	\$ 12,148,204
Increases	6,694,509	(2,714,614)	3,979,895
Decreases	(170,813)	170,813	
Ending Balance	<u>\$ 28,667,529</u>	<u>(\$ 12,539,430)</u>	<u>\$ 16,128,099</u>

Current year depreciation expense related to the General Government Activities was \$2,714,614.

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 2014 was \$2,850,875. The majority of leases are from one to five years with renewable lease terms and contain a 30 day cancellation clause.

6. Income Tax Refunds Payable

During fiscal year 2014 individual and corporate income tax refunds have experienced the full effect of HB 1086. As a result of issuing individual and corporate income tax refund payments electronically, the Oklahoma Tax Commission has refunds that are approved but are waiting on the receipt of banking information. This situation has created a new class of tax refunds payable that had not occurred prior to the conversion of individual and corporate income tax to the Oklahoma Tax Commission integrated tax system.

7. 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, 2014, the balances are included.

8. 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 of the State’s Office of Management and Enterprise Services 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 of the State's Office of Management and Enterprise Services 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 of the State's Office of Management and Enterprise Services 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 of the State's Office of Management and Enterprise Services.

9. Long-Term Obligations

Long-term obligations at June 30, 2014, 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	\$2,732,710	\$2,371,298	\$2,208,179	2,895,829

The amount due within 1 year is \$204,364.

10. Governmental Fund – Fund Balance Reserves and Designations

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

	<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	\$53,710					\$53,710
Prepaid Postage	517,598					517,598
Restricted						
License Plate Program		\$1,000				1,000
Used Tire Recycling Indemnity Fund			\$3,714,992			3,714,992
Committed						
Computer Enhancement Fund	13,472,428					13,472,428
Film Rebate Fund				\$1,268,838		1,268,838
Assigned						0
Unassigned	5,742,468				(\$16,976,997)	(11,234,529)
Total Fund Balances	<u>\$19,786,204</u>	<u>\$1,000</u>	<u>\$3,714,992</u>	<u>\$1,268,838</u>	<u>(\$16,976,997)</u>	<u>\$7,794,037</u>

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

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

Restricted fund balance represents the amount due to a state entity sponsoring a license plate program as authorized by 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 amounts committed under the Film Rebate Fund.

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

11. Litigation and Contingencies

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

Claim for Refund of Corporate Income Tax

Claimant requested a corporate income tax refund that is barred by state statute. The General Counsel has deemed the payment of the \$600,902 refund as probable due to the Federal statute of limitations remaining open allowing the request by the taxpayer of the state refund.

Sales Tax Exemption on the Purchase of Utilities

The ruling in this case upheld the sales tax exemption on the purchase of utilities by the taxpayer. The General Counsel has deemed that it is probable that the taxpayer is entitled to a refund of sales tax. The claim for refund in this case was for approximately \$1 million; however, an estimate of the refund cannot be made.

12. Fund Balance Deficit

The Ad Valorem Reimbursement Fund is stated at a deficit fund balance at June 30, 2014. 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. \$21,144,957 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 agency.

**OKLAHOMA TAX COMMISSION
OTHER SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget -
	Original	Final	(See Note A)	Positive (Negative)
Budgetary Fund Balance, July 1	\$43,176,817	\$43,176,817	\$43,176,817	\$0
Resources (inflows)				
Taxes	24,860,000	26,640,777	28,620,803	1,980,026
Other Revenues	13,191,000	15,472,332	33,054,642	17,582,310
State Appropriations	46,915,944	46,915,944	46,915,944	0
Amount Available for Appropriation	<u>128,143,761</u>	<u>132,205,870</u>	<u>151,768,206</u>	<u>19,562,336</u>
Charges to Appropriations (outflows)				
Salaries and Benefits	48,148,005	48,648,005	45,873,838	2,774,167
Professional Services	12,824,976	12,824,976	10,124,347	2,700,629
Inter-Agency Personal Services	31,900	31,900	16,686	15,214
Travel	828,500	828,500	748,726	79,774
Miscellaneous Administrative	5,159,200	5,159,200	4,257,874	901,326
Rent of Buildings and Equipment	3,827,500	3,827,500	2,864,688	962,812
Maintenance	4,812,160	4,812,160	5,798,565	(986,405)
Supplies	4,248,980	4,248,980	4,378,506	(129,526)
Equipment	8,609,832	8,609,832	11,086,333	(2,476,501)
Buildings - Renovation	0	0	6,937	(6,937)
Other Expenditures	0	0	38,896	(38,896)
Payments to Local Governments	38,000	38,000	611,562	(573,562)
Total Charges to Appropriations	<u>88,529,053</u>	<u>89,029,053</u>	<u>85,806,958</u>	<u>3,222,095</u>
Budgetary Fund Balance - June 30	<u>\$39,614,708</u>	<u>\$43,176,817</u>	<u>\$65,961,248</u>	<u>\$22,784,431</u>

The notes to the Other 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, 2014**

	Budgeted Amounts		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	1,000,000	1,000,000	0	1,000,000
Total Charges to Appropriations	1,000,000	1,000,000	0	1,000,000
Budgetary Fund Balance - June 30	\$0	\$0	\$0	\$0

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

**BUDGETARY COMPARISON SCHEDULE - LICENSE PLATE PROGRAM FUND
Supplies**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$940	\$940	\$940	\$0
Resources (inflows)				
Taxes	20,000	20,000	4,280	(15,720)
Amount Available for Appropriation	20,940	20,940	5,220	(15,720)
Charges to Appropriations (outflows)				
Other Expenditures	20,000	20,000	4,180	15,820
Total Charges to Appropriations	20,000	20,000	4,180	15,820
Budgetary Fund Balance - June 30	\$940	\$940	\$1,040	\$100

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

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - USED TIRE RECYCLING INDEMNITY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$1,350,151	\$1,350,151	\$1,350,151	\$0
Resources (inflows)				
Tire Fees	8,195,000	8,000,000	9,223,663	1,223,663
Other Revenues	5,000		91,485	91,485
Amount Available for Appropriation	<u>9,550,151</u>	<u>9,350,151</u>	<u>10,665,299</u>	<u>1,315,148</u>
Charges to Appropriations (outflows)				
Waste Tire Reimbursements	8,000,000	8,000,000	6,932,066	1,067,934
Other Expenditures				0
Transfers to Other Funds				0
Total Charges to Appropriations	<u>8,000,000</u>	<u>8,000,000</u>	<u>6,932,066</u>	<u>1,067,934</u>
Budgetary Fund Balance - June 30	<u>\$1,550,151</u>	<u>\$1,350,151</u>	<u>\$3,733,233</u>	<u>\$2,383,082</u>

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

**BUDGETARY COMPARISON SCHEDULE - FILM REBATE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$4,925,991	\$4,925,991	\$4,925,991	\$0
Resources (inflows)				
Taxes	5,000,000	5,000,000	1,560,534	(3,439,466)
Transfers In				0
Other Revenue				0
Amount Available for Appropriation	<u>9,925,991</u>	<u>9,925,991</u>	<u>6,486,525</u>	<u>(3,439,466)</u>
Charges to Appropriations (outflows)				
Film Rebate Payments	5,000,000	5,000,000	5,217,687	(217,687)
Transfers to Other Funds				0
Total Charges to Appropriations	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,217,687</u>	<u>(217,687)</u>
Budgetary Fund Balance - June 30	<u>\$4,925,991</u>	<u>\$4,925,991</u>	<u>\$1,268,838</u>	<u>(\$3,657,153)</u>

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

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - AD VALOREM REIMBURSEMENT FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	(\$10,976,255)	(\$10,976,255)	(\$10,976,255)	\$0
Resources (inflows)				
Taxes	31,500,000	38,833,276	32,813,672	(6,019,604)
Transfers In		25,523,000	25,523,000	0
Other Revenue			110,648	110,648
Amount Available for Appropriation	<u>20,523,745</u>	<u>53,380,021</u>	<u>47,471,065</u>	<u>(5,908,956)</u>
Charges to Appropriations (outflows)				
County Reimbursements	18,761,224	64,356,276	64,356,276	0
Transfers to Other Funds				0
Total Charges to Appropriations	<u>18,761,224</u>	<u>64,356,276</u>	<u>64,356,276</u>	<u>0</u>
Budgetary Fund Balance - June 30	<u>\$1,762,521</u>	<u>(\$10,976,255)</u>	<u>(\$16,885,211)</u>	<u>(\$5,908,956)</u>

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

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO OSI

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 2014 appropriation line items of the State were within their authorized spending level.

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

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

Note B. Excess of Expenditures Over Appropriations

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

See independent auditor's report.

**OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO OSI**

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

	General Fund	License Plate Program Fund	Waste Tire Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund
Sources/inflows of resources					
Actual amounts (budgetary basis) "Resources (inflows)" from the budgetary comparison schedule	\$108,591,389	\$4,280	\$9,315,148	\$1,560,534	\$32,924,320
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.	(369,958)	(40)	(18,240)	0	(91,786)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$61,305,487</u>	<u>\$4,240</u>	<u>\$9,296,908</u>	<u>\$1,560,534</u>	<u>\$32,832,534</u>
Uses/outflows of resources					
Actual amounts (budgetary basis) " total charges to appropriations" from the budgetary comparison schedule	\$85,806,958	\$4,180	\$6,932,066	\$5,217,687	\$64,356,276
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>\$85,806,958</u>	<u>\$4,180</u>	<u>\$6,932,066</u>	<u>\$5,217,687</u>	<u>\$64,356,276</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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Oklahoma Tax Commission as of and for the year ended June 30, 2014, 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 December 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency (14-695-001).

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 Standard*.

The Oklahoma Tax Commission's Response to Findings

The Oklahoma Tax Commission's response to the finding identified in our audit is 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.

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

December 16, 2014

SCHEDULE OF FINDINGS

Reference Number: 14-695-001

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 Form 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.”

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

The following OMES Form 11/11A revenue reconciliations were not completed in a timely manner:

- Two of the four months tested for the Commission’s account number 1695S;
- Three of the four months tested for the Commission’s account number 1695 (PeopleSoft account number 79901);
- Four of the four months tested for the Commission’s account number 1695C.

Completion of the reconciliations ranged from 45 days to one year.

Cause/Effect: The Commission does not have adequate internal controls in place to ensure OMES Form 11/11A reconciliations are performed in a timely manner. The Commission did not comply with the above stated requirements for the reconciliations. 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 monthly reconciliations are performed timely.

Agency Management Response: The Commission does have proper internal controls and procedures in place for timely reconciliation of OMES Form 11/11A. During FY14 the Commission had many variables that impeded our timely reconciliation of the agency special and clearing accounts mentioned above. The variables within the control of the Commission have been addressed with the addition of reconciliation staff and continued evaluation of existing processes and procedures as they apply to a

changing reporting environment. The variables outside the control of the Commission relate to OTC's reliance on data and reports generated by other state agencies. Beginning with the July 2014 reconciliations, all reconciliations have been reviewed and signed within the OMES 20-day submission guidelines.



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