

Oklahoma House of Representatives

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

OKLAHOMA HOUSE OF REPRESENTATIVES

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

The Honorable T. W. Shannon
Speaker of the House
Oklahoma House of Representatives

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Oklahoma House of Representatives (the "House") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the House's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the House as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matters

Department-Only Financial Statements

As discussed in Note 1, the financial statements of the House are intended to present the financial position and the changes in final position of only that portion of the governmental activities and the General Fund of the State of Oklahoma that is attributable to the transactions of the House. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2013 the House adopted new accounting guidance, Statement No. 63 of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-4 be presented to supplement the basic financial statements. Such information, although not a 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, 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

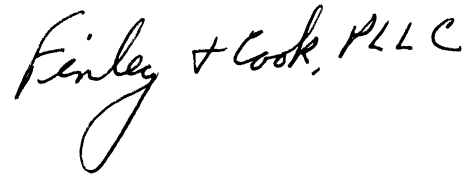
The House is not required by statute to prepare a line-item budget. Accordingly, a schedule of revenues, expenditures, and changes in fund balance—budget to actual is not presented herein.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, on our consideration of the House'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 House's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
January 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

As leadership of the Oklahoma House of Representatives (the "House"), we offer readers of the House's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2013, 2012, and 2011.

FINANCIAL HIGHLIGHTS

- During 2013, the House's net position increased \$568,163 from June 30, 2012, resulting in a net position of \$3,011,479 at June 30, 2013. During 2012, the House's net position increased \$482,343 from June 30, 2011, resulting in a net position of \$2,443,316 at June 30, 2012. During 2011, the House's net position decreased \$1,632,775 from June 30, 2010, resulting in a net position of \$1,960,973 at June 30, 2011.
- At June 30, 2013, the House's assets totaling \$4,115,434 increased \$1,100,675 from June 30, 2012, due to an increase in cash and capital assets. At June 30, 2012, the House's assets totaling \$3,014,759 increased \$419,637 from June 30, 2011, due to the net effect of an increase in cash and prepaid expense and a decrease in capital assets. At June 30, 2011, the House's assets totaling \$2,595,122 decreased \$1,767,797 from June 30, 2010, due to a decrease in cash and capital assets.
- At June 30, 2013, the House's liabilities totaling \$1,103,955 increased \$532,512 from June 30, 2012, due mainly to the timing of payments of current liabilities and an increase in capital lease obligations. At June 30, 2012, the House's liabilities totaling \$571,443 decreased \$62,706 from June 30, 2011, due mainly to the timing of payments of current liabilities and a decrease in accounts payable. At June 30, 2011, the House's liabilities totaling \$634,149 decreased \$135,022 from June 30, 2010, due mainly to the timing of payments of current liabilities and a decrease in accrued annual leave.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the House's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statements of net position and the statements of activities) are designed to provide readers with a broad overview of the House's finances, in a manner similar to a private-sector business.

The statements of net position present information on all of the House's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the House is improving or deteriorating.

The statements of activities present information showing how the House's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

Fund Financial Statements

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. All governmental activities of the House are reflected in the General Fund. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The House maintains one fund, which is the General Fund. Information is presented separately in the governmental fund balance sheets and the governmental fund statements of revenues, expenditures, and changes in fund balance for the major fund. All transactions related to the general administration of the House are accounted for in the General Fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The House's net position at June 30 are reported as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Current assets	\$ 2,645,987	1,775,919	1,017,044
Capital assets, net	1,469,447	1,238,840	1,578,078
Total assets	<u>4,115,434</u>	<u>3,014,759</u>	<u>2,595,122</u>
Liabilities			
Current liabilities	501,862	411,511	458,657
Noncurrent liabilities	602,093	159,932	175,492
Total liabilities	<u>1,103,955</u>	<u>571,443</u>	<u>634,149</u>
Net Position			
Net investment in capital assets	935,710	1,238,840	1,578,078
Unrestricted	<u>2,075,769</u>	<u>1,204,476</u>	<u>382,895</u>
Total net position	<u>\$ 3,011,479</u>	<u>2,443,316</u>	<u>1,960,973</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

GOVERNMENT-WIDE FINANCIAL ANALYSIS, CONTINUED

For the years ended June 30, the House's changes in net position are reported as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General revenues—other	\$ 20,437	22,070	29,000
Expenses	<u>(17,544,126)</u>	<u>(17,864,409)</u>	<u>(19,003,545)</u>
Excess expenses before transfers	<u>(17,523,689)</u>	<u>(17,842,339)</u>	<u>(18,974,545)</u>
Transfers:			
Transfers in from the General Fund of the State of Oklahoma	15,574,682	15,774,682	15,341,770
Transfers in from the General Fund of the Legislative Service Bureau	<u>2,517,170</u>	<u>2,550,000</u>	<u>2,000,000</u>
Total transfers	<u>18,091,852</u>	<u>18,324,682</u>	<u>17,341,770</u>
Changes in net position	568,163	482,343	(1,632,775)
Net position, beginning of year	<u>2,443,316</u>	<u>1,960,973</u>	<u>3,593,748</u>
Net position, end of year	<u>\$ 3,011,479</u>	<u>2,443,316</u>	<u>1,960,973</u>

This discussion and analysis of the House's financial performance provides an overview of the House's financial activities for the fiscal years ended June 30, 2013, 2012, and 2011.

The House's FY 2013 appropriation from the State of Oklahoma decreased \$200,000 from FY 2012. The House's FY 2012 appropriation from the State of Oklahoma increased \$432,912 from FY 2011. The House's FY 2011 appropriation from the State of Oklahoma decreased \$1,177,933 from FY 2010.

The House's FY 2013 expenditures, not including adjustments for depreciation and compensated absences, decreased approximately 2% from FY 2012, primarily due to a decrease in contractual services for printing and binding. The House's FY 2012 expenditures, not including adjustments for depreciation and compensated absences, decreased approximately 8% from FY 2011, primarily due to a decrease in salaries and wages. The House's FY 2011 expenditures, not including adjustments for depreciation and compensated absences, decreased approximately 7% from FY 2010, primarily due to a decrease in salaries and wages.

CAPITAL ASSETS

As of June 30, 2013, 2012, and 2011, the House's investment in capital assets, net of accumulated depreciation, totaled approximately \$1,469,000, \$1,239,000, and \$1,578,000, respectively. Depreciation for 2013, 2012, and 2011 totaled approximately \$629,000, \$442,000, and \$422,000, respectively. Capital assets include computer equipment, office equipment, and furniture.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

CAPITAL LEASES

As of June 30, 2013, the House had approximately \$534,000 of capital lease obligations outstanding for the lease of certain office equipment. During the year ended June 30, 2013, the House paid approximately \$106,000 in lease payments, of which approximately \$46,000 related to interest expense. As of June 30, 2012 and 2011, the House had no capital lease obligations outstanding.

DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

The Governor has approved the House's appropriation for the year July 1, 2013, to June 30, 2014.

The House is not required by statute to adopt a budget; therefore, budgetary comparison schedules are not required as part of the required supplementary information.

CONTACTING THE HOUSE'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the House's finances and to demonstrate the House's accountability for the funds received. If you have questions relative to the report or have a need for additional financial information, contact the Comptroller of the Oklahoma House of Representatives, 2300 N. Lincoln Blvd., State Capitol Building, Oklahoma City, Oklahoma 73105-4885.

OKLAHOMA HOUSE OF REPRESENTATIVES

STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Assets		
Current assets:		
Cash, including short-term investments	\$ 2,611,698	1,735,335
Prepaid expenses	34,289	40,584
Total current assets	<u>2,645,987</u>	<u>1,775,919</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>1,469,447</u>	<u>1,238,840</u>
Total noncurrent assets	<u>1,469,447</u>	<u>1,238,840</u>
Total assets	<u>\$ 4,115,434</u>	<u>3,014,759</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 93,573	68,922
Long-term liabilities, due within 1 year	408,289	329,121
Accrued salaries and benefits	-	13,468
Total current liabilities	<u>501,862</u>	<u>411,511</u>
Noncurrent liabilities:		
Long-term liabilities, due after 1 year	<u>602,093</u>	<u>159,932</u>
Total liabilities	<u>1,103,955</u>	<u>571,443</u>
Net position:		
Net investment in capital assets	935,710	1,238,840
Unrestricted	<u>2,075,769</u>	<u>1,204,476</u>
Total net position	<u>3,011,479</u>	<u>2,443,316</u>
Total liabilities and net position	<u>\$ 4,115,434</u>	<u>3,014,759</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA HOUSE OF REPRESENTATIVES

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2013

		<u>PROGRAM REVENUES</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Governmental activities:				
Legislative operations	\$ (17,498,684)	-	2,517,170	(14,981,514)
Interest expense	<u>(45,442)</u>	<u>-</u>	<u>-</u>	<u>(45,442)</u>
Total governmental activities	<u>\$ (17,544,126)</u>	<u>-</u>	<u>2,517,170</u>	<u>(15,026,956)</u>
General revenues:				
State appropriations				15,574,682
Other				<u>20,437</u>
Total general revenues				<u>15,595,119</u>
Changes in net position				568,163
Net position, beginning of year				<u>2,443,316</u>
Net position, end of year				<u>\$ 3,011,479</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA HOUSE OF REPRESENTATIVES

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2012

		<u>PROGRAM REVENUES</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Governmental activities:				
Legislative operations	\$ (17,864,409)	-	2,550,000	(15,314,409)
Total governmental activities	<u>\$ (17,864,409)</u>	<u>-</u>	<u>2,550,000</u>	<u>(15,314,409)</u>
General revenues:				
State appropriations				15,774,682
Other				<u>22,070</u>
Total general revenues				<u>15,796,752</u>
Changes in net position				482,343
Net position, beginning of year				<u>1,960,973</u>
Net position, end of year				<u>\$ 2,443,316</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA HOUSE OF REPRESENTATIVES

BALANCE SHEETS—GENERAL FUND

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Assets		
Cash, including short-term investments	\$ 2,611,698	1,735,335
Prepaid expenses	<u>34,289</u>	<u>40,584</u>
Total assets	<u>\$ 2,645,987</u>	<u>1,775,919</u>
Liabilities and Fund Balance		
Accounts payable	\$ 93,573	68,922
Accrued salaries and benefits	<u>-</u>	<u>13,468</u>
Total liabilities	<u>93,573</u>	<u>82,390</u>
Fund balance:		
Unassigned	<u>2,552,414</u>	<u>1,693,529</u>
Total fund balance	<u>2,552,414</u>	<u>1,693,529</u>
Total liabilities and fund balance	<u>\$ 2,645,987</u>	<u>1,775,919</u>
Reconciliation of Fund Balance to Net Position		
Total fund balance from above	\$ 2,552,414	1,693,529
Amounts reported in the statements of net position are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements	1,469,447	1,238,840
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund financial statements:		
Compensated absences	(476,645)	(489,053)
Capital lease obligations	<u>(533,737)</u>	<u>-</u>
Net position, per statements of net position	<u>\$ 3,011,479</u>	<u>2,443,316</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA HOUSE OF REPRESENTATIVES

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE—GENERAL FUND**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Revenues:		
Contributions from the Legislative Service Bureau	\$ 2,517,170	2,550,000
Other	<u>20,437</u>	<u>22,070</u>
Total revenues	<u>2,537,607</u>	<u>2,572,070</u>
Expenditures:		
Personnel services	14,842,903	14,849,386
Contractual services	824,012	1,240,817
Capital outlay	529,155	454,034
Travel	868,918	875,770
Supplies and materials	82,711	103,590
Debt service (capitalized leases):		
Principal	60,263	-
Interest	<u>45,442</u>	<u>-</u>
Total expenditures	<u>17,253,404</u>	<u>17,523,597</u>
Deficiency of revenues over expenditures	(14,715,797)	(14,951,527)
Other funding sources:		
State appropriations	<u>15,574,682</u>	<u>15,774,682</u>
Net changes in fund balance	858,885	823,155
Fund balance, beginning of year	<u>1,693,529</u>	<u>870,374</u>
Fund balance, end of year	<u><u>\$ 2,552,414</u></u>	<u><u>1,693,529</u></u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA HOUSE OF REPRESENTATIVES

**RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE—GENERAL FUND TO
STATEMENTS OF ACTIVITIES**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Net change in fund balance—General Fund	\$ 858,885	823,155
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:		
Depreciation expense	(629,158)	(442,341)
Capital asset purchases capitalized	265,765	103,103
Capitalized lease	594,000	-
	230,607	(339,238)
In the statements of activities, the amount of the capital lease payment that represents principal payments is used to reduce the capital lease payable:		
Principal payments on capital lease	60,263	-
Total capital lease obligations of assets acquired under capital leases are allocated over their estimated useful lives and reported as depreciation expense in the statements of activities. The House entered into a new capital lease beginning October 2012:		
Capitalized lease obligation	(594,000)	-
Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued compensated absences	12,408	(1,574)
	12,408	(1,574)
Changes in net position, per statements of activities	\$ 568,163	482,343

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

(1) NATURE OF THE ORGANIZATION

The Oklahoma House of Representatives (the “House”) is a legislative body of the State of Oklahoma (the “State”). The House consists of 101 members who are elected by Oklahoma voters to serve 2-year terms. The House initiates legislation and holds legislative hearings.

Financial Reporting Entity

The financial statements of the House have been prepared in accordance with accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the House’s accounting policies are described below.

In accordance with GASB, the House’s financial statements should include the operations of all organizations for which the House has financial accountability. The House has determined there are no other organizations for which it has financial accountability.

Fund Accounting and Budgetary Information

The House is included in the General Fund—Government of the State. The accompanying financial statements are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the General Fund of the State attributable to the transactions of the House. They do not purport to, and do not, present fairly the financial position or changes in financial position of the State. The House is funded by an appropriation from unallocated general funds earmarked for state government. Appropriations are available for expenditures for a period of 30 months from the date the appropriations are approved. It is the practice of the House to utilize unexpended appropriations from the prior year before expending current year appropriations.

The House is not required by statute to prepare a line-item budget and is only subject to the limitation of the total appropriation provided by the Oklahoma Legislature. Accordingly, a schedule of revenues, expenditures, and changes in fund balance—budget to actual is not presented herein.

See Independent Auditors’ Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Basis of Accounting

The government-wide financial statements (i.e., the statements of net position and the statements of activities) report information on all of the nonfiduciary activities of the House. Governmental activities are supported by intergovernmental revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Available is defined by the House as 60 days after year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Only current assets and current liabilities are included on the balance sheets. Their operations present sources and uses of available spendable resources during a given period of time. The General Fund is used to account for the House's expendable financial resources and related liabilities. All transactions related to the general administration of the House are accounted for in this fund.

Contributions

The House records as contributions revenue assets and/or services that are paid for by other state agencies.

Cash

Cash consists of cash held at the Office of the State Treasurer (the "State Treasurer"), which is responsible for ensuring proper collateralization and insurance of such funds. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution. The amount of collateral securities to be pledged for the security of public deposits shall be established by rules and regulations promulgated by the State Treasurer.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets

Capital assets are recorded as expenditures in the statements of revenues, expenditures, and changes in fund balance—General Fund, but are capitalized in the statements of net position. Capital assets are stated at actual or estimated historical cost in the statements of net position.

Capital assets are defined as assets with initial costs of \$500 or more. Depreciation is computed on the straight-line method over the estimated useful lives of the assets:

Computer equipment	3 years
Office furniture and other equipment	7 years
Building improvements	10 years

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

Compensated Absences

Employees earn annual vacation leave based upon their start date and years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The General Fund records expenditures when employees are paid for leave. Accrued annual leave is considered a long-term liability and is included in the statements of net position. Sick leave does not vest to the employee and therefore is not recorded as a liability.

Capital Lease Obligations

The House entered into capital lease obligations during the fiscal year ended June 30, 2013, as more fully described in Note 6 to the financial statements. The amount reflected in the statement of net position is the principal balance due as of June 30, 2013.

Income Taxes

The income of the House, a legislative body of the State, is exempt from federal and state income taxes.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Equity Classifications

Government-Wide Financial Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position—consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position—all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the House’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available. As of June 30, 2013 and 2012, the House did not have any restricted net position.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- a. Nonspendable fund balance—includes amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact.
- b. Restricted fund balance—consists of fund balances with constraints placed on the use of resources that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

See Independent Auditors’ Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

Fund Financial Statements, Continued

- c. Committed fund balance—the committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action of the House’s highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.
- d. Assigned fund balance—the assigned fund balance classification reflects amounts that are constrained by the House’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in unassigned fund balance.

For purposes of an assigned fund balance, the House has given authority to the Speaker of the House to assign state appropriations received by the House for specific purposes.

- e. Unassigned fund balance—the unassigned fund balance classification is the residual classification for the General Fund only. It is also where negative residual amounts for all other governmental funds would be reported. Unassigned fund balance essentially consists of excess funds that have not been classified in the other four fund balance categories mentioned above.

It is the House’s policy to first use the restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The House’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

See Independent Auditors’ Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

Fund Financial Statements, Continued

The following table shows the fund balance classifications as shown on the governmental fund balance sheets in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) for the years ended June 30:

	<u>General Fund</u>	
	<u>2013</u>	<u>2012</u>
Fund balances:		
Unassigned:		
State appropriations	<u>\$ 2,552,414</u>	<u>1,693,529</u>
Total fund balances	<u>\$ 2,552,414</u>	<u>1,693,529</u>

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded as expenditures of the applicable funds. This is an extension of the formal budgetary integration in the General Fund. Encumbrances do not represent any further constraint on the use of amounts than is already communicated by governmental fund balance classification as restricted, committed, or assigned. As of June 30, 2013 and 2012, there were no such encumbrances outstanding.

Use of Estimates

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

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of accounting principles generally accepted in the United States for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011. The House adopted GASB 62 effective July 1, 2012. There were no significant changes to the financial statements as a result of implementing GASB 62.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. The House adopted GASB 63 effective July 1, 2012. The adoption of the statement required the House to adopt the term "net position" as required. In addition, as required by GASB 63, the House determined that as of June 30, 2013 and 2012, there were no items of deferred outflows of resources or deferred inflows of resources, as presently defined, to be reported.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements, Continued

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources; and recognize certain items that were previously reported as assets or liabilities as outflows of resources or inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 addresses reporting by pension plans that administer benefits for governments, outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. This statement is effective for financial statements for periods beginning after June 15, 2013.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for financial statements for periods beginning after June 15, 2014.

Date of Management's Review of Subsequent Events

The House's leadership has evaluated subsequent events through January 27, 2014, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH BALANCES

The House maintained cash balances of the following amounts at June 30:

	<u>2013</u>	<u>2012</u>
Cash	\$ <u>2,611,698</u>	<u>1,735,335</u>

All the balances were maintained with the State Treasurer.

The House’s deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitation, placed in banks or invested as the State Treasurer may determine. Deposits are fully insured or collateralized with securities held by an agent of the State, in the State’s name.

(4) CAPITAL ASSETS

The following summarizes capital asset activity during the years ended June 30:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Capital assets:				
Computer equipment	\$ 1,339,557	258,129	(177,249)	1,420,437
Office equipment	637,291	600,211	-	1,237,502
Furniture	1,087,739	1,425	-	1,089,164
Building improvements	<u>1,268,721</u>	<u>-</u>	<u>-</u>	<u>1,268,721</u>
Total capital assets	<u>4,333,308</u>	<u>859,765</u>	<u>(177,249)</u>	<u>5,015,824</u>
Accumulated depreciation:				
Computer equipment	1,194,165	180,281	(177,249)	1,197,197
Office equipment	450,732	177,070	-	627,802
Furniture	820,724	144,935	-	965,659
Building improvements	<u>628,847</u>	<u>126,872</u>	<u>-</u>	<u>755,719</u>
Total accumulated depreciation	<u>3,094,468</u>	<u>629,158</u>	<u>(177,249)</u>	<u>3,546,377</u>
Net capital assets	<u>\$ 1,238,840</u>	<u>230,607</u>	<u>-</u>	<u>1,469,447</u>

See Independent Auditors’ Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS, CONTINUED

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Capital assets:				
Computer equipment	\$ 1,238,702	100,855	-	1,339,557
Office equipment	635,043	2,248	-	637,291
Furniture	1,087,739	-	-	1,087,739
Building improvements	1,268,721	-	-	1,268,721
Total capital assets	<u>4,230,205</u>	<u>103,103</u>	<u>-</u>	<u>4,333,308</u>
Accumulated depreciation:				
Computer equipment	1,088,759	105,406	-	1,194,165
Office equipment	388,664	62,068	-	450,732
Furniture	672,729	147,995	-	820,724
Building improvements	501,975	126,872	-	628,847
Total accumulated depreciation	<u>2,652,127</u>	<u>442,341</u>	<u>-</u>	<u>3,094,468</u>
Net capital assets	<u>\$ 1,578,078</u>	<u>(339,238)</u>	<u>-</u>	<u>1,238,840</u>

Depreciation expense for the years ended June 30, 2013 and 2012, was \$629,158 and \$442,341, respectively.

A summary of capitalized lease assets included above is as follows as of June 30, 2013:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Office equipment	<u>\$ 594,000</u>	<u>(118,800)</u>	<u>475,200</u>

The House has no significant infrastructure assets.

The assets are valued at cost and are depreciated using the straight-line method over their estimated useful lives.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30 was as follows:

	July 1, <u>2012</u>	<u>Increase</u>	<u>Paid</u>	June 30, <u>2013</u>	Amount Due Within <u>1 Year</u>
Compensated absences	\$ 489,053	288,088	(300,496)	476,645	308,403
Capital leases	<u>-</u>	<u>594,000</u>	<u>(60,263)</u>	<u>533,737</u>	<u>99,886</u>
	<u>\$ 489,053</u>	<u>882,088</u>	<u>(360,759)</u>	<u>1,010,382</u>	<u>408,289</u>

	July 1, <u>2011</u>	<u>Increase</u>	<u>Paid</u>	June 30, <u>2012</u>	Amount Due Within <u>1 Year</u>
Compensated absences	<u>\$ 487,479</u>	<u>347,393</u>	<u>(345,819)</u>	<u>489,053</u>	<u>329,121</u>

(6) CAPITAL LEASE OBLIGATIONS

The House has entered into agreements to lease certain office equipment. The agreements are in substance a purchase (capital lease) and are reported as capital lease obligations. The leases expire in September 2017.

The following schedule presents, by fiscal year, future minimum lease payments for the capital leases as of June 30, 2013:

<u>Minimum Lease Payments</u>	
2014	\$ 158,558
2015	158,558
2016	158,558
2017	158,558
2018	52,854
Less interest	<u>(153,349)</u>
Present value of minimum lease payments	<u>\$ 533,737</u>

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) CAPITAL LEASE OBLIGATIONS, CONTINUED

During the fiscal year ended June 30, 2013, the House entered into a new lease agreement with Xerox for copiers. The lease of the copiers expires in September 2017.

Changes in the lease obligations for the year ended June 30, 2013, were as follows:

Balance, beginning of year	\$	-
New capital lease		594,000
Principal payments		<u>(60,263)</u>
Balance, end of year	\$	<u>533,737</u>

(7) RETIREMENT PLAN

Plan Description

The House contributes to the Oklahoma Public Employees Retirement Plan (the “Retirement Plan”), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the “System”). The Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901–943, as amended, assigns the authority for management and operation of the Retirement Plan to the Board of Trustees of the System (the “Board”). The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118, or by calling 1-800-733-9008.

See Independent Auditors’ Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLAN, CONTINUED

Funding Policy

Members of the Retirement Plan (consisting of state employees and members of the House) and the House are required to contribute at a rate set by statute. The contribution requirements of plan members and the House are established and may be amended by the Oklahoma Legislature. The contribution rates for members of the Retirement Plan and for the House are as follows:

Fiscal Year 2013			Fiscal Year 2012		
State Employees	Members of the House	The House	State Employees	Members of the House	The House
All	All	All	All	All	All
<u>Salaries</u>	<u>Salaries</u>	<u>Salaries</u>	<u>Salaries</u>	<u>Salaries</u>	<u>Salaries</u>
3.5%	4.5%–10.0%	16.5%	3.5%	4.5%–10.0%	16.5%

Fiscal Year 2011		
State Employees	Members of the House	The House
All	All	All
<u>Salaries</u>	<u>Salaries</u>	<u>Salaries</u>
3.5%	4.5%–10.0%	15.5%

The House’s contributions to the Retirement Plan for the years ended June 30, 2013, 2012, and 2011, were approximately \$1,530,000, \$1,544,000, and \$1,567,000, respectively.

(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

Deferred Compensation Plan

The State offers its employees the Oklahoma State Employees Deferred Compensation Plan (the “Plan”) as authorized by Section 457 of the Internal Revenue Code (IRC), as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The supervisory authority for the management and operation of the Plan is the Board.

See Independent Auditors’ Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED

Deferred Compensation Plan, Continued

The Plan is available to all state employees, as well as any elected officials receiving a salary from the State. Participants may direct the investment of their contributions in available investment options offered by the Plan. The minimum contribution amount is the equivalent of \$25 per month, and participants are immediately 100% vested in their respective accounts. All interest, dividends, and investment fees are allocated to participants' accounts.

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service.

The Plan offers a catch-up program to participants, which allows them to defer annually for the 3 years prior to their year of retirement up to twice that plan year's deferral limit. The amount of additional contributions in excess of the normal maximum contributions to the Plan is also limited to contributions for years in which the participant was eligible but did not participate in the Plan or the difference between contributions made and the maximum allowable level. To be eligible for the catch-up program, the participant must be within 3 years of retirement with no reduced benefits.

Participants age 50 or older may make additional contributions annually, subject to certain limits.

Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with the Plan's provisions.

Effective January 1, 1998, the Board established a trust and a trust fund covering the Plan's assets, pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC no later than January 1, 1999. Under the terms of the trust, the corpus or income of the trust fund may be used only for the exclusive benefit of the Plan's participants and their beneficiaries. Prior to the establishment of the trust, the Plan's assets were subject to the claims of general creditors of the State. The Board acts as trustee of the trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received, but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the Plan or to determine that the trust fund is adequate to provide the benefits payable pursuant to the Plan.

Further information may be obtained from the Plan's audited financial statements for the years ended June 30, 2013 and 2012. The House believes that it has no liabilities with respect to the Plan.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED

Deferred Savings Incentive Plan

Effective January 1, 1998, the State established the Oklahoma State Employees Deferred Savings Incentive Plan (the "Savings Incentive Plan") as a money purchase pension plan pursuant to IRC Section 401(a). The Savings Incentive Plan and its related trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant who is a state employee who is an active participant in the Plan is eligible for a contribution of the amount determined by the Oklahoma Legislature, currently the equivalent of \$25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Plan and is not voluntary.

Upon cessation of contributions to the Plan, termination of employment with the State, retirement, or death, a participant will no longer be eligible for contributions from the State into the Savings Incentive Plan. Participants are at all times 100% vested in their Savings Incentive Plan account. Participant contributions are not required or permitted. Qualified participants may make rollover contributions to the Savings Incentive Plan, provided such rollover contributions meet applicable requirements of the IRC. Plan participants may direct the investment of the contributions in available investment options offered by the Savings Incentive Plan. All interest, dividends, and investment fees are allocated to the participants' accounts.

Savings Incentive Plan benefits are paid to participants or beneficiaries upon termination, retirement, or death. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments or may be rolled over to a qualified plan at the option of the participant or beneficiaries.

(9) LEGISLATIVE SERVICE BUREAU PAYMENTS

The Legislative Service Bureau (LSB) was created to serve, in various capacities, the House and the Oklahoma State Senate. It is responsible for such services as directed by the Speaker of the House and the President Pro Tempore of the Senate. One service which the LSB has been directed to provide the House is the transfer of funds for operational activities.

During the years ended June 30, 2013 and 2012, LSB paid contributions totaling \$2,517,170 and \$2,550,000, respectively, to the House to assist in the House's operating expenditures. These amounts were paid from appropriations of LSB and are reflected as contributions from LSB. For the years ended June 30, 2013 and 2012, LSB did not pay for capital assets for the benefit of the House. At June 30, 2013 and 2012, the LSB had assigned funds for the benefit of the House of \$8,949 and \$1,041,516, respectively, for the House's operating expenditures.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) OTHER STATE AGENCY PAYMENTS

The House has paid other state agencies for administrative and other services, which are included in contractual services. The following is a breakdown of contractual services paid to the various state agencies for the years ended June 30:

	<u>2013</u>	<u>2012</u>
CompSource Oklahoma	\$ 70,572	73,192
Division of Capital Assets Management	-	24,187
Department of Libraries	7,258	6,202
Office of Management and Enterprise Services	55,398	12,957
Employee Benefits Council	-	4,597
Oklahoma State Auditor and Inspector	-	150
Oklahoma Turnpike Authority	47	27
Oklahoma State Treasurer	30	30
Oklahoma Public Employees Retirement System	11,645	-
Oklahoma State Senate	5,875	-
Oklahoma State Bureau of Investigation	930	-
Department of Human Services	<u>256</u>	<u>-</u>
	<u>\$ 152,011</u>	<u>121,342</u>

(11) OPERATING LEASE COMMITMENTS

The House has various operating leases for equipment. The future minimum rental commitments for equipment operating leases as of June 30, 2013, are as follows:

2014	\$ 62,607
2015	55,872
2016	<u>17,834</u>
	<u>\$ 136,313</u>

The rental expense was approximately \$339,000 and \$404,000 for the years ended June 30, 2013 and 2012, respectively.

See Independent Auditors' Report.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(12) RISK MANAGEMENT

The Risk Management Division of the Division of Capital Assets Management (the “Division”) is empowered by the authority of Title 74 O.S. Supp. 1993, Section 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 the use by the State for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The 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 by the State, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of liability claims owed to the State incurred as a result of a loss through the wrongful or negligent act of a private person or other entity.

The Division is also charged with the responsibility to immediately notify the attorney general of any claims against the State presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each state agency, including the House, their pro rata share of the premiums purchased.

(13) COMMITMENTS AND CONTINGENCIES

Legal

The House is involved in legal proceedings which, in the opinion of the leadership, will not have a material effect on the net position or the changes in net position of the House.

Construction/Remodeling

The House is in the process of remodeling the west wing of the 2nd floor, the northwest and southwest stairwells of the 2nd and 3rd floors, and many offices and conference rooms of the State Capitol Building. The remodel had not commenced as of June 30, 2013; however, there was a contract in place with the general contractor as of June 30, 2013. The estimated cost of completion for the remodel is approximately \$2,200,000. As of June 30, 2013, the House had not expended any funds on the remodel. The estimated completion date for the project is January 15, 2014.

See Independent Auditors’ Report.



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

The Honorable T. W. Shannon
Speaker of the House
Oklahoma House of Representatives

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Oklahoma House of Representatives (the "House") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the House's basic financial statements, and have issued our report thereon dated January 27, 2014. Our report includes an explanatory paragraph regarding management's discussion and analysis, an explanatory paragraph stating that the financial statements of the House are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma attributable to the transactions of the House, and an explanatory paragraph stating that the House is not required by statute to prepare a line-item budget. In addition, our report includes an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 63 by the House.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the House'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 House's internal control. Accordingly, we do not express an opinion on the effectiveness of the House'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.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, CONTINUED**

Internal Control Over Financial Reporting, Continued

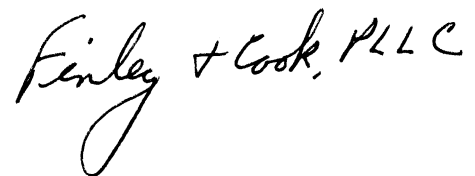
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the House'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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the House'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 House's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
January 27, 2014