

OKLAHOMA STATE AUDITOR  
AND INSPECTOR

AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2016

# Table of Contents

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|   |    |
|---|----|
| Independent Auditor's Report .....  | 1  |
| Management's Discussion and Analysis .....  | 3  |
| Statement of Net Position .....   | 7  |
| Statement of Revenues, Expenses, and Changes in Net Position .....  | 8  |
| Statement of Cash Flows .....   | 9  |
| Footnotes to the Financial Statements .....   | 10 |
| Required Supplementary Information .....  | 21 |
| Independent Auditor's Report on Internal Control over Financial Reporting<br>and on Compliance and Other Matters based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing Standards</i> ..... | 22 |



## INDEPENDENT AUDITOR'S REPORT

State of Oklahoma  
Oklahoma State Auditor and Inspector  
Oklahoma City, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Auditor and Inspector of the State of Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Oklahoma State Auditor and Inspector of the State of Oklahoma's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State Auditor and Inspector of the State of Oklahoma as of June 30, 2016, and the changes in financial position and cash flows thereof 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 State Auditor and Inspector of the State of Oklahoma are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the State of Oklahoma that is attributable to the transactions of the Oklahoma State Auditor and Inspector of the State of Oklahoma. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with the 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 and pension schedules and related ratios on pages 3-6 and 21 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 January 25, 2017, on our consideration of the Oklahoma State Auditor and Inspector of the State of Oklahoma'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 State Auditor and Inspector of the State of Oklahoma's internal control over financial reporting and compliance.

*HBC CPAs & Advisors*

Oklahoma City, Oklahoma  
January 25, 2017

## MANAGEMENT’S DISCUSSION AND ANALYSIS SUMMARY

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The management of the Oklahoma State Auditor and Inspector (SAI) is pleased to provide the accompanying financial statements to the citizens of the State of Oklahoma and other report users to demonstrate its accountability and communicate SAI’s financial condition and activities for the fiscal year ended June 30, 2016. Management of SAI is responsible for the fair presentation of these financial statements, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of contracts.

### *Financial Highlights*

For the year ended June 30, 2016 the following financial results are considered noteworthy by management.

- SAI’s operating revenue increased \$739,946 or 10.56%, over the prior year. The increase in revenue is due to greater efficiencies in completing audits.
- SAI’s operating expenses decreased (\$130,269), or -1.35%, over the prior year. The decline in operating expenses is due to additional cost saving measures being implemented.
- SAI’s appropriations decreased (\$1,075,553), or -24.21%, over the prior year. The decline was due to the downturn in the State’s economy and a reduced budget for the State as a whole.

## USING THIS REPORT

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The financial statements are presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board (GASB) Statement No. 34.

### *SAI’s Reporting Entity*

The financial statements include all activities for which the SAI is fiscally responsible. These activities, defined as SAI’s reporting entity, are operated within a single government agency. SAI’s financial statements are reported as a part of the financial presentation of the State of Oklahoma.

### *Overview of SAI’s Reporting Entity Presentation*

The financial statements consist of three parts as follows:

**Financial Statements:** The financial statements report information, on the accrual basis of accounting and economic resources measurement focus, about SAI as a whole using accounting methods similar to those used by private-sector companies. The “Statement of Net Position” includes all of SAI’s assets and liabilities as of the fiscal year presented. All of the current year revenues and expenses are accounted for in the “Statement of Revenues, Expenses and Changes in Net Position” regardless of when cash is received or paid.

**Notes to the Financial Statements:** The notes to the financial statements are an integral part of these financial statements and provide expanded explanation and detail regarding the information reported in the statements.

(Unaudited)

**Required Supplementary Information:** The Management Discussion and Analysis represents financial information required to be presented by GASB. Such information provides users of this report with additional data that supplements the financial statements and notes (collectively referred to as “the basic financial statements”). The Pension Schedules and Related Ratios are required by GASB 68. These schedules provide users of the report with additional information regarding the pension in which SAI participates.

## **AN ECONOMIC-BASED FINANCIAL ANALYSIS OF SAI**

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### **Management’s Discussion and Analysis on the Economic Basis Financial Condition:**

SAI uses resources to accomplish its mission of assisting other governmental entities to safeguard public assets.

A review of the “Statement of Net Position” and the “Statement of Revenues, Expenses and Changes in Net Position” reports allow a comprehensive assessment of SAI’s financial health. However, in order to assess its overall financial condition, the reader should consider other non-financial factors such as SAI’s resource base and the status of pending projects.

### **Analysis of Financial Accounts**

The tables on the following pages provide SAI’s Net Position information as of the end of fiscal years 2016 and 2015:

(Unaudited)

|   | 2016               | 2015               | % Change       |
|---|--------------------|--------------------|----------------|
| <b>Assets</b>   |                    |                    |                |
| <b>Current Assets:</b>  |                    |                    |                |
| Cash  | \$879,371          | \$959,780          | -8.38%         |
| Cash-Restricted   | 18,302             | 24,064             | -23.94%        |
| Due From Federal Government<br>Accounts Receivable, Net of<br>Allowance | 68,931             | 79,526             | -13.32%        |
| <b>Total Current Assets</b>   | <u>\$2,080,532</u> | <u>\$2,128,287</u> | <u>-2.24%</u>  |
| <b>Noncurrent Assets:</b>   |                    |                    |                |
| Notes Receivable  | \$229,080          | \$121,068          | 89.22%         |
| Capital Assets, Net of Accumulated<br>Depreciation                      | 54,340             | 54,345             | -0.01%         |
| <b>Total Noncurrent Assets</b>  | <u>\$283,420</u>   | <u>\$175,413</u>   | <u>61.57%</u>  |
| <b>Total Assets</b>   | <u>\$2,363,952</u> | <u>\$2,303,700</u> | <u>2.62%</u>   |
| <b>Deferred Outflows of Resources:</b>                                  |                    |                    |                |
| Deferred Outflows - Pensions  | \$1,958,577        | \$1,036,641        | 88.93%         |
| <b>Liabilities</b>  |                    |                    |                |
| <b>Current Liabilities:</b>   |                    |                    |                |
| Accounts Payable  | \$100,008          | \$165,263          | -39.49%        |
| Accrued Wages Payable   | 28,999             | 5,115              | 466.94%        |
| Compensated Absences-Payable<br>within one year                         | 485,133            | 465,894            | 4.13%          |
| <b>Total Current Liabilities</b>  | <u>\$614,140</u>   | <u>\$636,272</u>   | <u>-3.48%</u>  |
| <b>Noncurrent Liabilities</b>   |                    |                    |                |
| Compensated absences-payable after<br>one year                          | \$102,489          | \$92,532           | 10.76%         |
| Net Pension Liability   | \$1,256,765        | \$677,838          | 85.41%         |
| <b>Total Noncurrent Liabilities</b>                                     | <u>\$1,359,254</u> | <u>\$770,370</u>   | <u>76.44%</u>  |
| <b>Total Liabilities</b>  | <u>\$1,973,394</u> | <u>\$1,406,642</u> | <u>40.29%</u>  |
| <b>Deferred Inflows of Resources:</b>                                   |                    |                    |                |
| Deferred Inflows - Pensions   | \$1,747,357        | \$2,489,721        | -29.82%        |
| <b>Net Position</b>   |                    |                    |                |
| Restricted for OSU  | \$18,302           | \$24,064           | -23.94%        |
| Invested in Capital Assets  | 54,340             | 54,345             | -0.01%         |
| Unrestricted  | 529,136            | (634,431)          | 183.40%        |
| <b>Total Net Position</b>   | <u>\$601,778</u>   | <u>\$(556,022)</u> | <u>208.23%</u> |

(Unaudited)

| <b>Operating Revenues:</b>                   | <b>2016</b>        | <b>2015</b>         | <b>% Change</b> |
|--|--------------------|---------------------|-----------------|
| Filing Fees                                  | \$157,365          | \$159,085           | -1.08%          |
| Audit fees                                   | 7,283,847          | 6,532,870           | 11.50%          |
| Other fees                                   | 74,053             | 83,364              | -11.17%         |
| <b>Total Operating Revenues</b>              | <b>\$7,515,265</b> | <b>\$6,775,319</b>  | <b>10.92%</b>   |
| <b>Operating Expenses:</b>                   |                    |                     |                 |
| Personnel Services                           | \$8,501,781        | \$8,431,293         | 0.84%           |
| Travel                                       | 171,284            | 183,673             | -6.75%          |
| Administrative                               | 742,765            | 788,069             | -5.75%          |
| Equipment                                    | 65,630             | 213,395             | -69.24%         |
| Depreciation                                 | 15,362             | 10,661              | 44.10%          |
| <b>Total Operating Expenses</b>              | <b>\$9,496,822</b> | <b>\$9,627,091</b>  | <b>-1.35%</b>   |
| <b>Operating Income (Loss)</b>               | <b>(1,981,557)</b> | <b>(2,851,772)</b>  | <b>30.51%</b>   |
| <b>Non-operating Revenues (Expenses):</b>    |                    |                     |                 |
| Appropriations                               | \$3,367,138        | \$4,442,691         | -24.21%         |
| Pass-through OSU expenses                    | (249,088)          | (288,913)           | 13.78%          |
| <b>Total Non-operating Revenue(Expenses)</b> | <b>\$3,118,050</b> | <b>\$4,153,778</b>  | <b>-24.93%</b>  |
| <b>Change in Net Position</b>                | <b>\$1,136,493</b> | <b>\$1,302,006</b>  | <b>-12.71%</b>  |
| <b>Total Net Position-Beginning</b>          | <b>(534,715)*</b>  | <b>(1,858,028)</b>  | <b>71.22%</b>   |
| <b>Total Net Position-Ending</b>             | <b>\$601,778</b>   | <b>\$(556,022)*</b> | <b>208.23%</b>  |

*\*Beginning Net Position was restated to correct an error – see footnote #9*

## CONTACTING SAI

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This report is designed to provide citizens, taxpayers, registrants, and creditors with a general overview of the SAI's finances and to demonstrate accountability for the resources it receives. If you have questions about this report or need additional financial information, contact SAI by mail at 2300 North Lincoln Boulevard, Room 100, State Capitol Building, Oklahoma City, OK 73105, by telephone at (405) 521-3495, or by e-mail at lhodges@sai.ok.gov.

(Unaudited)

OKLAHOMA STATE AUDITOR AND INSPECTOR  
STATEMENT OF NET POSITION  
JUNE 30, 2016

**ASSETS**

Current assets:

|   |             |
|---|-------------|
| Cash  | \$879,371   |
| Cash-Restricted                                       | 18,302      |
| Due from federal government                           | 68,931      |
| Accounts receivable, net of allowance<br>of \$103,369 | 1,113,928   |
| Total current assets                                  | \$2,080,532 |

Noncurrent assets:

|  |             |
|--|-------------|
| Notes Receivable   | \$229,080   |
| Capital Assets, net of accumulated<br>depreciation of \$39,536 | 54,340      |
| Total noncurrent assets  | \$283,420   |
| Total assets   | \$2,363,952 |

**DEFERRED OUTFLOWS OF RESOURCES**

|                             |             |
|-----------------------------|-------------|
| Deferred Outflows - Pension | \$1,958,577 |
| Total deferred outflows     | \$1,958,577 |

**LIABILITIES**

Current liabilities:

|  |           |
|--|-----------|
| Accounts payable                             | \$100,008 |
| Accrued wages payable                        | 28,999    |
| Compensated absences-payable within one year | 485,133   |
| Total current liabilities                    | \$614,140 |

Noncurrent liabilities:

|   |             |
|---|-------------|
| Compensated absences-payable after one year | \$102,489   |
| Net Pension Liability                       | \$1,256,765 |
| Total noncurrent liabilities                | \$1,359,254 |
| Total liabilities                           | \$1,973,394 |

**DEFERRED INFLOWS OF RESOURCES**

|                            |             |
|----------------------------|-------------|
| Deferred Inflows - Pension | \$1,747,357 |
| Total deferred inflows     | \$1,747,357 |

**NET POSITION**

|                            |           |
|----------------------------|-----------|
| Restricted for OSU         | \$18,302  |
| Invested in capital assets | 54,340    |
| Unrestricted               | 529,136   |
| Total net position         | \$601,778 |

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

OKLAHOMA STATE AUDITOR AND INSPECTOR  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

|  |                          |
|--|--------------------------|
| <b>Operating revenues:</b>               |                          |
| Filing Fees                              | \$ 157,365               |
| Audit Fees                               | 7,283,847                |
| Other Fees                               | 74,053                   |
| Total operating revenues                 | <u>7,515,265</u>         |
| <b>Operating expenses:</b>               |                          |
| Personnel Services                       | 8,501,781                |
| Travel                                   | 171,284                  |
| Administrative                           | 742,765                  |
| Equipment                                | 65,630                   |
| Depreciation                             | 15,362                   |
| Total operating expenses                 | <u>9,496,822</u>         |
| <b>Operating income (loss)</b>           | (1,981,557)              |
| <b>Nonoperating revenues (expenses):</b> |                          |
| Appropriations                           | 3,367,138                |
| Pass-through OSU expenses                | (249,088)                |
| Total nonoperating revenue (expenses)    | <u>3,118,050</u>         |
| <b>Change in net position</b>            | 1,136,493                |
| <b>Total net position - beginning</b>    | <u>(534,715)</u>         |
| <b>Total net position - ending</b>       | <u><u>\$ 601,778</u></u> |

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

OKLAHOMA STATE AUDITOR AND INSPECTOR  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |                      |
|--|----------------------|
| Receipt of filing fees                           | \$157,365            |
| Receipt of audit fees                            | 7,137,389            |
| Receipt of other fees                            | 74,083               |
| Payments for personnel services                  | (9,521,928)          |
| Payments for travel                              | (176,238)            |
| Payments for administrative                      | (775,605)            |
| Payments for equipment                           | (93,524)             |
| Net cash provided (used) by operating activities | <u>(\$3,198,458)</u> |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|   |                    |
|---|--------------------|
| Receipt of appropriations                                   | \$3,367,138        |
| Pass-through payments to OSU                                | (254,851)          |
| Net cash provided (used) by noncapital financing activities | <u>\$3,112,287</u> |

Net increase in cash (\$86,171)

|   |                         |
|---|-------------------------|
| Cash July 1, 2015 (including \$24,064 reported in restricted cash)  | 983,844                 |
| Cash June 30, 2016 (including \$18,302 reported in restricted cash) | <u><u>\$897,673</u></u> |

**Reconciliation of operating income to net cash provided (used) by operating activities:**

|  |                             |
|--|-----------------------------|
| Operating income (loss)  | <u>(\$1,981,557)</u>        |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: |                             |
| (Increase) decrease in due from federal government   | 10,595                      |
| (Increase) decrease in accounts receivable   | (49,011)                    |
| (Increase) decrease in notes receivable  | (108,012)                   |
| (Increase) decrease in capital assets  | 5                           |
| (Increase) decrease in deferred outflows-pensions  | (900,629)                   |
| Increase (decrease) in accounts payable  | (59,493)                    |
| Increase (decrease) in accrued wages payable   | 23,884                      |
| Increase (decrease) in compensated absences payable in one year                                | 19,240                      |
| Increase (decrease) in compensated absences payable after one year                             | 9,957                       |
| Increase (decrease) in deferred inflows - pensions   | (742,364)                   |
| Increase (decrease) in net pension liability   | 578,927                     |
| Total adjustments  | <u>(1,216,901)</u>          |
| Net cash provided by operating activities  | <u><u>(\$3,198,458)</u></u> |

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

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

The basic financial statements of the Oklahoma State Auditor and Inspector (the Office) have been prepared in conformity with the accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below.

**Notes to the Basic Financial Statements**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Constitution of the State of Oklahoma provides under Article VI, Section 19 for a State Auditor and Inspector. Prior to 1979, the State maintained separate Offices of the State Auditor and the State Examiner and Inspector. However, effective January 8, 1979, a constitutional amendment merged both offices creating the Office of the Oklahoma State Auditor and Inspector (the Office).

The Office is a part of the primary government (State of Oklahoma), and its financial data is included in the State's Comprehensive Annual Financial Report. The accompanying financial statements are intended to present the financial position and results of operations of only that portion of governmental fund activities of the State of Oklahoma that is attributable to the Office.

The Office has the following primary duties as specified in the Constitution and Statutes of Oklahoma, as well as other duties not listed here:

- Examine the books and records of the State Treasurer and all county treasurers;
- Examine the books and records of state agencies, boards, and commissions;
- Maintain copies of audit reports of public trusts;
- Maintain a repository for audits and budgets filed by counties, school districts, and towns;
- Provide fiscal support for the Pension Commission;
- Provide fiscal support for the Board of Equalization.

The Office is funded by the Legislature of the State of Oklahoma (the Legislature) through appropriations to perform certain of its constitutional and statutory functions and by various fees charged, such as those for auditing and filing audit reports.

**B. Basis of Presentation and Accounting**

The Office accounts for its activities within a proprietary fund type. The Office's activities meet the definition of an enterprise fund because it is the intent of the Agency to recover, primarily through user charges, the cost of providing goods or services to the general public.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. Proprietary fund operating

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. The accrual basis of accounting is utilized by the proprietary fund. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Assets, Liabilities, and Equity**

Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. The Office's cash is pooled with the cash of all other state agencies; this pool of cash is deposited in banks or invested by the State Treasurer in accordance with Oklahoma Statutes. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution.

The Office, for the purposes of reporting cash flows, considers cash equivalents to include all highly liquid investments with an original maturity of three months or less.

Cash and Net Assets – Restricted

Each year, the Legislature appropriates funds to the Office to be paid to Oklahoma State University (OSU) for the County Training Program, administered by the Commission on County Government Personnel Education and Training, mandated by 19 O.S., §130.1 et seq. The Office has no administrative duties related to this program. The Legislature appropriated \$249,088 for this program in fiscal year 2016. These funds are legally restricted; therefore, the balance remaining at June 30, 2016 has been shown as restricted cash and restricted net position on the *Statement of Net Position*.

Due from Federal Government

The Office is under contract with the Federal Department of the Interior to perform audits and related investigations of federal oil and gas leases located in Oklahoma in accordance with section 205 of the Federal Oil and Gas Royalty Act. The amounts presented are reimbursements receivable for work performed during May and June of fiscal year 2016.

Accounts Receivable

Accounts receivable consist of amounts due from state agencies, counties, school districts, cities, ambulance services, and various quasi-governmental entities in the State for audit services rendered by the Office. The amount presented is net of the allowance for doubtful accounts of \$103,369 for fiscal year 2016. The allowance for doubtful accounts consists of accounts outstanding for more than 120 days with no expectation to collect.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

The policy of the Office is to bill for the audit services rendered while the audit is in progress. Bills are submitted approximately once per month during the progression of the audit, with a final billing at completion.

Notes Receivable

Notes receivable consist of collectible accounts receivable that are not expected to be fully collected within one year.

Capital Assets

Capital assets are capitalized in the statement of net assets. Capital assets are reported at actual cost and net of accumulated depreciation. Capital assets are defined as assets with initial costs of \$5,000 or more and an expected useful life of five years or more. Depreciation is computed on the straight-line method over the estimated useful lives:

|                         |          |
|-------------------------|----------|
| Computer equipment      | 5 years  |
| Furniture and equipment | 10 years |

A half year's depreciation is taken in the year an asset is placed in service. When assets are disposed of, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded.

Deferred Inflows and Deferred Outflows

Deferred inflows and deferred outflows of resources represent amounts associated with pension differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions. Note 5 contains additional information on these items.

Accounts Payable

Accounts payable include all unpaid charges for services or goods incurred on or before June 30<sup>th</sup>. These payables represent amounts incurred in the ordinary course of business and are primarily owed to vendors.

Wages Payable

Wages Payable consists of all wages earned prior to June 30<sup>th</sup> that were not paid by June 30<sup>th</sup>.

Compensated Absences

Employees earn annual leave at the average rate of 10 hours per month for up to 5 years service, 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. Employees with up to 5 years service may accumulate to a maximum of 240 hours and employees with over five years service may accumulate to a maximum of 480 hours.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

Personnel Services

Personnel Services consists of all payroll and related costs (including regular and part-time salaries, longevity payments, retirement, and group insurance premiums), as well as payments for professional services (such as auditing fees, data processing services, and various other general services).

Pension Plan

The Office participates in a cost-sharing, multiple employer defined benefits pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deletions from the plan's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Income Taxes

The Office, as an integral part of the State, is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Note 2. Capital Assets**

Capital asset activity for the year ended June 30, 2016 was as follows:

|                   | <u>Equipment</u> | Accumulated<br><u>Depreciation</u> | <u>Capital Assets - Net</u> |
|-------------------|------------------|------------------------------------|-----------------------------|
| Beginning Balance | \$78,519         | (\$24,174)                         | \$54,345                    |
| Increases         | \$15,357         | (\$15,362)                         | (\$5)                       |
| Decreases         | 0                | 0                                  | 0                           |
| Ending Balance    | <u>\$93,876</u>  | <u>(\$39,536)</u>                  | <u>\$54,340</u>             |

**Note 3. Operating Leases**

The Office leases certain office space, equipment and vehicles which meet the criteria for operating leases. Payments under these operating leases for the 2016 fiscal year were approximately \$418,326. The vehicles are monthly leases and the various office space leases are one year renewable leases with varying effective dates. The copier leases are either 3 year

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

or 5 year leases depending on the machine and have varying effective dates. The future minimum lease payments for the office space and copier leases are as follows:

|       |                 |
|-------|-----------------|
| 2017  | \$48,885        |
| 2018  | 8,085           |
| 2019  | 7,307           |
| 2020  | 7,307           |
| 2021  | 6,319           |
| Total | <u>\$77,903</u> |

**Note 4. Risk Management**

As part of the State of Oklahoma primary government, the Office’s risk of losses to which they are exposed is managed through the State’s risk management activities. The Office is subject to risks of loss from tort claims, property loss, health claims, and workers’ compensation claims. In general, the State is self insured for health care claims, workers’ compensation claims, tort claims, and property losses. These services are provided by the certain departments of the State’s General Fund and two state component units. The Office is at no financial risk of loss from these types of risks.

**Note 5. Pension Plan Participation**

**A. Plan Description**

The Office participates in the Oklahoma Public Employees Retirement Plan, a cost-sharing multiple employer defined benefit retirement plan administered by the Oklahoma Public Employees Retirement System. A separately issued independent auditor’s report may be obtained from the Oklahoma Public Employees Retirement System (OPERS), P.O. Box 53007 Oklahoma City, OK 73152-3007 or can be obtained at [www.opers.ok.gov](http://www.opers.ok.gov) . The pension benefit provisions were established by statute and benefit provisions are amended by the State Legislature. Cost-of-living adjustments are provided to plan members at the discretion of the State Legislature. This plan applies only to state employees who were employed by the Office before November 1, 2015, or had prior participation in the OPERS defined benefit plan. At June 30, 2016 only two Office employees were not participating in this defined benefit retirement plan. These two employees were instead members of the defined contribution retirement plan discussed in section L of this footnote.

**B. Benefits Provided**

|                            |   |
|----------------------------|---|
| a. Eligible to Participate | <p>All permanent employees of the State of Oklahoma, and any other employer such as a county, county hospital, city or town, conservation districts, circuit engineering districts, and any trust in which a county, city, or town participates and is the primary beneficiary, are eligible to join if:</p> <ul style="list-style-type: none"> <li>• The employee is not eligible for or participating in another retirement system authorized under Oklahoma law, is covered by Social Security and not participating in the U.S. Civil Service Retirement</li> </ul> |
|----------------------------|---|

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

|                                   |   |
|-----------------------------------|---|
|                                   | <p>System.</p> <ul style="list-style-type: none"> <li>The employee is scheduled for 1,000 hours per year and salary is not less than the hourly rate of the monthly minimum wage for state employees (for employees of local government employers, not less than the hourly rate of the monthly minimum wage for such employees).</li> </ul>  |
| b. Period Required to Vest        | 8 years of credited service.  |
| c. Eligibility for Distribution   | <p>Normal retirement :</p> <p>Member before November 1, 2011 one of the following:</p> <ul style="list-style-type: none"> <li>Age 62 with 6 years of credited service. For elected officials age 60.</li> <li>80 points- The sum of age and years of service equals 80 if member before July 1, 1992.</li> <li>90 points- The sum of age and years of service equals 90 if member after July 1, 1992.</li> </ul> <p>Member after November 2, 2011 one of the following:</p> <ul style="list-style-type: none"> <li>Age 65 with 6 years of credited service. For elected officials age 65 with 8 years of elected service.</li> <li>90 points – At least age 60 and the sum of age and years of service equals 90.</li> </ul> <p>Disability benefit after 8 years of service, provided member qualifies for disability benefits from the Social Security Administration or the Railroad Retirement Board.</p> <p>Death benefit of \$5,000 payable upon death of retiree to the designated beneficiary.</p> |
| d. Benefit Determination Base     | Final average salary – member before July 1, 2013, the average compensation during the highest 3 years out of the last 10 years of service (including highest 3 longevity payments). Member after July 1, 2013, the average highest 5 out of the last 10 years of service (including highest 5 longevity payments).   |
| e. Benefit Determination Methods: | <ul style="list-style-type: none"> <li>Normal Retirement</li> </ul> <p>2% of member’s final average salary multiplied by the years of credited service.</p> <ul style="list-style-type: none"> <li>Disability Retirement</li> </ul> <p>Same as normal retirement</p>  |
| f. Benefit Authorization          | Benefits are established in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 901 through 935 as amended.  |
| g. Form of Benefit Payments       | Life Annuity, Joint and 50% Survivor, Joint and 100% Survivor Annuity, Life Annuity with a minimum of 120 monthly payments, and Medicare Gap Benefit option.  |

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

**C. Contributions**

The authority to set and amend contribution rates is established by ordinance for OPERS defined benefit plan in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 908. The contribution rates for the current fiscal year have been made in accordance with Oklahoma statute. The rate for state employees is 3.5% of their covered salary and 16.5% of covered payroll for state agencies for 2016, 2015 and 2014. Contributions to OPERS by the Office were as follows:

| <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-------------|-------------|-------------|
| \$1,015,624 | \$1,019,159 | \$1,031,859 |

**D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the Office reported a liability of \$1,256,765 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Office's proportion of the net pension liability was based on the Office's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2015. Based upon this information, the Office's proportion was 0.34940826%.

For the year ended June 30, 2016, the Office recognized pension expense of (\$48,442). At June 30, 2016, the Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred Outflows of<br/>Resources</b> | <b>Deferred Inflows of<br/>Resources</b> |
|---|---|--|
| Difference between expected and actual experience   |   | \$139,736                                |
| Changes in assumptions  | \$19,552                                  |  |
| Net difference between projected and actual earnings on pension plan investments                            | 1,037,546                                 | \$1,607,621                              |
| Changes in proportion and differences between Agency contributions and proportionate share of contributions | (\$114,146)                               |  |
| Office contributions subsequent to the measurement date   | \$1,015,624                               |  |
|   | <u>\$1,958,577</u>                        | <u>\$1,747,357</u>                       |

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

Reported deferred outflows of resources of \$1,015,624 resulting from the Office's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

|      | <b>Deferred Outflows</b> | <b>Deferred Inflows</b> |
|------|--------------------------|-------------------------|
| 2017 | \$ 222,440               | \$ (647,716)            |
| 2018 | 207,690                  | (562,380)               |
| 2019 | 253,436                  | (537,261)               |
| 2020 | 259,387                  |                         |
|      | <u>\$ 942,953</u>        | <u>\$(1,747,357)</u>    |

**E. Actuarial Methods and Assumptions**

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2015, using the following actuarial assumptions:

|  |  |
|--|--|
| Investment return:   | 7.5% compounded annually net of investment expense and including inflation   |
| Salary increases:  | 4.5% to 8.4% per year, including inflation   |
| Mortality rates:   | Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years) |
| Annual post-retirement benefit increases:                    | None   |
| Assumed inflation rate:                                      | 3%   |
| Payroll growth:  | 4.0% per year  |
| Actuarial cost method:                                       | Entry age  |
| Select period for the termination of employment assumptions: | 10 years   |
| Percent of married employees:                                | 85% Males; 85% Females   |
| Spouse age difference:                                       | Males 4 years older than females   |
| Turnover:  | Varies from 1%-22%   |

The actuarial assumptions used in the July 1, 2015, valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

The long-term expected rate of return on pension plan investment was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2015, are summarized in the following table:

| <u>Asset Class</u>                      | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---|--------------------------------|---|
| U.S. large cap equity                   | 38.0%                          | 5.3%  |
| U.S. small cap equity                   | 6.0%                           | 5.6%  |
| U.S. fixed income                       | 25.0%                          | 0.7%  |
| International stock                     | 18.0%                          | 5.6%  |
| Emerging market stock                   | 6.0%                           | 6.4%  |
| Treasury Inflation-Protected Securities | 3.5%                           | 0.7%  |
| Rate anticipation                       | 3.5%                           | 1.5%  |
|   | <b><u>100.0%</u></b>           |   |

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

**G. Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the employer calculated using the discount rate of 7.50%, as well as what the Office's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

|                                  |                              |  |                              |
|----------------------------------|------------------------------|--|------------------------------|
|                                  | 1% Decrease<br><u>(6.5%)</u> | Current Discount<br>Rate <u>(7.5%)</u> | 1% Increase<br><u>(8.5%)</u> |
| Net Pension<br>Liability/(Asset) | \$4,683,029                  | \$1,256,765                            | (\$1,656,102)                |

**H. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report of the OPERS, which can be located at [www.opers.ok.gov](http://www.opers.ok.gov).

**I. Payables to the Pension Plan**

The accrued wages payable amount reflected on the Statement of Net Position in the amount of \$28,999 includes \$2,276 payable to OPERS.

**J. State Auditor Portion**

The amounts presented below represent to Net Pension Liability, Deferred Inflows, Deferred Outflows, and Pension Expense related to OPERS recorded to the Statement of Net Position. The amounts were determined based on the actuarial valuations performed as of July 1, 2015 which is also the measurement date.

| <u>Office %</u> | <u>Pension Assets</u> | <u>Pension Liabilities</u> | <u>Net Pension Liability</u> | <u>Deferred Inflows</u> | <u>Deferred Outflows</u> | <u>Pension Expense</u> |
|-----------------|-----------------------|----------------------------|------------------------------|-------------------------|--------------------------|------------------------|
| 0.34940826%     | 30,176,442            | 31,433,207                 | 1,256,765                    | 1,747,357               | 1,057,098                | 5,656                  |

**K. Legal and Accounting Liability**

Attorney General opinions as well as the Oklahoma Supreme Court have implied that the State of Oklahoma is legally responsible for any pension liability over the employers’ set contribution amount. However, GASB Statement 68 requires that the net pension liability be accounted for and reported by the entity that created the liability. Therefore, the SAI portion of the State’s net pension liability has been recorded and reported.

**L. Defined Contribution Plan**

The Office also participates in the tax-qualified defined contribution retirement plan named Pathfinder which is administered by the Oklahoma Public Employees Retirement System. In a defined contribution plan, no specific benefit is promised to a plan participant. The amount a participant has at retirement under a defined contribution plan is dependent upon how much was contributed over his/her career, how well those investments performed, and how quickly distributions are taken in retirement. This plan applies only to state employees who first became employed by the Office on or after November 1, 2015, and have no prior participation in the OPERS defined benefit plan. At June 30, 2016 there were 2 Office employees participating in this plan.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

Plan members are required to contribute between 4.5% and 7% of compensation annually. If the employee elects anything less than the 7% maximum, the Office matches the contribution at 6.0%. If the employee elects the maximum of 7%, the Office will match at 7% as well. Employees are progressively vested in employer contributions at a rate of 20% per year and become 100% vested after 5 years of credited service. For the year ended June 30, 2016, the Office contributed \$2,502, and eligible employees contributed \$2,264 to the defined contribution plan. The accrued wages payable amount reflected on the Statement of Net Position in the amount of \$28,999 includes \$163 payable to OPERS.

**Note 6. Other Post-Employment Benefits**

In addition to the pension benefits described above, the State provides post-retirement health care benefits to retirees. OPERS pays \$105 per month for all retirees who elect coverage at the time of retirement. There is no OPEB obligation information available specific to the Office.

**Note 7. Long-Term Obligations**

Long-term debt is comprised of accrued compensated absences. Vested accrued leave, up to a total of 480 hours, is payable upon termination, resignation, retirement, or death. In the Statement of Net Position, this accrued leave is reported as a liability. The Amount Due within One Year varies from year to year based on personnel turnover and the amount reported is an estimate. For the year ended June 30, 2016, accrued compensated absences liabilities changed as follows:

| <u>Balance</u><br><u>July 1, 2015</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u><br><u>June 30, 2016</u> | <u>Amount Due</u><br><u>Within One Year</u> |
|---------------------------------------|------------------|-------------------|--|---|
| \$558,427                             | \$471,547        | \$442,352         | \$587,622                              | \$485,133                                   |

**Note 8. Subsequent Events**

During SFY16, the State experienced a revenue failure. Due to this, the SFY16 appropriations for the Office were reduced by a total of \$253,441. After the close of SFY16, the Office of Management Enterprises determined that the revenue failure was not as severe as the preliminary estimates and therefore a portion of the appropriation reductions would be returned to the respective agencies. Because of this, the Office will receive \$93,409 of this amount back during SFY17. Of this amount, \$6,910 will be passed through to OSU and \$86,499 and will be used for SFY17 budgeted expenditures.

**Note 9. Prior Period Adjustment**

The beginning net position has been restated for an error correction. During the current period it was discovered that sick leave used by retiring employees was used to buy additional service credit in the previous period. These payments were not included in the deferred outflow calculation. This restatement increased the beginning net position and deferred outflows by \$21,307.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR  
FINANCIAL REPORT  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

**Required Supplementary Information  
Pension Schedules and Related Ratios**

**Schedule 1  
Oklahoma Public Employees Retirement System  
Schedule of Proportionate Shares**

|   | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| SAI proportion of the net pension liability   | 0.34940826% | 0.36926475% |
| SAI proportional share of the net pension liability                                     | \$1,256,765 | \$677,838   |
| SAI covered-employee payroll  | \$6,068,896 | \$6,253,691 |
| SAI proportionate share of the net pension liability as a percentage of covered payroll | 20.71%      | 10.84%      |
| OPERS fiduciary net position as a percentage of the total pension liability             | 96.00%      | 97.90%      |

**Schedule 2  
Oklahoma Public Employees Retirement System  
Schedule of Contributions**

|   | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|-------------|-------------|
| Contractually required contribution                                   | \$1,015,624 | \$1,019,159 | \$1,031,859 | \$1,020,328 |
| Contributions in relation to the contractually required contributions | \$1,015,624 | \$1,019,159 | \$1,031,859 | \$1,020,328 |
| Contribution deficiency (excess)                                      | \$0         | \$0         | \$0         | \$0         |
| SAI's covered employee payroll  | \$6,130,427 | \$6,068,896 | \$6,253,691 | \$6,183,806 |
| Contributions as a percentage of covered employee payroll             | 16.6%       | 16.8%       | 16.5%       | 16.5%       |

**Notes to Schedule:**

GASB Statement 68 requires the information presented in the "Schedules of Required Supplementary Information" cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 68 and is the latest information available.

Benefit Changes: Information to present a 10-year history is not readily available

Changes in Actuarial Assumptions: Information to present a 10-year history is not readily available

See Independent Auditor's Report



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*

State of Oklahoma  
Oklahoma State Auditor and Inspector  
Oklahoma City, Oklahoma

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 Oklahoma State Auditor and Inspector, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Oklahoma State Auditor and Inspector's basic financial statements, and have issued our report thereon dated January 25, 2017.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Oklahoma State Auditor and Inspector'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 State Auditor and Inspector's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oklahoma State Auditor and Inspector'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. 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.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Oklahoma State Auditor and Inspector'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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*HBC CPAs & Advisors*

Oklahoma City, Oklahoma  
January 25, 2017