

FINANCIAL AUDIT

OKLAHOMA TAX COMMISSION

FINANCIAL STATEMENT AND
INDEPENDENT AUDITOR'S REPORTS

For the fiscal year ended June 30, 2012



*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, 2012**

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Oklahoma State Auditor & Inspector

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December 20, 2012

**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, 2012. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones", is written over a light blue horizontal line.

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, 2012**

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Management's Discussion and Analysis

As management of the Oklahoma Tax Commission, we offer readers of the Agency's financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- Total net assets of the Agency increased 107.26% to \$38.26 million during the fiscal year ending June 30, 2012. The primary reason for the increase was an accumulation of funds in the Computer Enhancement Fund during the fiscal year.
- The Agency revenues for the fiscal year increased 22.63% or \$19.37 million over the prior year while expenses increased \$11.82 million or 9.83%. Appropriations were increased during the fiscal year by 0.19%.
- The assets of fiduciary funds, which represent taxes held in trust for distribution to state and local governments and others, totaled \$1.19 billion at June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net assets

The Agency's combined net assets increased between fiscal years 2011 and 2012 to \$38.26 million. Table A-1 illustrates the changes between the two years in more detail.

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

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2012</u>	<u>2011- 2012</u>
Current and other assets	\$35.79	\$59.72	66.86%
Capital assets	<u>8.59</u>	<u>10.72</u>	24.80%
Total assets	\$44.38	\$70.44	58.72%
Long-term liabilities	2.84	2.95	3.87%
Other liabilities	<u>23.08</u>	<u>29.23</u>	26.65%
Total liabilities	\$25.92	\$32.18	24.15%
Net assets			
Invested in capital assets	8.59	10.72	24.8%
Unrestricted	<u>9.87</u>	<u>27.54</u>	179.03 %
Total net assets	<u>\$18.46</u>	<u>\$38.26</u>	107.26%

Net assets of the Agency's governmental activities increased \$19.80 million to \$38.26 million. Unrestricted net assets showed a \$17.67 million increase during the year due to accumulated balances in the agency's Computer Enhancement Fund.

Statement of Activities

The Agency's revenues for the fiscal year ending June 30, 2012 increased 22.63% or \$19.37 million over the prior year while expenses increased \$11.82 million or 9.83%. The increase in revenues is primarily attributable to a partial recovery from the economic recession. 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>2011</u>	<u>2012</u>	<u>2011 - 2012</u>
Program Revenues:			
Charges for Services	\$49.50	\$59.23	19.66%
Grants	.00	.00	0%
General Revenues:			
Taxes	30.51	37.42	22.65%
Fees	5.54	8.32	50.18%
Other	<u>.06</u>	<u>.01</u>	(83.33)%
Total Revenues	\$85.61	\$104.98	22.63%
State Appropriations	46.83	46.92	.19%
Transfers In	10.00	00.00	(100.00)%
Expenses:			
General Government	(118.76)	(130.34)	9.75%
Depreciation	<u>(1.51)</u>	<u>(1.75)</u>	15.89%
Total Expenses	(\$120.27)	(\$132.09)	9.83%
Change in Net Assets	22.18	19.80	(10.73)%
Net Assets - beginning	(3.25)	18.46	668.00%
Prior Year Adjustment	<u>(.47)</u>	<u>0.00</u>	(100.00)%
Net Assets – Ending	<u>\$18.46</u>	<u>\$38.26</u>	107.26%

Fiduciary Fund Statements

The Agency, acting on statutory authority and contractual agreements, collects taxes, licenses and fees, which are distributed to state and local governments and private entities. At June 30, 2012 the Agency maintained as a fiduciary \$ 1,193,772,654 in total assets for others. Of that amount \$15.52 million was due to taxpayers for refunds and the balance is due to state entities, local government subdivisions and private entities.

FINANCIAL ANALYSIS OF THE AGENCY'S INDIVIDUAL FUNDS

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

General Fund

The general fund is the primary operating fund of the Agency. The fund's total assets increased 79.94% between fiscal years 2011 and 2012 to \$53.5 million, primarily due to an accumulation of funds in the Computer Enhancement Fund. The fund's total liabilities increased 13.88% between fiscal years 2011 and 2012 to \$2.99 million, while expenditures decreased \$957,820 or 1.14%. This resulted in an overall increase in fund balance of \$23.4 million or 86.34%.

License Plate Program Fund

The 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 3.17% from fiscal year 2011 to 2012 while expenditures decreased 19.14% during the same period.

Waste Tire 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. The fund's total assets increased 593.04% between fiscal years 2011 and 2012 to \$495,154, while there was a \$2.7 million or 50.28% increase in revenue. The fund's total liabilities increased 32.05% between fiscal years 2011 and 2012, while expenditures increased 44.68%. This resulted in an overall increase in fund balance of \$253,879.

Film Rebate Fund

The fund's purpose is to reimburse film companies for producing films or commercials in the State of Oklahoma. The Oklahoma Film Office approves all claims from the fund and submits them for payment to the Agency. The maximum payments from the Fund each fiscal year is \$5 million. For fiscal year 2012 payments were made to companies totaling \$4,665,716.

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 total assets increased 9.08% between fiscal years 2011 and 2012 to \$4.57 million, while there was a \$4.11 million or 14.72% increase in revenue. Obligations for constitutionally required reimbursements to counties from the Ad Valorem Reimbursement Fund, as specified in 62 O.S. § 193, exceeded available funding at year-end resulting in a fund balance deficit.

BUDGET INFORMATION

Budget versus Actual Variances

Budgeted charges to appropriations for the fiscal year exceeded actual totals by \$11,882,521 while actual resources available were lower than budgeted resources by \$11,730,468 resulting in a positive overall variance of \$152,053.

Next Year's Budget

The Agency budget for Fiscal Year 2013 was developed with available appropriations and estimated income from tax collections and fees associated with operating activities. The original budget totaled \$118.65 million, down \$27.38 million from the final budget of \$146.03 million for Fiscal Year 2012. The decrease in budget between Fiscal Years 2012 and 2013 consists primarily of a reduction in the amount available for reimbursements from the Ad Valorem Reimbursement Fund.

Of the \$118.65 million total budget, \$85.87 is designated as General Fund, representing expenditures necessary for the performance of the Agency's statutory functions, and auditing, collection and legal activities. The remaining \$32.78 million includes \$18.56 million for the Ad Valorem Reimbursement Fund, \$8.2 million for the Waste Tire Indemnity Fund, \$5 million for the Oklahoma Film Enhancement Rebate Reimbursement Fund, \$1 million for the Tax Commission Compliance Fund and \$.02 million for the License Plate Special Program.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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



Oklahoma State Auditor & Inspector

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

INDEPENDENT AUDITOR'S REPORT

TO THE COMMISSIONERS OF THE OKLAHOMA TAX COMMISSION

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oklahoma Tax Commission (OTC), as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the OTC's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the OTC are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the remaining fund information of the State of Oklahoma that is attributable to the transactions of the OTC. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2012, 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.

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 remaining fund information of the OTC, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the OTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-5 and budgetary comparison information on pages 24-27 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB 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.

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

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

December 20, 2012

**OKLAHOMA TAX COMMISSION
GOVERNMENT-WIDE
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash	\$45,871,874
Investments	472,232
Accounts receivable	8,443
Taxes & fees receivable	13,290,121
Inventory	75,409
Total Current Assets	<u>59,718,079</u>
Noncurrent Assets:	
Capital assets (Net of accumulated depreciation)	<u>10,721,245</u>
Total Noncurrent Assets	<u>10,721,245</u>
TOTAL ASSETS	<u><u>\$70,439,324</u></u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$28,840,610
Accrued Payroll	55,909
Compensated Absences	334,992
Total Current Liabilities	<u>29,231,511</u>
Noncurrent Liabilities:	
Compensated Absences	<u>2,947,466</u>
Total Noncurrent Liabilities	<u>2,947,466</u>
TOTAL LIABILITIES	<u><u>32,178,977</u></u>
 NET ASSETS	
Invested in Capital Assets	10,721,245
Unrestricted (deficit)	<u>27,539,102</u>
TOTAL NET ASSETS	<u><u>\$38,260,347</u></u>

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

OKLAHOMA TAX COMMISSION
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$130,335,747	\$59,231,467	\$0	(\$71,104,280)
Depreciation Expense	1,752,686			(1,752,686)
Total Governmental Activities	132,088,433	59,231,467	0	(72,856,966)
General Revenues:				
Taxes:				
Personal and Corporate Income				37,414,626
License Plate				5,620
Fees:				
Waste Tire				8,318,039
Other				5,698
State Appropriations				46,915,944
Transfers In				35,862
Transfers Out				(35,862)
Total Revenues				\$92,659,927
Change in Net Assets				19,802,961
Net Assets - beginning				18,457,386
Net Assets - ending				\$38,260,347

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

**OKLAHOMA TAX COMMISSION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

ASSETS	General Fund	License Plate Program Fund	Waste Tire Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
Cash	\$44,721,677	\$1,080		\$1,149,116	\$1	\$45,871,874
Investments			\$472,232			472,232
Accounts receivable					8,443	8,443
Taxes and fees receivable	8,705,834	140	22,922		4,561,225	13,290,121
Inventory	75,409					75,409
TOTAL ASSETS	<u>\$53,502,920</u>	<u>\$1,220</u>	<u>\$495,154</u>	<u>\$1,149,116</u>	<u>\$4,569,669</u>	<u>\$59,718,079</u>
LIABILITIES						
Accounts Payable	\$2,897,334		\$699,701	\$389,370	\$24,854,205	\$28,840,610
Accrued Payroll	55,909					55,909
Compensated Absences	33,920					33,920
TOTAL LIABILITIES	<u>2,987,163</u>	<u>0</u>	<u>699,701</u>	<u>\$389,370</u>	<u>\$24,854,205</u>	<u>28,930,439</u>
FUND BALANCES						
Nonspendable	94,724					94,724
Restricted		1,220				1,220
Committed	36,403,019			759,746		37,162,765
Unassigned	14,018,014		(204,547)		(20,284,536)	(6,471,069)
TOTAL FUND BALANCES	<u>50,515,757</u>	<u>1,220</u>	<u>(204,547)</u>	<u>759,746</u>	<u>(20,284,536)</u>	<u>30,787,640</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$53,502,920</u>	<u>\$1,220</u>	<u>\$495,154</u>	<u>\$1,149,116</u>	<u>\$4,569,669</u>	<u>\$59,718,079</u>

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2012**

Total Fund Balances - Governmental Funds	\$30,787,640
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds: These consist of :	
Furniture and Equipment	19,027,200
Accumulated Depreciation	(8,305,955)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Compensated Absences	<u>(3,248,538)</u>
Net Assets of Governmental Activities	<u>38,260,347</u>

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

OKLAHOMA TAX COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	License Plate Program Fund	Waste Tire Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund	Total Governmental Funds
Revenues						
Taxes	\$26,142,574	\$5,620		\$5,425,462	\$31,989,164	\$63,562,820
Licenses Permits and Fees	33,032,538		\$8,318,039			41,350,577
Other	56,355		5,698			62,053
Total Revenues	<u>59,231,467</u>	<u>5,620</u>	<u>8,323,737</u>	<u>5,425,462</u>	<u>31,989,164</u>	<u>104,975,450</u>
Expenditures						
Current:						
Salaries and Benefits	47,827,645					47,827,645
Professional Services	14,629,024		18,678			14,647,702
Inter-Agency Personal Services	22,817					22,817
Travel	549,908					549,908
Miscellaneous Administrative	4,930,085					4,930,085
Rent of Buildings and Equipment	3,410,005					3,410,005
Maintenance	3,468,379					3,468,379
Supplies	3,193,533					3,193,533
Waste Tire Payments			8,051,180			8,051,180
Film Rebate Payments				4,665,716		4,665,716
Building Renovation	9,485					9,485
Payments to Local Governments	445				38,669,471	38,669,916
Transfer to Special Account Funds		5,660				5,660
Other Expenditures	87,882					87,882
Capital Outlay:						
Equipment	4,612,263					4,612,263
Total Expenditures	<u>82,741,471</u>	<u>5,660</u>	<u>8,069,858</u>	<u>4,665,716</u>	<u>38,669,471</u>	<u>134,152,176</u>
Revenues Over (Under) Expenditures	<u>(23,510,004)</u>	<u>(40)</u>	<u>253,879</u>	<u>759,746</u>	<u>(6,680,307)</u>	<u>(29,176,726)</u>
Other Financing Sources (Uses)						
State Appropriations	46,915,944					46,915,944
Transfers In	35,862					35,862
Transfers Out	(35,862)					(35,862)
Total Other Financing Sources (Uses)	<u>46,915,944</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>46,915,944</u>
Net Change in Fund Balances	<u>23,405,940</u>	<u>(40)</u>	<u>253,879</u>	<u>759,746</u>	<u>(6,680,307)</u>	<u>17,739,218</u>
Fund Balance - Beginning of Year	27,109,817	1,260	(458,426)	0	(13,604,229)	13,048,422
Fund Balance - End of Year	<u>\$50,515,757</u>	<u>\$1,220</u>	<u>(\$204,547)</u>	<u>\$759,746</u>	<u>(\$20,284,536)</u>	<u>\$30,787,640</u>

Reconciliation of the change in fund balances of governmental funds to the Statement of Activities
June 30, 2012

Net change in fund balances - total governmental funds	\$17,739,218
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.	2,130,002
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 compensated absences.	(66,259)
Change in net assets of governmental activities	<u>\$19,802,961</u>

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

OKLAHOMA TAX COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
JUNE 30, 2012

ASSETS	
Cash	\$550,798,408
Investments	394,671,476
Accounts receivable	1,611,296
Taxes receivable	246,691,474
TOTAL ASSETS	<u><u>\$1,193,772,654</u></u>
 LIABILITIES	
Legal Judgments and Claims	\$7,847,565
Tax Refunds Payable	15,517,269
Due to State General Funds	880,592,873
Due to Enterprise Funds	3,680,579
Due to Pension Trust Funds	41,150,039
Due to Other Accounts	6,824,164
Due to Local Governments	237,803,951
Amount to be Apportioned	356,214
TOTAL LIABILITIES	<u><u>\$1,193,772,654</u></u>

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

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
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**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

COMMISSION MEMBERS

Thomas E. Kemp, Jr., Chairman
Term Expires January, 2013

Jerry Johnson, Vice Chairman
Term Expires January, 2015

Dawn Cash, Secretary-Member
Term Expires January, 2017

EXECUTIVE DIRECTOR

Tony Mastin, Executive Director to the Commission

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

B. Basis of Presentation

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Fiduciary Funds (Not included in government wide statements)

Agency Funds

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

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

Major Funds

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

General Fund See previous page for description.

The agency's four major special revenue funds include:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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 current assets.

Basis of Accounting

In the government-wide Statement of Net Assets 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, 2012, has been reported in the Statement of Net Assets.
- Executory purchase orders and contracts are recorded as unassigned fund balance.

D. Assets, Liabilities, and Equity

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 nonspendable fund balance designation, which indicates that it does not constitute available spendable resources even though it is a component of total assets.

Capital Assets

Capital assets held by the Oklahoma Tax Commission and reflected in the accompanying financial statements are stated at original cost or estimated cost as determined from available records maintained by the Commission, net of accumulated depreciation. Assets valued by estimate represent less than one percent of total capitalized assets. The asset values were based on equipment fair market values at the time of acquisition.

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

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

Additional capital asset disclosures are presented in Note 4.

Compensated Absences

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

The general fund records expenditures when the employee is paid for annual leave, and the cost of accumulated annual leave is recorded in the statement of net assets. Payments for employee vested annual leave for the year-ended June 30, 2012, were made in the amount of \$155,262. Total amount outstanding at June 30, 2012, is \$3,282,458 of which \$2,947,466 is recorded as a long-term liability.

Governmental Fund – Fund Balance Reserves and Designations

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

E. Program Revenues

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

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

Charges for Services	Statutorily the Agency is authorized to retain a percentage or fee associated with certain tax collections such as sales and use taxes, levied by local governments and collected through a contractual agreement by the Agency. These types of revenues are specifically related to the government activity program.
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**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

2. Pension Plan

Plan Description. Substantially all of the Oklahoma Tax Commission full-time state employees participate in the Oklahoma Public Employees Retirement Plan (the Plan), a division of the Oklahoma Public Employees Retirement System (OPERS), a multiple-employer cost-sharing defined benefit public employee retirement system. The official text governing the operation of the system, contributions, and the payment of benefits is found in Title 74, O.S. § 901, et. seq. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. This report can be obtained by writing to OPERS, PO Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of contribution rates. Active members for fiscal year 2012 made a 3.5% contribution on wages. State agencies contributed 16.5% of active members' monthly salaries for fiscal year 2012. Contributions from the agency for fiscal years 2010, 2011 and 2012 totaled \$5,271,076, \$4,911,543 and \$5,057,609 respectively, equal to the established required contributions for each year.

- 2.1.1 In addition to the pension benefits described in Note 2, the State provides post-retirement health care benefits (OPEB). The Oklahoma Public Employees Retirement System (OPERS) by which the Oklahoma Tax Commission employees are covered, provides \$105 per month for all retirees who elect coverage at time of retirement. OPERS benefits are financed on a pay-as-you-go basis.

There is no OPEB obligation information available specific to the Oklahoma Tax Commission. OPERS funds post employment health care benefits as part of the overall retirement requirement. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations.

3. Deposits and Investments

At June 30, 2012, all cash and investments under the control of the State Treasurer were collateralized in accordance with 62 O.S. § 72.1, titled, "Security for Public Deposits Act."

A. Deposits

As of June 30, 2012, 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.

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

3. Deposits and Investments (cont...)

State Treasurer Investment Policy Diversification Limits

<u>Investment Type</u>	<u>Percentage of Total Invested</u>	<u>Percentage of Total by Issuer</u>	<u>Maturity Limit</u>	<u>Rating</u>
U.S. Government Agency Mortgage Backed Securities	45.0%	No Limit	7 Years	AAA
U.S. Government Agency Securities	50.0%	35.0%	10 years	AAA
Collateralized or Insured Certificates of Deposit	Limit of \$35 Million per financial institution		365 Days	N/A
Negotiable Certificates of Deposit	7.5%	2.5%	180 Days	A-1&P-1
Bankers Acceptance	7.5%	2.5%	270 Days	A-1&P-1
Commercial Paper	7.5%	2.5%	180 Days	A-1&P-1
State and Local Government Obligations	10%	5%	30 Years	AAA
Repurchase and Tri-party Repurchase Agreements	30%	10%	14 Days	A-1
Money Market Mutual Fund	30%	10%	1 Day	AAA
Foreign Bonds	2.5%	2.50%	5 Years	A-/A3 or better

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nvestments for governmental and fiduciary funds at June 30, 2012, by investment type, are listed below:

	<u>Carrying Amount</u>	<u>Reported Amount/ Fair Value</u>
Repurchase Agreements:		
<u>Governmental Funds</u>	\$ 472,232	\$ 472,232
<u>Agency Fund</u>	\$394,671,476	\$394,671,476

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.

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

4. Capital Assets

In accordance with guidelines established by the Office of State Finance, 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 Assets 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, 2012 was as follows:

General Government Activities:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets – Net</u>
Beginning Balance	\$ 15,536,354	(\$ 6,945,111)	\$ 8,591,243
Increases	3,882,688	(1,752,686)	2,130,002
Decreases	(391,846)	391,846	0
Ending Balance	<u>\$ 19,027,196</u>	<u>(\$ 8,305,951)</u>	<u>\$ 10,721,245</u>

Current year depreciation expense related to the General Government Activities was \$1,752,686.

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 2012 was \$3,410,005. The majority of leases are 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, 2012, the balances are included.

7. Risk Management

The Risk Management Division of the Office of Management and Enterprise Services, Division of Capital Assets Management is empowered by the authority of 74 O.S. § 85.34 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 State Risk 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. § 154. The Risk 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 Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Risk Management Division.

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

8. Long-Term Obligations

Long-term obligations at June 30, 2012, 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	\$2,845,038	\$2,232,430	\$2,130,002	\$2,947,466

The amount due within 1 year is \$334,992.

9. Governmental Fund – Fund Balance Reserves and Designations

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

	<u>General Fund</u>	<u>License Plate Program Fund</u>	<u>Waste Tire Indemnity Fund</u>	<u>Film Rebate Fund</u>	<u>Ad Valorem Reimbursement Fund</u>	<u>Total Governmental Funds</u>
Nonspendable						
Inventories	\$75,409					\$75,409
Prepaid Postage	19,315					19,315
Restricted						
License Plate Program		\$1,220				1,220
Committed						
Computer Enhancement	36,403,019					36,403,019
Film Rebate Fund				\$759,746		
Assigned						
						0
Unassigned						
	14,018,014		(\$204,547)		(\$20,284,536)	(6,471,069)
Total Fund Balances	<u>\$50,515,757</u>	<u>\$1,220</u>	<u>(\$204,547)</u>	<u>\$759,746</u>	<u>(\$20,284,536)</u>	<u>\$30,787,640</u>

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

Restricted fund balance represents the amount due to a state entity sponsoring a license plate program as authorized by Title 47, Section 1135.8.

Committed fund balance represents amounts designated for computer enhancement projects such as the development of an integrated tax system as authorized by Title 68, Section 265.

**OKLAHOMA TAX COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

10. Litigation and Contingencies

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

Claim for Refund of Corporate Income Tax

A claimant requested interest due related to a refund of corporate income tax previously remitted to the Oklahoma Tax Commission. The total amount of interest on the refund to be paid after June 30, 2012, totals \$1,847,565.

Electric Car Income Tax Credit Case

This case upheld the credit for the purchase of electric cars. The total amount of refunds to be paid after June 30, 2012 is approximately \$6,000,000.

These claims will be paid from subsequent year tax collections as directed by 68 O.S. Section 228.1. The amounts have been accrued on the Statement of Fiduciary Net Assets – Agency Fund.

Additionally, there are numerous tax assessments under taxpayer protest that could have a material effect on the Commission's financial statements. It is reasonably possible that these assessments could result in gains to the state. However, an estimate of such gains cannot be made.

11. Net Assets Deficit

Some governmental funds are stated at a negative balance at June 30, 2012. Due to the constitutional requirement to fully fund reimbursements to counties from the Ad Valorem Reimbursement Fund as specified in 62 O.S. Section 193, obligations exceeded available funding at year end. \$24,854,205 in unpaid claims was paid from funds available during the subsequent fiscal year. The Ad Valorem Reimbursement Fund is a pass through and not used for the general operations of the agency.

The Waste Tire Indemnity Fund also reflects a negative balance as the majority of all available fee collections are exhausted by reimbursement claims each month. Reimbursement claims received in July are for the June period, but paid from collections deposited in July.

**OKLAHOMA TAX COMMISSION - REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$26,956,388	\$26,956,388	\$26,956,388	\$0
Resources (inflows)				
Taxes	22,000,000	23,270,000	24,996,485	1,726,485
Other Revenues	14,020,000	20,900,000	33,023,278	12,123,278
State Appropriations	46,915,944	46,915,944	46,915,944	0
Amount Available for Appropriation	109,892,332	118,042,332	131,892,095	13,849,763
Charges to Appropriations (outflows)				
Salaries and Benefits	51,667,500	52,057,500	47,827,645	4,229,855
Professional Services	10,776,597	17,776,597	14,629,024	3,147,573
Inter-Agency Personal Services	30,100	30,100	22,817	7,283
Travel	637,000	687,000	549,908	137,092
Miscellaneous Administrative	4,495,000	5,295,000	4,930,085	364,915
Rent of Buildings and Equipment	3,278,200	3,278,200	3,410,005	(131,805)
Maintenance	3,235,074	3,235,074	3,468,379	(233,305)
Supplies	3,510,973	3,513,973	3,193,533	320,440
Equipment	5,124,500	5,174,500	4,612,263	562,237
Buildings - Renovation	0	0	9,485	(9,485)
Other Expenditures	181,000	38,000	87,882	(49,882)
Payments to Local Governments	0	0	445	(445)
Total Charges to Appropriations	82,935,944	91,085,944	82,741,471	8,344,473
Budgetary Fund Balance - June 30	\$26,956,388	\$26,956,388	\$49,150,624	\$22,194,236

**BUDGETARY COMPARISON SCHEDULE - LICENSE PLATE PROGRAM FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$1,260	\$1,260	\$1,260	\$0
Resources (inflows)				
Taxes	20,000	20,000	5,640	(14,360)
Amount Available for Appropriation	21,260	21,260	6,900	(14,360)
Charges to Appropriations (outflows)				
Expenditures	20,000	20,000	5,660	14,340
Total Charges to Appropriations	20,000	20,000	5,660	14,340
Budgetary Fund Balance - June 30	\$1,260	\$1,260	\$1,240	(\$20)

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

**OKLAHOMA TAX COMMISSION - REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - WASTE TIRE INDEMNITY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	(\$458,426)	(\$458,426)	(\$458,426)	\$0
Resources (inflows)				
Tire Fees	12,092,500	12,092,500	8,321,394	(3,771,106)
Other Revenues	7,500	7,500	5,698	(1,802)
Amount Available for Appropriation	11,641,574	11,641,574	7,868,666	(3,772,908)
Charges to Appropriations (outflows)				
Waste Tire Reimbursements	12,100,000	12,100,000	8,051,180	4,048,820
Other Expenditures			18,678	(18,678)
Total Charges to Appropriations	12,100,000	12,100,000	8,069,858	4,030,142
Budgetary Fund Balance - June 30	(\$458,426)	(\$458,426)	(\$201,192)	\$257,234

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

**BUDGETARY COMPARISON SCHEDULE - FILM REBATE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$0	\$0	\$0	\$0
Resources (inflows)				
Taxes	5,000,000	5,000,000	7,220,524	2,220,524
Transfers In	0	0	0	0
Amount Available for Appropriation	5,000,000	5,000,000	7,220,524	2,220,524
Charges to Appropriations (outflows)				
Film Rebate Payments	5,000,000	5,000,000	4,665,716	334,284
Transfers to Other Funds	0	0	0	0
Total Charges to Appropriations	5,000,000	5,000,000	4,665,716	334,284
Budgetary Fund Balance - June 30	\$0	\$0	\$2,554,808	\$2,554,808

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

**BUDGETARY COMPARISON SCHEDULE - AD VALOREM REIMBURSEMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	(\$13,604,229)	(\$13,604,229)	(\$13,604,229)	\$0
Resources (inflows)				
Taxes	27,800,000	43,572,407	31,608,920	(11,963,487)
Transfers In	0	12,050,000	0	(12,050,000)
Other Revenue	0	0	0	0
Amount Available for Appropriation	14,195,771	42,018,178	18,004,691	(24,013,487)
Charges to Appropriations (outflows)				
County Reimbursements	10,006,346	37,828,753	38,669,471	(840,718)
Total Charges to Appropriations	10,006,346	37,828,753	38,669,471	(840,718)
Budgetary Fund Balance - June 30	\$4,189,425	\$4,189,425	(\$20,664,780)	(\$24,854,205)

See independent auditor's report.

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

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO RSI

Note A. Budgeting, Budgeting Control and Budgetary Reports

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

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on budget requests prepared by the various state agencies. The General Fund, License Plate Program Fund, Waste Tire 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 2012 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

Within the Waste Tire Indemnity Fund, expenditures exceeded the amount available for appropriations. Each month, funds are exhausted with reimbursement claims exceeding available cash on hand. June's reimbursement claims are received in July and paid from July resources.

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

See independent auditor's report.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO RSI

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

	General Fund	License Plate Program Fd	Waste Tire Indemnity Fund	Film Rebate Fund	Ad Valorem Reimbursement Fund
Sources/inflows of resources					
Actual amounts (budgetary basis) "Resources (inflows)" from the budgetary comparison schedule	\$104,935,707	\$5,640	\$8,327,092	\$7,220,524	\$31,608,920
Differences - budget to GAAP:					
State appropriations are inflows of budgetary resources but are not revenues for financial reporting purposes.	(46,915,944)				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes					0
Accrual adjustments for receivables are made for financial reporting purposes but not for the budgetary comparison.	1,211,704	(20)	(3,355)	(1,795,062)	380,244
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$59,231,467</u>	<u>\$5,620</u>	<u>\$8,323,737</u>	<u>\$5,425,462</u>	<u>\$31,989,164</u>
Uses/outflows of resources					
Actual amounts (budgetary basis) " total charges to appropriations" from the budgetary comparison schedule	\$82,741,471	\$5,660	\$8,069,858	\$4,665,716	\$38,669,471
Differences - budget to GAAP:					
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	0	0	0	0	0
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$82,741,471</u>	<u>\$5,660</u>	<u>\$8,069,858</u>	<u>\$4,665,716</u>	<u>\$38,669,471</u>

See independent auditor's report.



Oklahoma State Auditor & Inspector

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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 the financial statements of the governmental activities, each major fund, and the remaining fund information of the Oklahoma Tax Commission (OTC), as of and for the year ended June 30, 2012, which collectively comprise the OTC's basic financial statements, and have issued our report thereon dated December 20, 2012, which includes an explanatory paragraph stating that the financial statements of the OTC 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 OTC. Our report also contains an explanatory paragraph which disclaimed an opinion on required supplementary information. 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.

Internal Control Over Financial Reporting

Management of OTC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Oklahoma Tax Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OTC's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Oklahoma Tax Commission, and is not intended to be and should not be used for anyone other than these specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., § 24A.1 et seq.), and shall be open to any person for inspection and copying.

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

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

December 20, 2012



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