

OKLAHOMA STATE AUDITOR AND
INSPECTOR

AUDITED FINANCIAL STATEMENTS
JUNE 30, 2021

Table of Contents

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	29
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 <i>Government Auditing Standards</i>	32



INDEPENDENT AUDITORS' REPORT

To the Oklahoma State Auditor and Inspector

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Auditor and Inspector (SAI) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise SAI'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; 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.

Auditors' 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 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 auditors' 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 auditors consider internal control relevant to SAI'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 SAI'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 SAI as of June 30, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Emphasis of Matter

As discussed in Note 1, the financial statements of SAI 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 SAI. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2021, or the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 6 and the schedules of SAI's pension and OPEB information on pages 29 to 31 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, 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 February 15, 2022, on our consideration of SAI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SAI's 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 SAI's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
February 15, 2022

MANAGEMENT’S DISCUSSION AND ANALYSIS SUMMARY

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, 2021. 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, 2021 the following financial results are considered noteworthy by management.

- SAI’s accounts receivable increased \$410,350 or 29.80%, from the prior year. Due to the impacts of COVID-19, entities were slower to pay their audit billings this year which impacted the accounts receivable due at year end.
- SAI’s net pension liability increased \$2,757,541 or 590.73%. The net pension liability is SAI’s proportionate share of the total net pension liability of OPERS. Several actuarial assumptions utilized in calculating the OPERS net pension liability changed this year which impacted the amount of this liability. The most notable assumption change was a decrease in the investment return rate from 7.0% to 6.5%; this directly contributed to the increase in the liability amount. 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 in the financial statements.
- SAI’s operating expenses increased \$1,806,677 or 16.22%, from the prior year. Among the changes in operating expense accounts, personnel services increased by \$1,849,706 or 18.05% from the prior year. This increase is attributable to an increase in staff size as well as an increase in staff salaries due to promotions, increased staff responsibilities, and staff certifications.

USING THIS REPORT

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 (Unaudited)

or paid. All cash receipts and cash disbursements for the current year are captured in the “Statement of Cash Flows”.

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.

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. The OPEB Schedules and Related Ratios are required by GASB 75. These schedules provide users of the report with additional information regarding the OPEB plans in which SAI participates.

AN ECONOMIC-BASED FINANCIAL ANALYSIS OF SAI

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 2021 and 2020.

(Unaudited)

	2021	2020	% Change
Assets			
Current Assets:			
Cash	\$2,713,883	\$2,503,176	8.42%
Cash-Restricted	437,527	223,228	96.00%
Due From Federal Government	110,483	92,280	19.73%
Prepaid Assets	124,206	85,594	45.11%
Accounts Receivable, Net of Allowance	1,787,215	1,376,865	29.80%
Total Current Assets	\$5,173,314	\$4,281,143	20.84%
Noncurrent Assets:			
Notes Receivable	\$158,441	\$164,855	-3.89%
Net OPEB Asset	169,439	136,251	24.36%
Capital Assets, Net of Accumulated Depreciation	0	1,536	-100.00%
Total Noncurrent Assets	\$327,880	\$302,642	8.34%
Total Assets	\$5,501,194	\$4,583,785	20.01%
Deferred Outflows of Resources:			
Deferred Outflows - OPEB	\$234,439	\$134,742	73.99%
Deferred Outflows - Pensions	2,588,986	1,006,897	157.13%
Total Deferred Outflows	\$2,823,425	\$1,141,639	147.31%
Liabilities			
Current Liabilities:			
Accounts Payable	\$145,651	\$135,118	7.80%
Due to State	223,228	0	100.00%
Accrued Wages Payable	22,736	31,503	-27.83%
Unearned Revenue	0	14,248	-100.00%
Compensated Absences-Payable within 1 year	649,842	601,574	8.02%
Total Current Liabilities	\$1,041,457	\$782,443	33.10%
Noncurrent Liabilities:			
Compensated Absences-Payable after 1 year	\$273,271	\$207,760	31.53%
Total OPEB Liability	489,826	464,175	5.53%
Net Pension Liability	3,224,347	466,806	590.73%
Total Noncurrent Liabilities	\$3,987,444	\$1,138,741	250.16%
Total Liabilities	\$5,028,901	\$1,921,184	161.76%
Deferred Inflows of Resources:			
Deferred Inflows - OPEB	\$187,443	\$178,296	5.13%
Deferred Inflows - Pensions	18,667	253,706	-92.64%
Total Deferred Inflows	\$206,110	\$432,002	-52.29%
Net Position			
Restricted for OSU	\$214,299	\$223,228	-4.00%
Invested in Capital Assets	0	1,536	-100.00%
Unrestricted	2,875,309	3,147,474	-8.65%
Total Net Position	\$3,089,608	\$3,372,238	-8.38%

(Unaudited)

Operating Revenues:	2021	2020	% Change
Federal Revenue	\$469,689	\$0	100.00%
Filing Fees	158,000	154,700	2.13%
Charges for Audit Services	7,775,046	8,282,632	-6.13%
Other Revenue	180,267	175,882	2.49%
Total Operating Revenues	\$8,583,002	\$8,613,214	-0.35%
Operating Expenses:			
Personnel Services	\$12,100,018	\$10,250,312	18.05%
Travel	87,637	109,538	-19.99%
Administrative	660,919	717,102	-7.83%
Equipment	92,609	52,093	77.78%
Depreciation	1,536	6,997	-78.05%
Total Operating Expenses	\$12,942,719	\$11,136,042	16.22%
Operating Income (Loss)	(\$4,359,717)	(\$2,522,828)	-72.81%
Non-Operating Revenues (Expenses):			
Appropriations	\$4,300,315	\$4,479,495	-4.00%
OSU Funds to Lapse	(223,218)	0	-100.00%
Total Non-Operating Revenue (Expenses)	\$4,077,087	\$4,479,495	-8.98%
Change in Net Position	(\$282,630)	\$1,956,667	-114.44%
Total Net Position-Beginning	3,372,238	1,415,571	138.22%
Total Net Position-Ending	\$3,089,608	\$3,372,238	-8.38%

CONTACTING SAI

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 123, 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, 2021

ASSETS

Current Assets:

Cash	\$2,713,883
Cash-Restricted	437,527
Due from Federal Government	110,483
Prepaid Assets	124,206
Accounts Receivable, Net of Allowance of \$202,613	1,787,215
Total Current Assets	<u>\$5,173,314</u>

Noncurrent Assets:

Notes Receivable	\$158,441
Net OPEB Asset	169,439
Capital Assets, Net of Accumulated Depreciation of \$93,876	-
Total Noncurrent Assets	<u>\$327,880</u>
Total Assets	<u>\$5,501,194</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - OPEB	\$234,439
Deferred Outflows - Pension	2,588,986
Total Deferred Outflows	<u>\$2,823,425</u>

LIABILITIES

Current Liabilities:

Accounts Payable	\$145,651
Due to State	223,228
Accrued Wages Payable	22,736
Compensated Absences - Payable Within One Year	649,842
Total Current Liabilities	<u>\$1,041,457</u>

Noncurrent Liabilities:

Compensated Absences - Payable After One Year	\$273,271
Total OPEB Liability	489,826
Net Pension Liability	3,224,347
Total Noncurrent Liabilities	<u>\$3,987,444</u>
Total Liabilities	<u>\$5,028,901</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - OPEB	\$187,443
Deferred Inflows - Pension	18,667
Total Deferred Inflows	<u>\$206,110</u>

NET POSITION

Restricted for OSU	\$214,299
Invested in Capital Assets	-
Unrestricted	2,875,309
Total Net Position	<u>\$3,089,608</u>

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, 2021

Operating Revenues:

Federal Revenue	\$469,689
Filing Fees	158,000
Charges for Audit Services	7,775,046
Other Revenue	180,267
Total Operating Revenues	<u>\$8,583,002</u>

Operating Expenses:

Personnel Services	\$12,100,018
Travel	87,637
Administrative	660,919
Equipment	92,609
Depreciation	1,536
Total Operating Expenses	<u>\$12,942,719</u>

Operating Income (Loss) (\$4,359,717)

Nonoperating Revenues (Expenses):

Appropriations	\$4,300,315
OSU Funds to Lapse (see Note #1)	(223,228)
Total Nonoperating Revenue (Expenses)	<u>\$4,077,087</u>

Change in Net Position	(\$282,630)
Total Net Position - Beginning	<u>3,372,238</u>
Total Net position - Ending	<u><u>\$3,089,608</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, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Receipt of Federal Revenue	\$1,415
Receipt of Filing Fees	158,000
Receipt of Charges for Audit Services	7,806,933
Receipt of Other Revenue	180,267
Payments for Personnel Services	(11,131,865)
Payments for Travel	(82,338)
Payments for Administrative	(661,888)
Payments for Equipment	(145,833)
Net Cash Provided (Used) by Operating Activities	<u>(\$3,875,309)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipt of Appropriations	<u>\$4,300,315</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$4,300,315</u>

Net Increase in Cash	\$425,006
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Cash July 1, 2020 (Including \$223,228 Reported in Restricted Cash)	<u>2,726,404</u>
Cash June 30, 2021 (Including \$437,527 Reported in Restricted Cash)	<u><u>\$3,151,410</u></u>

**Reconciliation of Operating Income to Net Cash
Provided (Used) by Operating Activities:**

Operating Income (Loss)	<u>(\$4,359,717)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Due from Federal Government	(\$18,203)
(Increase) Decrease in Prepaid Assets	(38,612)
(Increase) Decrease in Accounts Receivable	(410,350)
(Increase) Decrease in Notes Receivable	6,414
(Increase) Decrease in Capital Assets	1,536
(Increase) Decrease in Net OPEB Asset	(33,188)
(Increase) Decrease in Deferred Outflows-Pensions	(1,582,089)
(Increase) Decrease in Deferred Outflows-OPEB	(99,697)
Increase (Decrease) in Accounts Payable	10,533
Increase (Decrease) in Accrued Wages Payable	(8,767)
Increase (Decrease) in Unearned Revenue	(14,248)
Increase (Decrease) in Compensated Absences Payable in One Year	48,268
Increase (Decrease) in Compensated Absences Payable After One Year	65,511
Increase (Decrease) in Deferred Inflows - Pensions	(235,039)
Increase (Decrease) in Deferred Inflows - OPEB	9,147
Increase (Decrease) in Total OPEB Liability	25,651
Increase (Decrease) in Net Pension Liability	<u>2,757,541</u>
Total Adjustments	<u>\$484,408</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$3,875,309)</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, 2021

The basic financial statements of the Oklahoma State Auditor and Inspector (SAI) 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 SAI'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 (the State) 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 SAI.

The SAI is a part of the primary government (State of Oklahoma), and its financial data is included in the State's Annual Comprehensive 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 that is attributable to the SAI.

The SAI 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
- Conduct audits of the operations of the State's 65 Emergency Medical Services Districts
- Conduct audits of all 77 counties of the State
- Conduct audits of all 27 offices of the district attorneys of the State
- Maintain copies of audit reports of public trusts
- Maintain a repository for audits and budgets filed by all governmental entities of the state
- Provide fiscal support for the Pension Commission
- Provide fiscal support for the Board of Equalization

The SAI 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 charges, such as those for auditing and filing audit reports.

B. Basis of Presentation and Accounting

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

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

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 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 Net Position

Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. The SAI'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 SAI, 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

In past years, the Legislature appropriated funds to the SAI 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. This program changed for FY20. As a result, these funds should no longer be appropriated to the SAI. However, the Legislature inadvertently appropriated \$223,228 for this program to the SAI in fiscal year 2020 and \$214,299 in fiscal year 2021. These funds are legally restricted; therefore, the entire balance of \$437,527 remaining on June 30, 2021 has been shown as restricted cash. On November 21, 2021 the \$223,228 from the fiscal year 2020 appropriations will lapse and will be automatically returned to the State's General Fund. This \$223,228 was reflected as a liability in the accompanying statement of net position as of June 30, 2021. The remaining \$214,299 is reflected as restricted net position in the accompanying statement of net position as of June 30, 2021.

Due from Federal Government

The SAI 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 \$110,483 presented represents reimbursements receivable for work performed during April, May, and June of fiscal year 2021.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

Prepaid Assets

Prepaid assets consist of amounts that were expended in fiscal year 2021 but benefit fiscal year 2022. These amounts represent annual software subscriptions that cross the fiscal year and therefore are consumed over portions of both fiscal years 2021 and 2022.

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 SAI. The amount presented is net of the allowance for doubtful accounts of \$202,613 for fiscal year 2021. The allowance for doubtful accounts consists of accounts outstanding for more than 120 days with no expectation to collect. The policy of the SAI 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 position. 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 and OPEB differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions. Notes 5, 6 and 7 contain additional information on these items.

Accounts Payable

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

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

Wages Payable

Wages payable consists of all wages earned through June 30th that were not paid by June 30th.

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.

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 SAI participates in two pension plans. The first is a cost-sharing, multiple employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). This plan applies only to state employees who were employed by the SAI before November 1, 2015 or had prior participation in this defined benefit plan.

The second is a tax-qualified defined contribution retirement plan named Pathfinder which is also administered by the OPERS. In a defined contribution plan, no specific benefit is promised to a plan participant. This plan applies only to employees who first became employed by the SAI on or after November 1, 2015 and have no prior participation in the defined benefit plan.

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.

OPEB Plans

The SAI participates in two OPEB plans. The first is a cost-sharing multiple employer health insurance subsidy plan (HISP) administered by OPERS held in an irrevocable trust. The net OPEB liability/asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by OPERS.

The second is a non-trusted single employer OPEB plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65 (implicit rate subsidy of health insurance). The total OPEB liability, deferred outflows of resources and deferred inflows

OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the State.

Income Taxes

The SAI, 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, 2021 was as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets - Net</u>
Beginning Balance	\$93,876	(\$92,340)	\$1,536
Increases	0	(1,536)	(1,536)
Decreases	0	0	0
Ending Balance	<u>\$93,876</u>	<u>(\$93,876)</u>	<u>\$0</u>

Note 3. Operating Leases

The SAI leases certain office space, equipment, and vehicles which meet the criteria for operating leases. Payments under these operating leases for the 2021 fiscal year were approximately \$333,077. 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 or 5-year leases depending on the machine and have varying effective dates. The future minimum lease payments for the SAI space and copier leases are as follows:

2022	\$183,832
2023	1,826
2024	1,825
2025	1,825
2026	<u>1,749</u>
Total	<u>\$191,057</u>

Note 4. Risk Management

As part of the State primary government, the SAI's risk of losses to which they are exposed is managed through the State's risk management activities. The SAI 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

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

losses. These services are provided by certain departments of the State. The SAI is at no financial risk of loss from these types of risks.

Note 5. Pension Plan Participation

A. Plan Description

The SAI 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. The pension benefit provisions were established by statute and benefit provisions are amended by the Legislature. Cost-of-living adjustments are provided to plan members at the discretion of the Legislature. This plan applies only to state employees who were employed by the SAI before November 1, 2015 or had prior participation in the OPERS defined benefit plan. At June 30, 2021 thirty-one office employees were not participating in this defined benefit retirement plan. These employees were instead members of the defined contribution retirement plan discussed in section K of this footnote.

At June 30, the SAI's membership consisted of:

Inactive members or their beneficiaries currently receiving benefits	131
Inactive members entitled to but not yet receiving benefits	22
Active members	120
Total	273

B. Benefits Provided

a. Eligible to Participate	<p>All permanent employees of the State and any other employer such as a county, county hospital, city or town, conservation district, circuit engineering district, 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"> • The employee is not eligible for or participating in another retirement system authorized under Oklahoma law, and is covered by Social Security and not participating in the U.S. Civil Service Retirement System. • The employee is scheduled for 1,000 hours per year and salary is not less than the hourly rate of the monthly minimum wage for state employees (for employees of local government employers, not less than the hourly rate of the monthly minimum wage for such employees).
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"> • Age 62 with 6 years of credited service. For elected

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

	<p>officials age 60.</p> <ul style="list-style-type: none"> 80 points- The sum of age and years of service equals 80 if member before July 1, 1992. 90 points- The sum of age and years of service equals 90 if member after July 1, 1992. <p>Member after November 1, 2011 one of the following:</p> <ul style="list-style-type: none"> Age 65 with 6 years of credited service. For elected officials age 65 with 8 years of elected service. 90 points – At least age 60 and the sum of age and years of service equals 90. <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	<p>Final average salary – member before July 1, 2013, the average compensation during the highest 36 months out of the last 10 years of service (including highest 3 longevity payments). Member after July 1, 2013, the average compensation during the highest 60 months out of the last 10 years of service (including highest 5 longevity payments).</p>
e. Benefit Determination Methods:	<p>2% of member's final average salary multiplied by the years of credited service.</p>
<ul style="list-style-type: none"> Normal Retirement Disability Retirement 	<p>Same as normal retirement</p>
f. Benefit Authorization	<p>Benefits are established in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 901 through 935 as amended.</p>
g. Form of Benefit Payments	<p>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.</p>

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. State employees contribute 3.5% on all salary and State agency employers contribute 16.5% of total salary. Contributions to OPERS by the SAI for 2021, 2020, and 2019 were as follows:

<u>2021</u>	<u>2020</u>	<u>2019</u>
\$1,035,028	\$990,168	\$920,439

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

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

At June 30, 2021, the SAI reported a liability of \$3,224,347 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020. The SAI's proportion of the net pension liability was based on the SAI's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2020. Based upon this information, the SAI's proportion was 0.36140771%.

For the year ended June 30, 2021, the SAI recognized pension expense of \$1,975,441. At June 30, 2021, the SAI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$0	\$17,619
Changes in assumptions	1,151,705	0
Net difference between projected and actual earnings on pension plan investments	383,133	0
Changes in proportion and differences between agency contributions and proportionate share of contributions	19,120	1,048
Office contributions during measurement date	0	0
Office contributions subsequent to the measurement date	1,035,028	0
	<u>\$2,588,986</u>	<u>\$18,667</u>

Reported deferred outflows of resources of \$1,035,028 resulting from the SAI's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. The amortization of deferred outflows of resources and deferred inflows of resources related to pensions is as follows:

2022	\$631,933
2023	504,627
2024	235,612
2025	163,119
	<u>\$1,535,291</u>

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

E. Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2020, using the following actuarial assumptions:

Investment return:	6.50% compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.25% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 by Scale MP-2019
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.50%
Payroll growth:	3.25% 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%-26%

The actuarial assumptions used in the July 1, 2020, valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2019. The experience study report is dated May 13, 2020.

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2020, are summarized in the following table:

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	34.0%	4.7%
U.S. small cap equity	6.0%	5.8%
Int's developed equity	23.0%	6.5%
Emerging market equity	5.0%	8.5%
Core fixed income	25.0%	0.5%
Long-term treasuries	3.5%	0.0%
U.S. TIPS	3.5%	0.3%
	<u>100.0%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 6.50%. 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 to be available to make all projected 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 (asset) of the employer calculated using the discount rate of 6.50%, as well as what the SAI's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.50%) or 1 percentage-point higher (7.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net Pension Liability/(Asset)	\$7,590,382	\$3,224,347	(\$464,900)

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.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

I. Payables to the Pension Plan

The accrued wages payable amount reflected on the statement of net position in the amount of \$22,736 includes \$2,308 payable to OPERS.

J. Legal and Accounting Liability

Attorney General opinions as well as the Oklahoma Supreme Court have implied that the State 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.

K. Defined Contribution Plan

The SAI 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 SAI on or after November 1, 2015 and have no prior participation in the OPERS defined benefit plan. At June 30, 2021 there were thirty-one office employees participating in this plan.

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 SAI matches the contribution at 6.0%. If the employee elects the maximum of 7%, the SAI will match at 7%. 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, 2021, the SAI contributed \$100,696, and eligible employees contributed \$81,646 to the defined contribution plan.

Note 6. Other Post-Employment Benefits - Implicit Rate Subsidy of Health Insurance

A. Plan Description

The Employee Group Insurance Division (EGID) is a division of the Office of Management and Enterprise Services (OMES). EGID administers, manages, and provides group health, dental, life, and disability insurance for active employees and retirees of state agencies, school districts, and other governmental units of the State through Title 74 of the Oklahoma Statutes, Sections 1301 et seq. as amended. As a state agency, the SAI offers this insurance coverage and office employees receive a post-employment benefit of blended health insurance rates. Therefore, the SAI recognizes its proportionate piece of the State Implicit Rate Subsidy of Health Insurance OPEB liability.

This OPEB Plan is a non-trusted single-employer plan in which no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. Contributions are made by both participants and participating employer agencies on a "pay as you go" basis.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

At June 30, the SAI's participant data for the Plan is as follows:

<u>Active Participants:</u>	
Number	108
Average age	46.1
Average years of service	11.0
<u>Inactive Participants:</u>	
Retirees and surviving spouses	8
Average age	60.0
Covered spouses	1
Average age	<u>58.7</u>
Total participants	<u>117</u>

B. Benefits Provided

The Plan covers all current retirees of the SAI and provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the Plan before retiring. The State provides postretirement medical benefits through the Plan until age 65 if the retiree and spouse pay the full active premium. Participants can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65. The benefit provisions are established and may be amended by the Legislature and the authority granted to EGID.

The amount of benefit payments during fiscal year 2020 and 2021 were \$37,725 and \$36,377.

C. OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2021 the SAI reported a liability of \$489,826 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of July 1, 2020. The total OPEB liability used was determined by an actuarial valuation as of June 30, 2021. The SAI's proportion of the total OPEB liability was based on the SAI's active employees of the plan relative to the total participation of the substantive plan as of June 30, 2021. Based upon this information, the SAI's proportion was 0.3447199% percent.

Changes of assumptions reflect a change in the discount rate from 3.51% in 2019 to 2.21% in 2020 resulting in recognition of a deferred inflow of resources.

For the year ended June 30, 2021, the SAI recognized OPEB expense of \$20,687. At June 30, 2021, the SAI reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$0	\$4,341
Changes in assumptions	34,253	28,550
Net difference between projected and actual earnings on pension plan investments	0	0
Changes in proportion and differences between Agency contributions and proportionate share of contributions	2,493	8,387
Office contributions subsequent to the measurement date	36,377	0
	<u>\$73,123</u>	<u>\$41,278</u>

Reported deferred outflows of resources of \$36,377 related to OPEB resulting from the SAI's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022. The amortization of deferred outflows of resources and deferred inflows of resources related to OPEB is as follows:

2022	(\$9,657)
2023	(5,693)
2024	(2,163)
2025	4,159
Thereafter	8,822
	<u>(\$4,532)</u>

D. Actuarial Methods and Assumptions

The total OPEB liability was determined based on actuarial valuations prepared using a July 1, 2020 measurement date using the following actuarial assumptions:

Investment return:	Not applicable, as the Plan is unfunded and benefits are not paid from a qualifying trust
Mortality rates:	Pub-2010 Public Retirement Plans General Mortality Table weighted by Headcount projected by MP-2020

OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Salary scale, retirement rate, withdrawal rate, and disability rate:	Actuarial assumptions are based on rates for the various retirement systems that the Plan's participants are in, including: <ul style="list-style-type: none"> • Oklahoma Public Employees Retirement System • Oklahoma Law Enforcement Retirement System • Teachers' Retirement System of Oklahoma • Uniform Retirement System of Justices & Judges • Oklahoma Dept. of Wildlife Conservation Defined Benefit Pension Plan
Plan entry date:	Date of hire
Healthcare trend rate:	5.30% decreasing to 5.00%
Actuarial cost method:	Entry age normal based upon salary
Plan participation:	40% of retired employees are assumed to participate in the Plan
Marital assumptions:	Male participants: 25% who elect coverage are assumed to have a spouse who will receive coverage Female participants: 15% who elect coverage are assumed to have a spouse who will receive coverage
Spouse age difference:	Males are assumed to be 3 years older than their spouses
Discount rate:	Based on bond buyer index

The June 30, 2021 valuation is based on a measured date of July 1, 2020, with a measurement period of July 1, 2019, to July 1, 2020.

E. Changes in the Total OPEB Liability

The following table reports the components of the changes in the total OPEB liability for the year ended June 30, 2021:

Balance at the beginning of the year	\$464,175
Changes for the year:	
Service cost	(8,453)
Interest expense	16,927
Changes in assumptions	15,946
Change in proportion	(10,945)
Deferred outflows changes	34,253
Deferred inflows changes	14,961
Benefits paid	<u>(37,038)</u>
Net changes	<u>25,651</u>
Balance at end of year	<u>\$489,826</u>

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

F. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the SAI's proportionate share of the total OPEB liability, as well as what the SAI's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (1.21%) or 1 percentage-point higher (3.21%) than the current discount rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Employers Total OPEB Liability	\$522,792	\$489,826	\$458,797

G. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the SAI's proportionate share of the total OPEB liability, as well as what the SAI's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (4.3% decreasing to 4.0%) or 1 percentage-point higher (6.3% decreasing to 6.0%) than the current healthcare cost trend rates:

	4.3% Decreasing to 4.0%	Current 5.3% Decreasing to 5.0%	6.3% Decreasing to 6.0%
Employers Total OPEB Liability	\$441,090	\$489,826	\$547,161

Note 7. Other Post-Employment Benefits - Health Insurance Subsidy Plan (OPERS)

A. Plan Description

The SAI participates in the Supplemental Health Insurance Program, a cost-sharing multiple-employer defined benefit OPEB plan administered by the Oklahoma Public Employees Retirement System (OPERS). The authority to establish and amend benefit provisions rests with the Legislature. OPERS issues a publicly available financial report that can be obtained at www.opers.ok.gov.

B. Benefits Provided

OPERS pays a medical insurance supplement to eligible members who elect to maintain health insurance with the Employees Group Insurance Division (EGID) or other qualified insurance plans provided by the State. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries. The supplement payment is capped at \$105 per month per retiree, remitted to EGID.

At June 30, the SAI's membership consisted of:

Inactive members or their beneficiaries currently receiving benefits	131
Inactive members entitled to but not yet receiving benefits	22
Active members	120
Total	273

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

C. Contributions

The contribution rates for each member category of OPERS are established by the Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. An actuarially determined portion of the total contributions to the System are set aside to finance the cost of the benefits of the Health Insurance Subsidy Plan (HISP) in accordance with provisions of the Internal Revenue Code. Based on the contribution requirements of the plan, employers and employees contribute a single amount based on a single contribution rate of 16.5% as described in Note 5 above; from this amount OPERS allocates a portion of the contributions to the supplemental health insurance program. Contributions allocated to the OPEB plan from the SAI for SFY20 and SFY21 were \$70,518 and \$72,597.

D. OPEB Liabilities (Assets), Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2021, the SAI reported an asset of (\$169,439) for its proportionate share of the net OPEB liability (asset). The net OPEB liability (asset) was measured as of June 30, 2020, and the total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of June 30, 2020. The SAI's proportion of the net OPEB liability (asset) was based on the SAI's contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2020. Based upon this information, the SAI's proportion was 0.36140771%.

For the year ended June 30, 2021, the SAI recognized OPEB benefit of (\$9,800). At June 30, 2021, the SAI reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$0	\$143,460
Changes in assumptions	59,788	0
Net difference between projected and actual earnings on OPEB plan investments	25,797	0
Changes in proportion and differences between Agency contributions and proportionate share of contributions	3,133	2,705
Office contributions subsequent to the measurement date	72,597	0
	<u>\$161,316</u>	<u>\$146,165</u>

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

Reported deferred outflows of resources of \$72,597 related to OPEB resulting from the SAI's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability (asset) in the year ended June 30, 2022. The amortization of deferred outflows of resources and deferred inflows of resources related to OPEB is as follows:

2022	(\$25,603)
2023	(14,436)
2024	(9,858)
2025	(5,566)
2026	(1,983)
	(\$57,446)

E. Actuarial Methods and Assumptions

The total OPEB liability (asset) was determined on an actuarial valuation prepared as of July 1, 2020, using the following actuarial assumptions:

Investment return:	6.50% compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.25% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 by Scale MP-2019
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.50%
Payroll growth:	3.25% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Health Care Trend Rate:	N/A based on how the System is structured and benefit payments are made

The actuarial assumptions used in the July 1, 2020 valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2019. The experience study report is dated May 13, 2020.

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

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

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, 2020, 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	34.0%	4.7%
U.S. small cap equity	6.0%	5.8%
Int's developed equity	23.0%	6.5%
Emerging market equity	5.0%	8.5%
Core fixed income	25.0%	0.5%
Long-term treasuries	3.5%	0.0%
U.S. TIPS	3.5%	0.3%
	<u>100.0%</u>	

F. Discount Rate

The discount rate used to measure the total OPEB liability (asset) was 6.50% for 2020. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the current contribution rate as set out in state statute. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability (asset). The discount rate determined does not use a municipal bond rate.

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

The following presents the SAI's proportionate share of the net OPEB liability (asset), as well as what the SAI's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (5.50 %) or 1 percentage-point higher (7.50%) than the current discount rate:

	1% Decrease <u>(5.50%)</u>	Current Discount <u>Rate (6.50%)</u>	1% Increase <u>(7.50%)</u>
Employer's Net OPEB (Asset)	(\$43,138)	(\$169,439)	(\$277,680)

H. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report of the OPERS; which can be located at www.opers.ok.gov.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

Note 8. Long-Term Obligations

Long-term obligations 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, 2021, accrued compensated absences liabilities changed as follows:

<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Amount Due</u> <u>Within One Year</u>
\$809,334	\$595,739	\$481,961	\$923,113	\$649,842

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

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

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

	2020	2019	2018	2017	2016	2015	2014
SAI proportion of the net pension liability	0.36140771%	.35048605%	.34026723%	.34201032%	.34255227%	.34940826%	.36926475%
SAI proportional share of the net pension liability/(asset)	\$3,224,347	\$466,806	\$663,668	\$1,849,123	\$3,398,908	\$1,256,765	\$677,838
SAI covered payroll	\$6,894,484	\$6,233,295	\$5,877,151	\$6,079,333	\$6,168,427	\$6,068,896	\$6,253,691
SAI proportionate share of the net pension liability/(asset) as a percentage of covered payroll	46.77%	7.49%	11.29%	30.42%	55.10%	20.71%	10.84%
OPERS fiduciary net position as a percentage of the total pension liability	91.59%	98.63%	97.96%	94.28%	89.48%	96.00%	97.90%

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$1,035,028	\$990,168	\$920,439	\$882,361	\$983,161	\$1,015,404	\$1,019,159	\$1,031,859	\$1,020,328
Contributions in relation to the contractually required contributions	\$1,035,028	\$990,168	\$920,439	\$882,361	\$983,161	\$1,015,404	\$1,019,159	\$1,031,859	\$1,020,328
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SAI covered payroll	\$7,242,499	\$6,894,484	\$6,233,295	\$5,877,151	\$6,079,333	\$6,168,427	\$6,068,896	\$6,253,691	\$6,183,806
Contributions as a percentage of covered payroll	14.29%	14.4%	14.8%	15.0%	16.2%	16.5%	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

OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Required Supplementary Information
OPEB Schedules and Related Ratios

Schedule 1

Oklahoma Public Employees Health Insurance Subsidy Plan
Schedule of Proportionate Share of Net OPEB Liability/(Asset)

	2020	2019	2018	2017
SAI proportion of the net OPEB liability/asset	0.36140771%	.35048605%	.34026723%	0.34201032%
SAI proportional share of the net OPEB liability (asset)	(\$169,439)	(\$136,251)	(\$44,034)	\$39,174
SAI covered payroll	\$6,894,484	\$6,233,295	\$5,877,151	\$6,079,333
SAI proportionate share of the net OPEB liability (asset) as a percentage of covered payroll	(2.46)%	(2.19)%	(0.75) %	0.64%
OPERS fiduciary net position as a percentage of the total OPEB liability/asset	114.27%	112.11%	103.94%	96.5%

Schedule 2

Oklahoma Public Employees Health Insurance Subsidy Plan
Schedule of Contributions

	2021	2020	2019	2018
Contractually required contribution	\$72,597	\$70,518	\$67,968	\$61,760
Contributions in relation to the contractually required contributions	\$72,597	\$70,518	\$67,968	\$61,760
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
SAI covered payroll	\$7,242,499	\$6,894,484	\$6,233,295	\$5,877,151
Contributions as a percentage of covered payroll	1.00%	1.02%	1.09%	1.05%

Notes to Schedule:

GASB Statement 75 requires the information presented in the Schedules of Required Supplementary Information cover the 10 most recent fiscal years however 10-year data is not readily available. The information above is the latest information available.

See Independent Auditor's Report

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

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

Schedule 3

**Implicit Rate Subsidy of Health Insurance OPEB Liability
Schedule of Changes in Total OPEB Liability and Related Ratios**

	2020	2019	2018	2017
Total OPEB liability:				
Proportion of the total OPEB liability	0.3447199%	.3511143%	.3483628%	.3503665%
Proportionate share of the total OPEB liability	\$489,826	\$464,175	\$509,313	\$520,280
Covered employee payroll	\$7,330,434	\$6,936,292	\$5,877,151	\$6,079,333
Total OPEB liability as a percentage of covered employee payroll	6.68%	6.69%	8.67%	8.56%

Notes to Schedule:

GASB Statement 75 requires the information presented in the Schedules of Required Supplementary Information cover the 10 most recent fiscal years however 10-year data is not readily available. The information above is the latest information available.

See Independent Auditor's Report



**INDEPENDENT AUDITORS' 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 Oklahoma State Auditor and Inspector

We have audited, in accordance with the auditing standards generally accepted in the United States 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 (SAI) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise SAI's basic financial statements, and have issued our report thereon dated February 15, 2022. Our report includes an explanatory paragraph to emphasize the fact that the financial statements of SAI are intended to present the financial position, changes in financial position, or, where applicable, cash flows of only that portion of the State of Oklahoma that is attributable to transactions of SAI. In addition, our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SAI's internal control over financial reporting ("internal control") as a basis for designing 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 SAI's internal control. Accordingly, we do not express an opinion on the effectiveness of SAI'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 SAI'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.

(Continued)

**INDEPENDENT AUDITORS' 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*, CONTINUED**

Internal Control Over Financial Reporting, Continued

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 SAI'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 financial statements. 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 SAI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
February 15, 2022