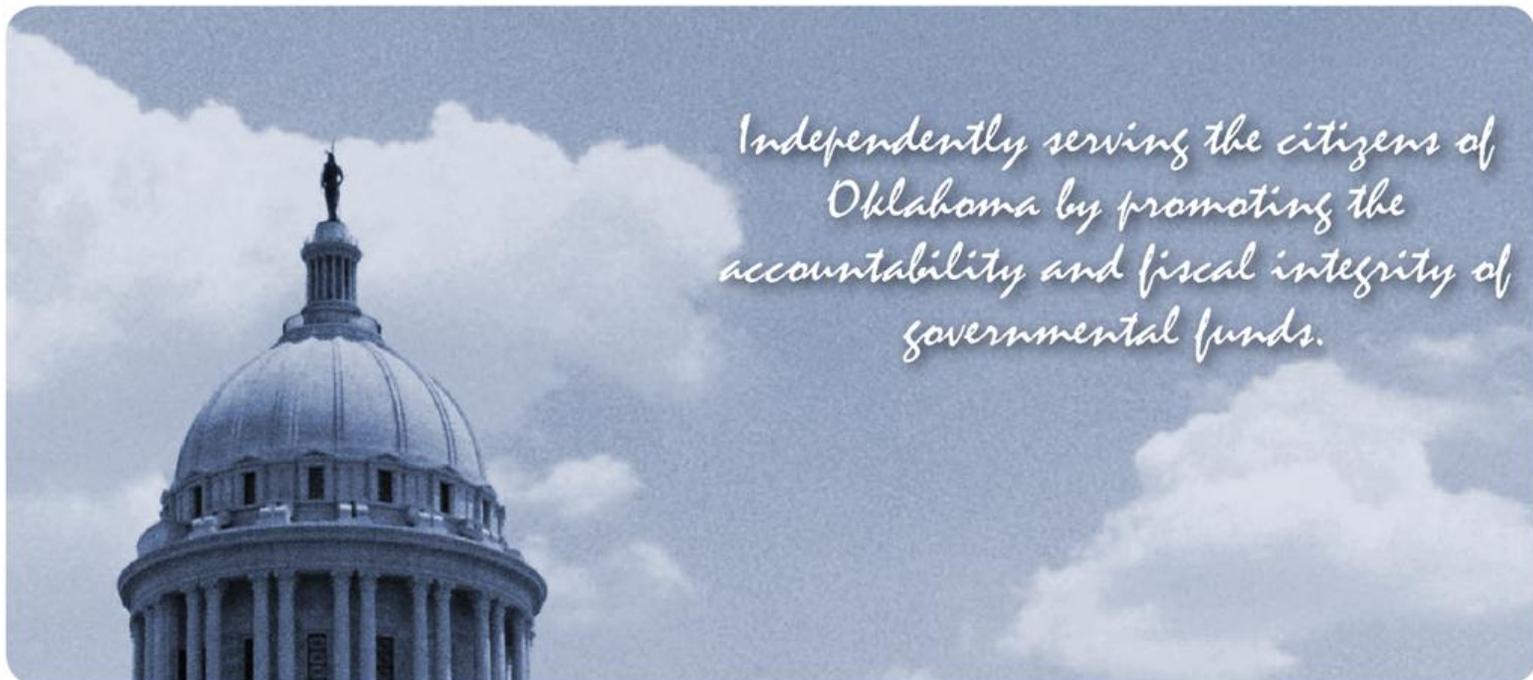


FINANCIAL AUDIT

# OKLAHOMA TAX COMMISSION

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS

For the fiscal year ended June 30, 2016



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



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

**OKLAHOMA TAX COMMISSION  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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# Oklahoma State Auditor & Inspector

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

December 15, 2016

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

This is the audit report of the Oklahoma Tax Commission for the year ended June 30, 2016. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive.

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

**OKLAHOMA TAX COMMISSION  
 FINANCIAL STATEMENTS AND  
 INDEPENDENT AUDITOR’S REPORTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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# Oklahoma State Auditor & Inspector

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## INDEPENDENT AUDITOR'S REPORT

### TO THE COMMISSIONERS OF THE OKLAHOMA TAX COMMISSION

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oklahoma Tax Commission, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Oklahoma Tax Commission's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Oklahoma Tax Commission as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Oklahoma Tax Commission are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Oklahoma that is attributable to the transactions of the Oklahoma Tax Commission. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, in FY 2015 the Oklahoma Tax Commission adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Government Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment to GASB Statement 68*.

Our opinion is not modified with respect to these matters.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 and the pension schedules on pages 41-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oklahoma Tax Commission's basic financial statements. The budgetary comparison information on pages 34-40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the Oklahoma Tax Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oklahoma Tax Commission's internal control over financial reporting and compliance.

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

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

December 15, 2016

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

As management of the Oklahoma Tax Commission, we offer readers of the Commission's financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2016.

### **FINANCIAL HIGHLIGHTS**

- Total net position of the Commission decreased 43.47% to \$15.23 million during the fiscal year ending June 30, 2016. This decrease was largely a result of including the Net Pension Liability in FY16 in compliance with GASB Statement No. 68.
- The Commission revenues for the fiscal year decreased 36.24% or \$49.28 million from the prior year while expenses increased 8.72% or \$13.81 million for the year. Appropriations for FY16 decreased 13.05% to \$38.5 million from FY15.
- The assets of fiduciary funds, which represent taxes held in trust for distribution to state and local governments and others, totaled \$1.12 billion at June 30, 2016.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

- The governmental statements explain how the general government services were financed in the short term as well as what remains for future spending.
- Fiduciary fund statements provide information about the financial relationships in which the Commission acts solely as trustee or agent for the benefit of others, to whom the resources belong.

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

### **Government-wide Statements**

The government-wide statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

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

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

### **Fund Financial Statements**

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

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

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

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

### **Net Position**

The Commission's combined Net Position decreased between fiscal years 2015 and 2016 to \$15.23 million. During FY16 the Commission transfers in fund balance exceeded transfers out by \$44.98 million. Table A-1 illustrates the changes between the two years in more detail.

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

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2015</u>	<u>2016</u>	<u>2015 - 2016</u>
Current And Other Assets	\$36.76	\$35.34	(3.86%)
Capital Assets	19.97	17.70	(11.37%)
<b>Total Assets</b>	<b>\$56.73</b>	<b>\$53.04</b>	<b>(6.50%)</b>
Deferred Outflows of Resources		<b>4.81</b>	<b>100%</b>
Current Liabilities	26.95	30.23	12.17%
Long-term Liabilities	2.84	8.70	206.34%
<b>Total Liabilities</b>	<b>\$29.79</b>	<b>\$38.93</b>	<b>30.68%</b>
Deferred Inflow of Resources		<b>3.69</b>	<b>100%</b>
Net Position			
Invested In Capital Assets	19.97	17.70	(11.37%)
Unrestricted	6.97	(2.47)	(135.44%)
<b>Total Net Position</b>	<b>\$26.94</b>	<b>\$15.23</b>	<b>(43.47%)</b>

Net position of the Commission's governmental activities decreased \$11.71 million to \$15.23 million. Decreases of \$41.61 million in charges for services, due to a reduction in collections to the Joint Computer Enhancement fund, coupled with a decrease in tax revenue account for the decrease in net position. Unrestricted net position showed a \$9.44 million decrease during the year. Capital assets decreased 11.37% due to the restatement of accumulated depreciation of the integrated tax system computer hardware and the development costs associated with the Commission's integrated taxpayer software system. The net decrease of \$2.27 million in fixed assets coupled with the increase in liabilities, and including the net pension liability, account for the decrease in unrestricted net position.

### Statement of Activities

The Commission's revenues for the fiscal year ending June 30, 2016 decreased 36.24% or \$49.28 million over the prior year while expenses increased \$13.81 million or 8.72%. See Table A-2 below.

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

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2015</u>	<u>2016</u>	<u>2015 - 2016</u>
Program Revenues:			
Charges For Services	\$81.58	\$39.97	(51.01%)
Grants	0.00	0.00	0.00%
General Revenues:			
Taxes	43.77	36.75	(16.04%)
Fees	9.83	9.35	(4.88%)
Other	0.81	0.64	(20.99%)
<b>Total Revenues</b>	<b>\$135.99</b>	<b>\$86.71</b>	<b>(36.24%)</b>
State Appropriations	44.28	38.50	(13.05%)
Transfers In	28.28	47.07	66.44%
Transfer Out	(44.06)	(2.09)	(95.26%)
Expenses:			
General Government	(154.89)	(168.48)	8.77%
Depreciation	(3.50)	(3.72)	6.29%
<b>Total Expenses</b>	<b>(\$158.39)</b>	<b>(\$172.20)</b>	<b>8.72%</b>
Change In Net Position	6.09	(2.01)	(133.00%)
Net Position – Beginning	20.85	17.24	(17.31%)
Prior Year Adjustment	0.00	0.00	0.00%
<b>Net Position – Ending</b>	<b>\$26.94</b>	<b>\$15.23</b>	<b>(43.47%)</b>

## **Fiduciary Fund Statements**

The Commission, acting on statutory authority and contractual agreements, collects taxes, licenses and fees, which are distributed to state and local governments and private entities. At June 30, 2016 the Commission maintained as a fiduciary \$1,122,854,721 in total assets for others. Of that amount \$84.51 million was due to taxpayers for refunds and the balance is due to state entities, local government subdivisions and private entities.

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

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

### **General Fund**

The General Fund is the primary operating fund of the Commission. The fund's total assets decreased 17.71% between fiscal years 2015 and 2016 to \$16.6 million. The fund's total liabilities decreased 9.40% between fiscal years 2015 and 2016 to \$3.2 million. This resulted in an overall decrease in fund balance of \$3.2 million or 19.48%.

### **License Plate Program Fund**

The License Plate Program Fund's purpose is to distribute proceeds from the sale of special license plates to designated agencies for the benefit of the organization being sponsored. The fund's assets decreased 27% from fiscal year 2015 to 2016 while expenditures increased 13.04% during the same period.

### **Oklahoma Tax Commission Compliance Fund**

The Oklahoma Tax Commission Compliance Fund was created by SB 750 during the 2011 legislative session which amended 68 O.S., 2001, Section 2702. This fund was established to reimburse a municipality for enhanced collections of state sales taxes pursuant to an agreement entered into between the municipality and the Commission. The Commission has budgeted for this fund since inception but to date has not entered into the stipulated agreement for enhanced collections. No revenues have been apportioned to this fund nor expenditures paid during FY16. This fund is included in the other supplementary information which reports budget vs actual information but is not included in the government-wide financial statements as no activity was recorded during FY16.

### **Used Tire Recycling Indemnity Fund**

The Used Tire Recycling Indemnity Fund's purpose is to receive the proceeds from statutory fees assessed on tires sold in the state and to reimburse facilities for the disposal of waste tires from designated sites, provide payments for end users of tire products and provide funds for soil erosion control. The decrease in fund balance of \$4,302,966 is a result of the payment of dump site remediation.

### **Oklahoma Tax Commission (OTC) Protest Fund**

The Protest Fund's purpose is to reimburse all cases where it is alleged or claimed that fees or taxes of the state are in a whole or in part unconstitutional or otherwise invalid. If a written protest is made and a suit is filed in a timely manner, the fees or taxes paid under protest shall be retained in the

appropriate “Protest Fund” pending a final determination of the suit as specified in 62 O.S., Section 206.

### **Film Rebate Fund**

The Film Rebate Fund’s purpose is to reimburse film companies for producing films or commercials in the State of Oklahoma. The Oklahoma Film and Music Office approves all claims from the fund and submits them for payment to the Commission. The maximum payments from the Fund each fiscal year is \$5 million. Projections for FY17 indicate that \$5 million in rebates are committed to film projects currently in production. Film rebate payments are made after the film project is completed and expenditure reports have been audited by the Oklahoma Film and Music Office’s outside audit firm. This timing difference accounts for the decrease in rebate payments made during FY2016. For fiscal year 2016 payments were made to companies totaling \$1,296,694.

### **Ad Valorem Reimbursement Fund**

The fund’s purpose is to reimburse counties and schools for lost ad valorem tax revenue from tax exemptions to qualified manufacturing facilities and double homestead exemptions granted to qualifying homeowners as specified in 62 O.S., Section 193. The fund’s FY16 liability for reimbursement to counties and schools totaled \$80.23 million. HB 1616 transferred in \$47.07 million to cover the \$54.92 million due to schools. The remaining balance of \$25.31 million due to counties will be satisfied with FY17 collections. This deficit in funding available to cover current obligations causes the deficit fund balance for FY16. Projections for FY17 show the liability growing to approximately \$100 million due to the large number of wind generation facilities on line and the expansion of a major manufacturing facility in 2016. Revenue projections for both FY16 and FY17 show minimal growth. The difference between the obligation due and current revenue collections available to satisfy the obligation continue to grow each year resulting in a fund balance deficit.

## **BUDGET INFORMATION**

### **Budget versus Actual Variances**

Budgeted charges to appropriations for the fiscal year exceeded actual totals by \$2.8 million while actual resources available were higher than budgeted resources by \$23.51 million resulting in a positive overall variance of \$26,310,375. Actual revenues were higher than budgeted revenues due to an increase in the transfers in for Ad Valorem Reimbursements.

### **Next Year’s Budget**

The Commission budget for Fiscal Year 2017 was developed with available appropriations and estimated income from tax collections and fees associated with operating activities. The original budget totaled \$106.71 million, down \$70.98 million from the final budget of \$177.69 million for Fiscal Year 2016. The decrease in budget between Fiscal Years 2016 and 2017 consists primarily of a reduction in the amount available for reimbursements from the Ad Valorem Reimbursement Fund.

Of the \$106.71 million total budget, \$85.24 million is designated as General Fund, representing expenditures necessary for the performance of the Commission’s statutory functions, and auditing, collection and legal activities. The remaining \$21.47 million includes \$3 million for private collection agencies/data warehouse payments, \$.45 million for general revenue fund intended for OSU, \$.02 million for the License Plate Special Program, \$1 million for the Tax Commission Compliance Fund, \$12 million for the Used Tire Recycling Indemnity Fund, \$5 million for the Oklahoma Film Enhancement Rebate Reimbursement Fund.

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

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

**OKLAHOMA TAX COMMISSION  
GOVERNMENT-WIDE  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash	\$23,424,466
Investments	2,222,500
Accounts Receivable	940,485
Taxes & Fees Receivable	8,661,068
Inventory	97,317
Total Current Assets	35,345,836
Noncurrent Assets:	
Capital Assets (Net Of Accumulated Depreciation)	17,705,810
Total Noncurrent Assets	17,705,810
<b>TOTAL ASSETS</b>	<b>\$53,051,646</b>
 <b>DEFERRED OUTFLOW OF RESOURCES</b>	
Deferred Amounts Related To Pension	\$4,806,221
 <b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$29,915,382
Accrued Payroll	67,236
Compensated Absences	249,116
Total Current Liabilities	30,231,734
Noncurrent Liabilities:	
Compensated Absences	2,707,941
Net Pension Liability	5,995,142
Total Noncurrent Liabilities	8,703,083
<b>TOTAL LIABILITIES</b>	<b>\$38,934,817</b>
 <b>DEFERRED INFLOW OF RESOURCES</b>	
Deferred Amounts Related To Pension	\$3,686,708
 <b>NET POSITION</b>	
Invested In Capital Assets	17,705,810
Unrestricted (Deficit)	(2,469,468)
<b>TOTAL NET POSITION</b>	<b>\$15,236,342</b>

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

**OKLAHOMA TAX COMMISSION  
GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES  
JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$168,483,339	\$39,965,125	\$0	(\$128,518,214)
Depreciation Expense - Unallocated	\$3,717,424			(\$3,717,424)
Total Governmental Activities	\$172,200,763	\$39,965,125	\$0	(\$132,235,638)
General Revenues:				
Taxes:				
Personal and Corporate Income				\$36,750,807
License Plate				3,800
Fees:				
Used Tire Recycling Fee				9,350,818
Other				637,648
State Appropriations				38,498,165
Transfers In				47,074,091
Transfers Out				(2,087,586)
Total Revenues				130,227,743
Change in Net Position				(2,007,895)
Net Position - beginning - Restated see Note 2				17,244,237
Net Position - ending				\$15,236,342

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

**OKLAHOMA TAX COMMISSION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
6/30/2016**

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	OTC Protest Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
<b>ASSETS</b>							
Cash	\$11,113,123	\$800			\$12,310,542	\$1	\$23,424,466
Investments			\$2,009,591	\$212,909			2,222,500
Accounts Receivable	866,685					73,800	940,485
Taxes and Fees Receivable	4,532,128	160	16,901			4,111,879	8,661,068
Inventory	97,317						97,317
<b>TOTAL ASSETS</b>	<b>\$16,609,253</b>	<b>\$960</b>	<b>\$2,026,492</b>	<b>\$212,909</b>	<b>\$12,310,542</b>	<b>\$4,185,680</b>	<b>\$35,345,836</b>
<b>LIABILITIES</b>							
Accounts Payable	\$3,127,597		\$1,476,909			\$25,310,876	\$29,915,382
Accrued Payroll	67,236						67,236
Compensated Absences	15,316						15,316
<b>TOTAL LIABILITIES</b>	<b>3,210,149</b>	<b>0</b>	<b>1,476,909</b>	<b>0</b>	<b>0</b>	<b>25,310,876</b>	<b>29,997,934</b>
<b>FUND BALANCES</b>							
Nonspendable	355,016						355,016
Restricted		960	549,583	212,909			763,452
Committed	1,531,821				12,310,542		13,842,363
Unassigned	11,512,267					(21,125,196)	(9,612,929)
<b>TOTAL FUND BALANCES</b>	<b>13,399,104</b>	<b>960</b>	<b>549,583</b>	<b>212,909</b>	<b>12,310,542</b>	<b>(21,125,196)</b>	<b>5,347,902</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$16,609,253</b>	<b>\$960</b>	<b>\$2,026,492</b>	<b>\$212,909</b>	<b>\$12,310,542</b>	<b>\$4,185,680</b>	<b>\$35,345,836</b>

**Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Position  
June 30, 2016**

Total Fund Balance - Governmental Funds	\$5,347,902
Amounts reported for governmental activities in the statement of net position are different because:	
Certain other long-term assets are not available to pay current fund liabilities and therefore, are deferred or not reported in the funds:	
Pension Related Deferred Outflows	4,806,221
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These consist of :	
Furniture and Equipment	41,016,817
Accumulated Depreciation	(23,311,007)
Certain liabilities are not due and payable from current financial resources and therefore, they, along with the deferred inflows, are not reported in the funds:	
Compensated Absences	(2,941,741)
Net Pension Liability	(5,995,142)
Pension Related Deferred Inflows	(3,686,708)
<b>Net Position of Governmental Activities</b>	<b>\$15,236,342</b>

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

**OKLAHOMA TAX COMMISSION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	OTC Protest Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$25,896,950	\$3,800			\$5,000,000	\$31,750,807	\$62,651,557
Licenses Permits and Fees	14,051,818		\$9,350,818				23,402,636
Other	16,358		83,273	\$3,715	27	550,632	654,005
<b>Total Revenues</b>	<u>39,965,126</u>	<u>3,800</u>	<u>9,434,091</u>	<u>3,715</u>	<u>5,000,027</u>	<u>32,301,439</u>	<u>86,708,198</u>
<b>Expenditures</b>							
<b>Current:</b>							
Salaries and Benefits	44,816,346						44,816,346
Professional Services	9,955,928		2,995				9,958,923
Inter-Agency Personal Services	26,279						26,279
Travel	641,087						641,087
Miscellaneous Administrative	7,462,833						7,462,833
Rent of Buildings and Equipment	2,942,552						2,942,552
Maintenance	6,603,805						6,603,805
Supplies	2,710,365						2,710,365
Waste Tire Payments			11,734,062				11,734,062
Film Rebate Payments					1,296,694		1,296,694
Building Renovation	6,246						6,246
Payments to Local Governments						80,234,967	80,234,967
Transfer to Special Account Funds		4,160					4,160
Library Equipment	40,071						40,071
<b>Capital Outlay:</b>							
Equipment	4,412,283		2,000,000				6,412,283
<b>Total Expenditures</b>	<u>79,617,795</u>	<u>4,160</u>	<u>13,737,057</u>	<u>0</u>	<u>1,296,694</u>	<u>80,234,967</u>	<u>174,890,673</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(39,652,669)</u>	<u>(360)</u>	<u>(4,302,966)</u>	<u>3,715</u>	<u>3,703,333</u>	<u>(47,933,528)</u>	<u>(88,182,475)</u>
<b>Other Financing Sources (Uses)</b>							
State Appropriations	38,498,165						38,498,165
Transfers In						47,074,091	47,074,091
Transfers Out	(2,087,586)						(2,087,586)
<b>Total Other Financing Sources (Uses)</b>	<u>36,410,579</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>47,074,091</u>	<u>83,484,670</u>
<b>Net Change in Fund Balances</b>	<u>(3,242,090)</u>	<u>(360)</u>	<u>(4,302,966)</u>	<u>3,715</u>	<u>3,703,333</u>	<u>(859,437)</u>	<u>(4,697,805)</u>
Fund Balance - Beginning of Year	\$16,641,194	\$1,320	\$4,852,549	\$209,194	\$8,607,209	(\$20,265,759)	\$10,045,707
Fund Balance - End of Year	<u>\$13,399,104</u>	<u>\$960</u>	<u>\$549,583</u>	<u>\$212,909</u>	<u>\$12,310,542</u>	<u>(\$21,125,196)</u>	<u>\$5,347,902</u>

**Reconciliation of the Change in Net Position of Governmental Funds to the Statement of Activities**  
**June 30, 2016**

Net Change in Fund Balances - Total Governmental Funds	(\$4,697,805)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.	(2,268,293)
In the Statement of Activities, the net cost of pension benefits earned is calculated and is reported as pension expense. The fund financial statements report pension contributions as pension expenditures. This amount represents the difference between pension contributions and calculated pension expense.	4,828,446
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These consist of an increase in compensated absences.	<u>129,757</u>
<b>Change in Net Position of Governmental Activities</b>	<u><u>(\$2,007,895)</u></u>

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

**OKLAHOMA TAX COMMISSION  
STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUND  
JUNE 30, 2016**

<b>ASSETS</b>	
Cash	\$500,571,673
Investments	377,847,994
Accounts Receivable	9,508,475
Due From Other Accounts/Entities	7,875,771
Taxes Receivable	227,050,808
<b>TOTAL ASSETS</b>	<b><u><u>\$1,122,854,721</u></u></b>
 <b>LIABILITIES</b>	
Legal Judgements And Claims	\$7,003,129
Tax Refunds Payable	84,514,045
Due To State General Funds	756,072,620
Due To Enterprise Funds	4,176,915
Due To Pension Trust Funds	32,554,129
Due To Other Accounts/Entities	5,300,117
Due To Local Governments	232,831,331
Amount To Be Apportioned	402,435
<b>TOTAL LIABILITIES</b>	<b><u><u>\$1,122,854,721</u></u></b>

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

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

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

A. Reporting Entity

The Oklahoma Tax Commission, as established under 68 O.S., Section 102 et seq., is a part of the primary government of the State of Oklahoma. The Oklahoma Tax Commission is composed of three members appointed by the Governor with the advice and consent of the State Senate, for six year terms. No more than two members of the Tax Commission shall be, or shall have been in the previous six months, members of the same political party.

The Oklahoma Tax Commission shall appoint an executive director who serves at the pleasure of the Commission and who shall be the administrative officer of the Commission and manage the activities of the employees.

The Commission is a full-time working body which is responsible for the administration and enforcement of state tax laws, the collection of a majority of all state-levied taxes, fees, and licenses, and the subsequent apportionment and allocation of revenue designated for various state agencies and local units of government. In its quasi-judicial capacity, the Commission has the authority to subpoena witnesses and records, administer oaths, and render decisions appealable directly to the State Supreme Court.

The organizational make-up of the Oklahoma Tax Commission includes three separate departments. These departments include Taxpayer Services, Revenue Administration, and Support Services. The Taxpayer Services department includes Taxpayer Assistance, Communications, Central Processing, and Account Maintenance. The Revenue Administration department includes Tax Policy, Compliance, Motor Vehicle, and Ad Valorem. The Support Services department includes Human Resources, Information Technology, Legal, and Management Services.

COMMISSION MEMBERS

Steve Burrage, Chairman  
Term Expires January, 2021

Dawn Cash, Vice Chairman  
Term Expires January, 2017

Thomas E Kemp, Jr., Secretary-Member  
Term Expires January, 2019

EXECUTIVE DIRECTOR

Tony Mastin, Executive Director to the Commission

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

### B. Basis of Presentation

#### Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The Commission is involved only in governmental activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues.

#### Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The funds of the financial reporting entity are described below:

#### **Governmental Funds**

##### General Fund

The General Fund is the primary operating fund of the Commission and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

##### Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

#### **Fiduciary Funds (Not included in Government-wide Statements)**

##### Agency Funds

Agency funds account for assets held by the Commission in a purely custodial capacity. The reporting entity includes one agency fund. Since agency funds are custodial in nature they do not involve the measurement of results of operations.

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

The Oklahoma Tax Commission is the official depository and collector of taxes for the State of Oklahoma, as well as for county and municipal governments in Oklahoma. The Oklahoma Tax Commission is responsible for the apportionment of monies collected for the State of Oklahoma.

**Major Funds**

The types of major funds utilized by the Oklahoma Tax Commission are as follows:

**General Fund**                      See previous page for description.

The Commission's five major special revenue funds include:

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

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

**Oklahoma Tax Commission (OTC) Protest Fund** – The fund's purpose is to retain fees and taxes in cases where it is alleged or claimed that fees or taxes of the state are in a whole or in part unconstitutional or otherwise invalid. If a written protest is made and a suit is filed in a timely manner, the fees or taxes paid under protest shall be retained in the appropriate "Protest Fund" pending a final determination of the suit as specified in 62 O.S., Section 206.

**Film Rebate Fund** - The Film Rebate Fund's purpose is to reimburse film companies for producing films or commercials in the State of Oklahoma. The Film and Music Office approves all claims from the fund and submits them for payment to the Commission. The maximum payments from the Fund each fiscal year is \$5 million.

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

C. Measurement Focus and Basis of Accounting

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

**Measurement Focus**

On the Government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income and changes in net position. All assets and liabilities (whether current or non-

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

current) associated with their activities are reported. No fiduciary funds are included in the government-wide statement of net position.

In the fund financial statements all governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net position.

**Basis of Accounting**

In the Government-wide Statement of Net Position and Statement of Activities governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, assets and liabilities resulting from exchange transactions are recognized when the exchange takes place.

In the fund financial statements, all governmental funds are maintained and reported on the modified accrual basis of accounting while agency funds are presented using the accrual basis of accounting. Under the modified accrual basis of accounting, revenues and related current assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year; expenditures and liabilities are recognized when obligations are incurred as a result of receipt of goods and services. Revenues are recognized as available when collected within 60 days of year-end. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2016, has been reported in the Statement of Net Position.
- Executory purchase orders and contracts are recorded as unassigned fund balance.

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

**Inventories**

Inventories are valued at cost. The flow assumption used to determine cost is weighted average. The costs of inventories for the Oklahoma Tax Commission are recorded as expenditures when purchased. Reported inventories are equally offset by a non-spendable fund balance designation, which indicates that it does not constitute available spendable resources even though it is a component of total assets.

**Capital Assets**

Capital assets held by the Oklahoma Tax Commission and reflected in the accompanying financial statements are stated at original cost or estimated cost as determined from available records maintained by the Commission, net of accumulated depreciation.

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

Assets valued by estimate represent less than one percent of total capitalized assets. The asset values were based on equipment fair market values at the time of acquisition.

Capital assets are depreciated using the straight-line with half-year convention method over the asset's useful life. Generally, estimated useful lives are as follows:

Office Furniture, Fixtures, and Equipment	6-12 years
Information Systems	3-10 years
Data Handling Equipment	5-7 years

Additional capital asset disclosures are presented in Note 4.

**Accounts Payable**

OTC determines payables by reviewing July and August payments. Management calculated existing encumbrances by utilizing a report of open purchase orders as of June 30 and subtracting July and August payable payments from that balance to arrive at an August 31 open encumbrance list. This list was reviewed to determine which encumbrances were payable for FY16. This amount was added to the July and August accounts payable payments to arrive at total payables as of June 30.

**Compensated Absences**

Employees earn annual vacation at the average rate of 10 hours per month for up to 5 years service and may accumulate to a maximum of 240 hours. Employees earn an average of 12 hours per month for 5 to 10 years, an average of 13.33 hours per month for 10 to 20 years, and an average of 16.67 hours per month for over 20 years of service. Annual leave for employees with over 5 years service may accumulate to a maximum of 480 hours. All accrued annual leave is payable upon layoff, resignation, retirement, or death.

The general fund records expenditures when the employee is paid for annual leave, and the cost of accumulated annual leave is recorded in the Statement of Net Position. Payments for employee vested annual leave for the year ended June 30, 2016, were made in the amount of \$263,896. Total amount outstanding at June 30, 2016, is \$2,957,057 of which \$2,707,941 is recorded as a long-term liability.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance at the aggregate level of detail within the categories defined by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. See Note 9 for additional information.

E. Program Revenues

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

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

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

Charges for Services Statutorily the Commission is authorized to retain a percentage or fee associated with certain tax collections such as sales and use taxes, levied by local governments and collected through a contractual agreement by the Commission. These types of revenues are specifically related to the government activity program.

F. Transfers In/Transfers Out

Transfers in were comprised of \$47.07 million appropriated to the Ad Valorem Reimbursement Fund per SB1616, Section 190.

HB 1304, the Information Technology Consolidation and Coordination Act, consolidated the Commission's information technology operations into the Office of Management and Enterprise Services, Information Services Division, which received \$2.09 million from the Joint Computer Enhancement Fund.

2. Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, Oklahoma Public Employees Retirement Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prior Period Adjustments

Beginning fund balances/net position were restated as of June 30, 2016 as follows:

	<u>Fiscal Year 2016</u>
Beginning net position, as previously reported	\$ 26,948,312
Implementation of GASB Statements 68 & 71	<u>(9,704,075)</u>
Beginning Net Position, restated	<u><u>\$ 17,244,237</u></u>

Plan description - The Commission, as the employer, participates in Oklahoma Public Employees Retirement Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). A separately issued independent auditor's report may be obtained from the Public Employees Retirement System, 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.

Benefits provided - OPERS provides retirement, disability, and death benefits to members of the plan.

-Eligible to participate

All permanent employees of the state of Oklahoma, and any other employer such as a county, county hospital, city or town, conservations district, circuit engineering districts, and any trust in which a county, city, or town participates and is the primary beneficiary, are eligible to join if:

- 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 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).

Membership is mandatory for new eligible employees on the first of the month following employment. Effective November 1, 2015, the plan is closed to most new state employees. Any employee with service in the system prior to November 1, 2015 will continue to be a member or will join the system upon re-employment with a participating employer.

-Period Required to Vest

Eight years of credited service.

-Eligibility for Distribution

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Benefits are calculated for each member category as follows:

- Employees
  - Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.
  - Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.
  - Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

#### -Benefit Authorization

Benefits are established in accordance with 74 O.S., Chapter 29, Sections 901 through 935 as amended.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Upon the death of a retired member, the Plan will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Contributions - The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. Employees are required to contribute 3.5% percent of their annual pay. Participating entities are required to contribute 16.5% of the employees' annual pay. FY16 contributions to the pension plan from the Commission were \$4,712,924.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Commission reported a liability of \$5,995,142 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 Commission's proportion of the net pension liability was based on the Commission's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the Commission's proportion was 1.666781 percent.

For the year ended June 30, 2016, the Commission recognized negative pension expense of \$115,522. At June 30, 2016, the Commission 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
Differences between expected and actual experience	\$ -	\$ 666,581
Changes of assumptions	93,270	-
Net difference between projected and actual earnings on pension plan investments		2,719,425
Changes in proportion and differences between Agency contributions and proportionate share of contributions		300,702
Agency contributions during the measurement date	27	
Agency contributions subsequent to the measurement date	4,712,924	-
Total	<u>\$ 4,806,221</u>	<u>\$ 3,686,708</u>

\$4,806,221 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (1,913,129)
2018	(1,576,415)
2019	(1,341,218)
2020	1,237,351
Total	<u>\$ (3,593,411)</u>

Actuarial Assumptions- The total pension liability as of July 1, 2015, was determined based 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)
- No annual post-retirement benefit increases
- Assumed inflation rate – 3.0%
- Payroll growth – 4.0% per year
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years
- Percentage of married individuals - 85%, males and females
- Spouse age difference – Males are assumed to be four years older than spouses.
- 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 three-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

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, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	100.0%	

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, the pension plan’s 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan'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:

	6.50%	Rate 7.5%	8.50%
Employers' net pension liability	\$ 22,339,435	\$ 5,995,142	\$ (7,900,098)

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) .

Payables to the Pension Plan – The payable amount to the pension plan of \$6,485 represents the amount payable from the Commission to the pension plan at the measurement date.

Oklahoma Tax Commission Portion – The amounts presented below represent Net Pension Liability, Deferred Outflows, Deferred Inflow, 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.

Commission %	Net Pension Liability	Deferred Outflows	Deferred Inflows	Pension Expense
1.666781%	\$5,995,142	\$4,806,221	\$3,686,708	\$115,522

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 Oklahoma Tax Commission's portion of the State's net pension liability has been recorded and reported.

Defined Contribution Plan - Pathfinder is the mandatory defined contribution plan for eligible state employees who first become employed by a participating employer on or after November 1, 2015, and have no prior participation in OPERS. Under this plan, members will choose a contribution rate which will be matched by their employer up to 7%, and members have the freedom to select and change their investments. A defined contribution plan like Pathfinder does not provide a guaranteed, lifetime source of income. 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.

For the defined contribution members, the Commission sends to OPERS the difference between the OPERS required rate (16.5% for state members) and the amount required for the employer match in Pathfinder. These extra contributions to OPERS allow the use of the level percent of payroll amortization method since they are expected to produce a payment stream that is constant, if not increasing, as a percent of covered payroll. For FY2016, the extra contribution made by the Commission was \$39,961.

#### Other Post Employment Benefits (OPEB)

In addition to the pension benefits described, employees of the Commission are provided post-retirement health care benefits through their membership in the Oklahoma Public Employees Retirement System (OPERS). OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Office of Management and Enterprise Services (OMES): Employees Group Insurance Division (EGID).

OPERS funds post employment health care benefits as part of the overall retirement requirement. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the Oklahoma Tax Commission is not available or reasonably estimable.

### 3. Deposits and Investments

At June 30, 2016, all cash and investments under the control of the State Treasurer were collateralized in accordance with 62 O.S., Section 72.3, titled, "Security for Public Deposits Act."

#### A. Deposits

As of June 30, 2016, the bank balances of deposits are fully insured or collateralized with securities held by the State's agent in the State's name.

#### B. Investments

The State Treasurer maintains two investment portfolios. The Treasurer's Portfolio, which is used to manage the investments of all State monies that are under the control of the Treasurer where earnings accrue to the general fund of the State, and the State Agency Portfolio, for the investment of a limited number of state agencies specifically

authorized by statute to direct the activities of certain funds and accounts where the earnings accrue to those funds and accounts. Ancillary to the Treasurer's Portfolio is an internal investment pool, OK INVEST, for all state funds and agencies that are considered part of the State of Oklahoma. All cash balances held through the State Treasurer for the Primary Government, Component Units and Fiduciary Funds earn a return through the OK INVEST pool program.

**State Treasurer Investment Policy Diversification Limits**

<u>Investment Type</u>	<u>Percentage of Total Invested</u>	<u>Percentage of Total by Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
Treasuries	No Limit	No Limit	10 Years	Aaa, AAA
Agencies	50.0%	35.0%	10 years	Aaa, AAA
Mortgage-Backed Securities	45.0%	No Limit	7 Years <sup>d</sup>	Aaa, AAA
Certificate of Deposit (Collateralized/Insured)	No Limit	\$35 Million <sup>a</sup>	365Days <sup>e</sup>	No Limit
Certificate of Deposit (Negotiable)	7.5%	2.5%	180 Days <sup>e</sup>	A-1&P-1
Bankers' Acceptances	7.5%	2.5%	270 Days	A-1&P-1
Commercial Paper	7.5%	2.5% <sup>b</sup>	180 Days	A-1&P-1
State and Local Government Obligations	10.0%	5.0%	30 Years	f
Repurchase and Tri-party Repurchase Agreements	30.0%	10.0% <sup>c</sup>	14 Days <sup>e</sup>	g
Foreign Bonds	2.5%	h	5 Years	A-/A3 or better
Money Market Mutual Fund	30.0%	10.0%	e	AAAm

- (a) Subject to the discretion of the State Treasurer to approve a greater amount per financial institution
- (b) No more than 5% of outstanding commercial paper of an issuing corporation can be purchased
- (c) Per Counterparty
- (d) Average life should not exceed 7 years based on Bloomberg Prepayment speed using street consensus at the time of purchase
- (e) Excluding weekends and holidays
- (f) Securities must not be less than investment grade at purchase
- (g) Counterparties must have a minimum short-term debt rating of A-1, or the equivalent by Moody's Investor Service and Standard & Poors
- (h) Must be listed as an industrialized country by the International Monetary Fund

Investments for governmental and fiduciary funds at June 30, 2016, by investment type, are listed below:

	<u>Carrying Amount</u>	<u>Reported Amount/ Fair Value</u>
Repurchase Agreements:		
<u>Governmental Funds</u>	\$ 2,222,500	\$ 2,222,500
<u>Agency Fund</u>	\$377,847,994	\$377,847,994

Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of the State, or counterparty or the counterparty's trust department but not in the State's name. All investments held by the State Treasurer are insured, registered, or held in the name of the State Treasurer.

### Fair Value Measurement

With the implementation of GASB 72 Fair Value Measurement and Application, the Commission categorizes its fair value measurements, except for investment in nonparticipating interest earning investment contracts (e.g. nonnegotiable certificates of deposit) which are stated at cost, within the fair value hierarchy established by generally accepted accounting principles. Fair value measurement is provided by the custodian for assets they hold using guidelines that recognize a three-tiered fair value hierarchy. The portfolio has the following recurring fair value measurements as of June 30, 2016:

#### **Investments Measured at Fair Value**

June 30, 2016 (\$ in millions)

	<u>6/30/2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>TREASURER'S PORTFOLIO</b>				
<b><u>POOLED INVESTMENTS</u></b>				
U. S. TREASURY TIPS	2.75		2.75	
U. S. AGENCIES	73.07		73.07	
MORTGAGED BACKED SECURITIES	73.05		73.05	
FOREIGN BONDS	1.55		1.55	
MUNICIPAL BONDS	3.26		3.26	
	<u>153.68</u>		<u>153.68</u>	

Level 1 securities are valued using prices quoted in an active market.

Level 2 securities are comprised of observable market based inputs, such as a matrix pricing technique inclusive of an evaluated bid methodology.

Level 3 securities are comprised of unobservable inputs.

Fair value according to GASB 72 focuses particular attention on the price that would be received to sell the asset (exit price) and not the price that would be required to acquire the asset (entry price). The valuation technique used was the "market approach" using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Stated fair value in the financial statements is determined by the custodial relationship existing at June 30, 2016. The custodian's hierarchy level for fixed income is classified as a level 2 assessment due to fair value observable inputs using market based pricing and an evaluated price provided by an independent pricing vendor or broker/dealer. Reporting at the lowest input level when fair value inputs are from more than one level is guidance from GASB 72.

4. Capital Assets

In accordance with guidelines established by the Office of Management and Enterprise Services, capital assets reflected in the accompanying financial statements are those with a cost in excess of \$25,000. Expenditures for capital assets are recorded as period costs when the assets are recorded in the governmental funds. A provision for depreciation has been recorded in the governmental activities of the Statement of Net Position and Statement of Activities. The depreciation method used for capital assets is straight-line with half-year convention. Capital asset activity for the year ended June 30, 2016 was as follows:

General Government Activities:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets – Net</u>
Beginning Balance	\$35,928,084	(\$ 15,953,981)	\$ 19,974,103
Prior Year Adjustment	0	(4,172,853)	(4,172,853)
Adjusted Beginning Balance	\$35,928,084	(\$20,126,834)	\$15,801,250
Increases	5,621,984	(3,717,424)	1,904,560
Decreases	(533,250)	533,250	0
Ending Balance	<u>\$41,016,818</u>	<u>(\$23,311,008)</u>	<u>\$17,705,810</u>

Current year depreciation expense related to the General Government Activities was \$3,717,424.

5. Operating Lease Commitments

The Oklahoma Tax Commission has commitments to lease certain buildings, equipment, telecommunications equipment, data processing software, and other miscellaneous rentals. Rental expense for fiscal year 2016 was \$3,034,441. The majority of leases is from one to five years with renewable lease terms and contains a 30 day cancellation clause.

6. Due To Other Funds

Amounts due to other funds are presented in the Fiduciary Fund. To the extent that transactions between funds had not been executed at June 30, 2016, the balances are included.

7. Risk Management

The Capital Asset Management Division of the State’s Office of Management and Enterprise Services is empowered by the authority of 74 O.S., Section 85.58A et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for use by the State or for certain organizations and bodies outside of state government, at the sole expense of such organization and bodies.

The Capital Asset Management Division is authorized to settle claims of the State and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the State, an agency or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act, as provided by 51 O.S., Section 154. The Capital Asset Management Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity. The Capital Asset Management

Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Division.

8. Long-Term Obligations

Long-term obligations at June 30, 2016, and changes for the fiscal year are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Compensated Absences	\$2,836,528	\$2,268,834	\$2,397,421	\$2,707,941

The amount due within 1 year is \$249,116.

Net Pension Liability – See paragraph 2 above.

9. Governmental Fund – Fund Balance Reserves and Designations

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

	<u>General Fund</u>	<u>OTC Protest Fund/ License Plate Program Fund</u>	<u>Used Tire Recycling Indemnity Fund</u>	<u>Film Rebate Fund</u>	<u>Ad Valorem Reimbursement Fund</u>	<u>Total Governmental Funds</u>
Nonspendable						
Inventories	\$97,317					\$97,317
Prepaid Postage	\$257,699					\$257,699
Restricted						
License Plate Program		\$960				\$960
OTC Protest Fund		\$212,909				\$212,909
Used Tire Recycling Indemnity Fund			\$549,583			\$549,583
Committed						
Computer Enhancement Fund	\$1,531,821					\$1,531,821
Film Rebate Fund				\$12,310,542		\$12,310,542
Assigned						0
Unassigned	\$11,512,267				(\$21,125,196)	(\$9,612,929)
<b>Total Fund Balances</b>	<u>\$13,399,104</u>	<u>\$213,869</u>	<u>\$549,583</u>	<u>\$12,310,542</u>	<u>(\$21,125,196)</u>	<u>\$5,347,902</u>

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

Restricted fund balance represents the amount due to a state entity sponsoring a license plate program as authorized by 47 O.S., Section 1135.8, escrowed corporate penalty payments paid in protest authorized by 62 O.S., Section 206, and used tire recycling fees authorized under by 27A O.S., Section 2-11-401.2.

Committed fund balance represents amounts designated for computer enhancement projects such as the development of an integrated tax system as authorized by 68 O.S., Section 265 and amounts committed under the Film Rebate Fund.

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

10. Litigation and Contingencies

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

Refunds of sales and use taxes

Claims for refund of sales and use tax claimants paid to their vendors on items in and around well sites. An administrative law judge has ruled in favor of the claimant in one case which has been appealed by the Oklahoma Tax Commission. Amount to be paid to taxpayer is \$5,300,000.

Denial of Multiple Injury Trust Fund rebate

Claimant protested denial of multiple injury trust fund rebate request. The General Counsel has deemed the payment of the \$1,103,129 from the Oklahoma Tax Commission to the taxpayer as reasonably possible.

Refund due to statute of limitations

A refund of \$600,000 was denied because statute of limitation expired, however pending federal audit will re-open statute for taxpayer to claim refund.

11. Fund Balance Deficit

The Ad Valorem Reimbursement Fund is stated at a fund balance deficit at June 30, 2016. Due to the constitutional requirement to fully fund reimbursements to counties from the Ad Valorem Reimbursement Fund as specified in 62 O.S. 2001, Section 193, obligations exceeded available funding at year end. Unpaid claims of \$25,310,876 will be paid from funds available during the 2017 fiscal year. The Ad Valorem Reimbursement Fund is a pass through and not used for the general operations of the Commission.

**OKLAHOMA TAX COMMISSION  
OTHER INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note A )	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$10,383,293	\$10,383,293	\$10,383,293	\$0
Resources (inflows)				
Taxes	30,874,325	33,613,326	25,995,530	(7,617,796)
Other Revenues	13,345,000	13,345,000	15,809,426	2,464,426
State Appropriations	41,395,876	38,498,165	38,498,165	0
Amount Available for Appropriation	<u>95,998,494</u>	<u>95,839,784</u>	<u>90,686,414</u>	<u>(5,153,370)</u>
Charges to Appropriations (outflows)				
Salaries and Benefits	45,350,624	43,110,721	44,816,346	(1,705,625)
Professional Services	9,179,369	8,901,561	9,955,928	(1,054,367)
Inter-Agency Personal Services	32,100	32,100	26,279	5,821
Travel	721,200	721,200	641,087	80,113
Miscellaneous Administrative	6,252,658	5,872,658	7,462,833	(1,590,175)
Rent of Buildings and Equipment	5,250,300	5,250,300	2,942,552	2,307,748
Maintenance	6,700,481	6,700,481	6,603,805	96,676
Supplies	3,757,093	3,757,093	2,710,365	1,046,728
Equipment	7,051,500	7,051,500	4,412,283	2,639,217
Buildings - Renovation			6,246	(6,246)
Library Equipment	40,000	40,000	40,071	(71)
Payments to Local Governments			0	0
Total Charges to Appropriations	<u>84,335,325</u>	<u>81,437,614</u>	<u>79,617,795</u>	<u>1,819,819</u>
 Budgetary Fund Balance - June 30	 <u>\$11,663,169</u>	 <u>\$14,402,170</u>	 <u>\$11,068,619</u>	 <u>(\$3,333,551)</u>

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

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - TAX COMMISSION COMPLIANCE FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

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

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

**BUDGETARY COMPARISON SCHEDULE - LICENSE PLATE PROGRAM FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$1,320	\$1,320	\$1,320	\$0
Resources (inflows)				
Taxes	20,000	20,000	3,780	(16,220)
Amount Available for Appropriation	21,320	21,320	5,100	(16,220)
Charges to Appropriations (outflows)				
Other Expenditures	20,000	20,000	4,160	15,840
Total Charges to Appropriations	20,000	20,000	4,160	15,840
Budgetary Fund Balance - June 30	\$1,320	\$1,320	\$940	(\$380)

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

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - USED TIRE RECYCLING INDEMNITY FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$4,852,549	\$4,852,549	\$4,852,549	\$0
Resources (inflows)				
Tire Fees	10,000,000	10,000,000	9,384,106	(615,894)
Other Revenues			83,273	83,273
Amount Available for Appropriation	<u>14,852,549</u>	<u>14,852,549</u>	<u>14,319,928</u>	<u>(532,621)</u>
Charges to Appropriations (outflows)				
Waste Tire Reimbursements	10,000,000	10,000,000	13,737,057	(3,737,057)
Other Expenditures				0
Transfers to Other Funds				0
Total Charges to Appropriations	<u>10,000,000</u>	<u>10,000,000</u>	<u>13,737,057</u>	<u>(3,737,057)</u>
Budgetary Fund Balance - June 30	<u>\$4,852,549</u>	<u>\$4,852,549</u>	<u>\$582,871</u>	<u>(\$4,269,678)</u>

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

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - FILM REBATE FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note A )	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$8,607,182	\$8,607,182	\$8,607,182	\$0
Resources (inflows)				
Taxes	5,000,000	5,000,000	5,000,000	0
Transfers In				0
Other Revenue			27	27
Amount Available for Appropriation	<u>13,607,182</u>	<u>13,607,182</u>	<u>13,607,209</u>	<u>27</u>
Charges to Appropriations (outflows)				
Film Rebate Payments	5,000,000	5,000,000	1,296,694	3,703,306
Transfers to Other Funds				0
Total Charges to Appropriations	<u>5,000,000</u>	<u>5,000,000</u>	<u>1,296,694</u>	<u>3,703,306</u>
Budgetary Fund Balance - June 30	<u>\$8,607,182</u>	<u>\$8,607,182</u>	<u>\$12,310,515</u>	<u>\$3,703,333</u>

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

See independent auditor's report.

**BUDGETARY COMPARISON SCHEDULE - AD VALOREM REIMBURSEMENT FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	<u>Original</u>	<u>Final</u>	(Budgetary Basis)	Final Budget -
			(See Note A )	Positive (Negative)
Budgetary Fund Balance, July 1	(\$20,265,759)	(\$20,265,759)	(\$20,265,759)	\$0
Resources (inflows)				
Taxes	22,360,623		29,659,991	29,659,991
Transfers In		47,074,091	47,074,091	0
Other Revenue			550,633	550,633
Amount Available for Appropriation	<u>2,094,864</u>	<u>26,808,332</u>	<u>57,018,956</u>	<u>30,210,624</u>
Charges to Appropriations (outflows)				
County Reimbursements	22,360,623	80,234,967	80,234,967	0
Transfers to Other Funds				0
Total Charges to Appropriations	<u>22,360,623</u>	<u>80,234,967</u>	<u>80,234,967</u>	<u>0</u>
Budgetary Fund Balance - June 30	<u>(\$20,265,759)</u>	<u>(\$53,426,635)</u>	<u>(\$23,216,011)</u>	<u>\$30,210,624</u>

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

See independent auditor's report.

**OTHER INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTES TO OI**

Note A. Budgeting, Budgeting Control and Budgetary Reports

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

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on budget requests prepared by the various state agencies. The General Fund, License Plate Program Fund, Tax Commission Compliance Fund, Used Tire Recycling Indemnity Fund, Ad Valorem Reimbursement Fund and the Oklahoma Film Enhancement Fund are the only funds for which an annual budget is legally adopted. The Governor has the power to approve or veto each line item appropriation. Any other changes to the budget must be approved by the Legislature in a supplemental appropriation. All 2016 appropriation line items of the State were within their authorized spending level.

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

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

Note B. Excess of Expenditures Over Appropriations

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

See independent auditor's report.

**OTHER INFORMATION BUDGETARY  
COMPARISON SCHEDULE NOTES TO OI**

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

	General Fund	License Plate Program Fund	Used Tire Recycling Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund
<b>Sources/inflows of resources</b>					
Actual amounts (budgetary basis) "Resources (inflows)" from the budgetary comparison schedule	\$80,303,121	\$3,780	\$9,467,379	\$5,000,027	\$30,210,624
Differences - budget to GAAP:					
State appropriations are inflows of budgetary resources but are not revenues for financial reporting purposes.	(38,498,165)				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.					
Accrual adjustments for receivables are made for financial reporting purposes but not for the budgetary comparison.	(1,839,831)	20	(33,288)	0	2,090,816
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$39,965,125	\$3,800	\$9,434,091	\$5,000,027	\$32,301,440
<b>Uses/outflows of resources</b>					
Actual amounts (budgetary basis) " total charges to appropriations" from the budgetary comparison schedule	\$79,617,795	\$4,160	\$13,737,057	\$1,296,694	\$80,234,967
Differences - budget to GAAP:					
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	0	0	0	0	0
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$79,617,795	\$4,160	\$13,737,057	\$1,296,694	\$80,234,967

See independent auditor's report.

**Schedules of Required Supplementary Information**  
**SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Last 10 Fiscal Years\* (Dollar amounts in thousands)**

	2014	2015
Commission's proportion of the net pension liability	1.719090%	1.666781%
Commission's proportionate share of the net pension liability	\$3,155,635	\$5,995,142
Commission's covered-employee payroll	\$28,973,655	\$29,465,012
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll	11%	20%
Plan fiduciary net position as a percentage of the total pension liability	97.90%	96.00%

\*The amounts present for each fiscal year were determined as of 6/30

**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.

Only the current and prior fiscal year is presented because 10-year data is not yet available.

**Schedules of Required Supplementary Information**  
**SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS**  
**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Last 10 Fiscal Years (Dollar amounts in thousands)**

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$4,861,727	\$4,712,924
Contributions in relation to the contractually required contribution	<u>4,861,727</u>	<u>4,712,924</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$ 29,465,012	\$ 28,563,176
Contributions as a percentage of covered-employee payroll	16.50%	16.50%

**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.

Only the current fiscal year is presented because 10-year data is not yet available.



# Oklahoma State Auditor & Inspector

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

### TO THE COMMISSIONERS OF THE OKLAHOMA TAX COMMISSION

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oklahoma Tax Commission, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Oklahoma Tax Commission's basic financial statements, and have issued our report thereon dated December 15, 2016. The report includes an emphasis of matter paragraph stating the financial statements of the Oklahoma Tax Commission are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Oklahoma Tax Commission.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying finding schedule that we consider to be a significant deficiency (16-695-001).

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Oklahoma Tax Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

## **Oklahoma Tax Commission's Response to Finding**

The Oklahoma Tax Commission's response to the finding identified in our audit is described in the accompanying finding schedule. The Oklahoma Tax Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

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



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

December 15, 2016

## FINDING SCHEDULE

**Reference Number:** 16-695-001

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

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

**Other Information:** Cash/Revenue

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

The GAO Standards for Internal Control in the Federal Government 10.13 states, in part, “Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. ... In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk.”

Adequate internal controls over access and accountability for resources include (1) limiting access to resources and records to authorized individuals and (2) assigning and maintaining accountability for the custody and use of resources.

Adequate internal controls over separation of duties and supervision include separating key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions.

Management was made aware duties were not segregated and passwords were being shared throughout the Cash Cage and Banking Department. Management notified the State Auditor and Inspector’s Office, and has taken action; however, the control deficiency was present during the audit period.

**Cause/Effect:** The policies and procedures in place to ensure agency transactions are properly authorized, processed, recorded, or reviewed were circumvented, which increases the Commission’s vulnerability to waste, loss, unauthorized use or misappropriation of State funds. A lack of adequate staffing created a situation in which duties were not properly segregated and employees felt the need to share passwords to be able to perform their job duties.

**Recommendation:** We recommend the Commission review the current cash cage and banking operation procedures in place to determine where the breakdown in the internal control system occurred, and implement the necessary policies and procedures to ensure proper separation of duties and supervision are established and passwords are safeguarded. We also recommend the Commission hire adequate staff to eliminate the lack of segregation of duties.

**Agency Management Response:** As you’ve stated above, once management became aware of the situation, we contacted SA&I and immediately took action. We reviewed the section for adequate segregation and internal controls. As a result of that review, personnel was changed and added, proper computer access was established, a request of Internal Audit to perform a review was made, and policies and procedures were reviewed and discussed with personnel. Going forward this section will routinely be monitored to ensure adequate segregation of duties and proper internal controls are maintained.



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