Oklahoma State Senate

Financial Statements

June 30, 2014 and 2013
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

OKLAHOMA STATE SENATE

FINANCIAL STATEMENTS

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FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Brian Bingman
President Pro Tempore
Oklahoma State Senate

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Oklahoma State Senate (the "Senate") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Senate'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)

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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 Senate as of June 30, 2014 and 2013, 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 Matter

Department-Only Financial Statements

As discussed in Note 1, the financial statements of the Senate 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 of Oklahoma that is attributable to the transactions of the Senate. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2014 and 2013, or 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.

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

Other Information

The Senate 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 8, 2015, on our consideration of the Senate'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 Senate's internal control over financial reporting and compliance.

Finley & Cook, PLLC

Shawnee, Oklahoma
January 8, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

As management of the Oklahoma State Senate (the "Senate"), we offer readers of the Senate's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2014, 2013, and 2012.

FINANCIAL HIGHLIGHTS

- During 2014, the Senate's net position increased $3,810,577 from June 30, 2013, resulting in net position of $7,245,152 at June 30, 2014. During 2013, the Senate's net position increased $3,593,708 from June 30, 2012, resulting in net position of $3,434,575 at June 30, 2013. During 2012, the Senate's net position increased $187,926 from June 30, 2011, resulting in net position of $(159,133) at June 30, 2012.

- At June 30, 2014, the Senate's assets totaling $7,940,160 increased $3,619,770 from June 30, 2013, due to an increase in cash and capital assets. At June 30, 2013, the Senate's assets totaling $4,320,390 increased $3,696,079 from June 30, 2012, due to an increase in cash and capital assets. At June 30, 2012, the Senate's assets totaling $624,311 increased $59,990 from June 30, 2011, due to an increase in capital assets.

- At June 30, 2014, the Senate's liabilities totaling $695,008 decreased $(190,807) from June 30, 2013, due to decreases in accounts payable and capital lease obligations. At June 30, 2013, the Senate's liabilities totaling $885,815 increased $102,371 from June 30, 2012, due to an increase in accounts payable. At June 30, 2012, the Senate's liabilities totaling $783,444 decreased $127,936 from June 30, 2011, due to personnel services reductions, which were necessary due to a decrease in the Senate's general appropriation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Senate'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 Senate's finances in a manner similar to a private-sector business.

The statements of net position present information on all of the Senate'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 Senate is improving or deteriorating.

The statements of activities present information showing how the Senate's net position changed during the most recent fiscal years. 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.

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 Senate 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 Senate 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 Senate are accounted for in the General Fund.

Notes to 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 Senate's net position at June 30 is reported as follows:

	2014	2013	2012
Assets			
Current assets	$ 4,954,617	3,803,750	450,595
Capital assets, net	2,985,543	516,640	173,716
Total assets	7,940,160	4,320,390	624,311
Liabilities			
Current liabilities	480,162	664,992	529,330
Noncurrent liabilities	214,846	220,823	254,114
Total liabilities	695,008	885,815	783,444
Net position			
Net investment in capital assets	2,985,543	491,591	102,165
Unrestricted, surplus (deficit)	4,259,609	2,942,984	(261,298)
Total net position	$ 7,245,152	3,434,575	(159,133)

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

	2014	2013	2012
Governmental activities:			
Charges for services	$ 150,794	61,579	112,887
Contributions from the Legislative Service Bureau	4,454,943	4,562,452	1,250,000
Expenses	(13,966,949)	(13,202,112)	(12,346,750)
Total governmental activities	(9,361,212)	(8,578,081)	(10,983,863)
General revenues:			
Appropriations from the general fund of the State of Oklahoma	13,171,789	12,171,789	11,171,789
Total general revenues	13,171,789	12,171,789	11,171,789
Changes in net position	3,810,577	3,593,708	187,926
Net position, beginning of year	3,434,575	(159,133)	(347,059)
Net position, end of year	$ 7,245,152	3,434,575	(159,133)

GOVERNMENT-WIDE FINANCIAL ANALYSIS, CONTINUED

This discussion and analysis of the Senate's financial performance provides an overview of the Senate's financial activities for the fiscal years ended June 30, 2014, 2013, and 2012.

The Senate's 2014 appropriation from the State of Oklahoma increased approximately 8%, or $1,000,000, from FY 2013 due to the continued recovery of the State's economy and the resulting positive impact on State revenues as certified by the Board of Equalization. In addition to the increase in appropriations, approximately $4,455,000 was contributed by the Legislative Service Bureau (LSB) to the Senate. The Senate's 2013 appropriation from the State of Oklahoma increased approximately 9%, or $1,000,000, from FY 2012 due to the recovery of the State's economy and the resulting positive impact on State revenues as certified by the Board of Equalization. In addition to the increase in appropriations, approximately $4,562,000 was contributed by LSB to the Senate. The Senate's 2012 appropriation from the State of Oklahoma decreased approximately 5%, or $588,000, from FY 2011 due to the continued downturn of the State's economy and resulting negative impact on State revenues as certified by the Board of Equalization. To offset the reduction in appropriations, $1,250,000 was contributed by LSB to the Senate.

The Senate's 2014 expenditures, not including adjustments for depreciation, capitalized lease items, and compensated absences, increased approximately 21%, or $2,861,000, from FY 2013 due to Senate renovations, an increase in salaries and wages, and the purchase of furniture and equipment, which had been delayed due to the recent economic downturn. The Senate's 2013 expenditures, not including adjustments for depreciation, capitalized lease items, and compensated absences, increased approximately 9%, or $1,139,000, from FY 2012 due to an increase in salaries and wages and the purchase of new data processing equipment, which had been delayed due to the recent economic downturn. The Senate's 2012 expenditures, not including adjustments for depreciation, capitalized lease items, and compensated absences, decreased approximately 1%, or $184,000, from FY 2011 solely due to the need to reduce expenses to match a corresponding reduction in the Senate's general appropriation allocation.

CAPITAL ASSETS

As of June 30, 2014, 2013, and 2012, the Senate's investment in capital assets, net of accumulated depreciation, totaled approximately $2,986,000, $517,000, and, $174,000, respectively. Depreciation for 2014, 2013, and 2012, totaled approximately $591,000, $225,000, and $110,000, respectively. Capital assets include building improvements, computer equipment, office furniture, and other equipment.

CAPITAL LEASES

As of June 30, 2014, the Senate had no capital lease obligations outstanding for the lease of certain office equipment. As of June 30, 2013 and 2012, the Senate had approximately $25,000 and $72,000, respectively, of capital lease obligations outstanding for the lease of certain office equipment. During the years ended June 30, 2014, 2013, and 2012, the Senate paid approximately $26,000, $52,000, and $52,000, respectively, in lease payments, of which approximately $1,000, $5,000, and $9,000, respectively, related to interest expense.

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 Senate's appropriation for the year July 1, 2014, to June 30, 2015.

The Senate 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 SENATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the Senate's finances and to demonstrate the Senate's accountability for the funds received. If you have questions relative to the report or have a need for additional financial information, contact the Oklahoma State Senate, State Capitol Building, 2300 N. Lincoln Blvd., Room 311, Oklahoma City, Oklahoma 73105-4801.

OKLAHOMA STATE SENATE

STATEMENTS OF NET POSITION

June 30,	*2014*	*2013*
Assets		
Current assets:		
Cash, including short-term investments	$ 4,954,617	3,803,750
Total current assets	4,954,617	3,803,750
Noncurrent assets:		
Capital assets, net of accumulated depreciation	2,985,543	516,640
Total assets	$ 7,940,160	4,320,390
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$ 53,208	204,542
Current portion of long-term obligations	421,289	455,183
Accrued salaries and benefits	5,665	5,267
Total current liabilities	480,162	664,992
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	214,846	220,823
Total liabilities	695,008	885,815
Net investment in capital assets	2,985,543	491,591
Unrestricted	4,259,609	2,942,984
Total net position	7,245,152	3,434,575
Total liabilities and net position	$ 7,940,160	4,320,390

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

OKLAHOMA STATE SENATE

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2014

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues
Governmental activities:				
Legislative operations	$ (13,966,213)	150,794	-	(13,815,419)
Contributions from the Legislative Service Bureau	-	-	4,454,943	4,454,943
Interest expense	(736)	-	-	(736)
Total governmental activities	$ (13,966,949)	150,794	4,454,943	(9,361,212)
General revenues:				
State appropriations				13,171,789
Total general revenues				13,171,789
Changes in net position				3,810,577
Net position, beginning of year				3,434,575
Net position, end of year				$ 7,245,152

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

OKLAHOMA STATE SENATE

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2013

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues
Governmental activities:				
Legislative operations	$ (13,197,050)	61,579	-	(13,135,471)
Contributions from the Legislative Service Bureau	-	-	4,562,452	4,562,452
Interest expense	(5,062)	-	-	(5,062)
Total governmental activities	$ (13,202,112)	61,579	4,562,452	(8,578,081)
General revenues:				
State appropriations				12,171,789
Total general revenues				12,171,789
Changes in net position				3,593,708
Net position, beginning of year				(159,133)
Net position, end of year				$ 3,434,575

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

OKLAHOMA STATE SENATE

BALANCE SHEETS—GENERAL FUND

June 30,		*2014*	*2013*
Assets			
Assets:			
Cash, including short-term investments	$	4,954,617	3,803,750
Total assets	$	4,954,617	3,803,750
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	$	53,208	204,542
Accrued salaries and benefits		5,665	5,267
Total liabilities		58,873	209,809
Fund balance:			
Unassigned		4,895,744	3,593,941
Total fund balance		4,895,744	3,593,941
Total liabilities and fund balance	$	4,954,617	3,803,750
Reconciliation of Fund Balance to Net Position			
Total fund balance from above	$	4,895,744	3,593,941
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		2,985,543	516,640
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund financial statements:			
Compensated absences		(636,135)	(650,957)
Capital lease obligations		-	(25,049)
Net position, per the statements of net position	$	7,245,152	3,434,575

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

OKLAHOMA STATE SENATE

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

Years Ended June 30,	*2014*	*2013*
Revenues:		
Contributions from the Legislative Service Bureau	$ 4,454,943	4,562,452
Other	150,794	61,579
Total revenues	4,605,737	4,624,031
Expenditures:		
Personnel services	12,085,888	11,777,462
Contractual services	765,441	521,233
Travel	461,410	412,023
Supplies and materials	3,137,199	852,178
Debt service (capitalized leases):		
Principal	25,049	46,502
Interest	736	5,062
Total expenditures	16,475,723	13,614,460
Deficiency of revenues over expenditures	(11,869,986)	(8,990,429)
Other funding sources:		
State appropriations	13,171,789	12,171,789
Net changes in fund balance	1,301,803	3,181,360
Fund balance, beginning of year	3,593,941	412,581
Fund balance, end of year	$ 4,895,744	3,593,941

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

OKLAHOMA STATE SENATE

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

Years Ended June 30,	*2014*	*2013*
Net changes in fund balance—General Fund	$ 1,301,803	3,181,360
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	(590,702)	(224,736)
Capital asset purchases capitalized	3,059,605	567,660
	2,468,903	342,924
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	25,049	46,502
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	14,822	22,922
Changes in net position, per the statements of activities	$ 3,810,577	3,593,708

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

(1) NATURE OF THE ORGANIZATION

The financial statements of the Oklahoma State Senate (the "Senate") 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 Senate's accounting policies are described below.

Financial Reporting Entity

The Senate is a legislative body of the State of Oklahoma (the "State"). The Senate consists of 48 members who are elected by Oklahoma voters to serve 4-year terms. The Senate initiates legislation, holds legislative hearings, confirms appointments of the Governor, and tries impeachment cases.

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

Fund Accounting and Budgetary Information

The Senate is included in the General Fund—Government of the State. The accompanying financial statements 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 Senate and not the financial position of the State. The Senate 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 Senate to utilize unexpended appropriations from the prior year before expending current-year appropriations. The Senate 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.

(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 Senate. 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 General Fund is used to account for the Senate's expendable financial resources and related liabilities. All transactions related to the general administration of the Senate are accounted for in this fund.

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 Senate as 60 days after year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when the liability has matured.

Only current assets and current liabilities are included on the balance sheets. The operations present sources and uses of available spendable resources during a given period of time.

Contributions

The Senate 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.

(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 and having a useful life of over a year. Depreciation is computed on the straight-line method over the estimated useful lives:

Computer equipment	3 years
Office furniture and other equipment	5 years
Building improvements	5 years

While the Senate does not own or lease a portion of the State Capitol Building, they do maintain the space used and have capitalized improvements made to the space used.

A full year's depreciation is taken in the year an asset is placed in service, with the exception of building improvements, for which a full year's depreciation is taken if an asset is placed in service during the first half of the fiscal year and a half year's depreciation is taken if an asset is placed in service during the second half of the fiscal year. 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 240 hours for employees with less than 5 years of service and a maximum of 480 hours for employees with more than 5 years of service. 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 Senate entered into capital lease obligations, as more fully described in Note 6 to the financial statements. The amounts reflected in the statements of net position are the principal balances due as of June 30, 2014 and 2013.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes

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

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 Senate’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, 2014 and 2013, the Senate 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

Fund Financial Statements, Continued

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.

c. Committed fund balance—the committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action of the Senate'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 Senate'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 Senate has given authority to the President Pro Tempore of the Senate to assign state appropriations received by the Senate 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 Senate'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 Senate'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.

(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:

	General Fund	
	2014	2013
Fund balances:		
Unassigned:		
State appropriations	$ 4,895,744	3,593,941
Total fund balances	$ 4,895,744	3,593,941

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, 2014 and 2013, 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

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 recognizes certain items that were previously reported as assets or liabilities as outflows of resources or inflows of resources. The Senate adopted this statement effective July 1, 2013. The adoption had no significant impact on the Senate's financial statements. Presently, the Senate has no items of deferred outflows of resources or deferred inflows of resources to be reported.

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. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement is effective for financial statements for periods beginning after June 15, 2014. The Senate has not determined the effects, if any, of implementing GASB 68.

Date of Management's Review of Subsequent Events

The Senate's leadership has evaluated subsequent events through January 8, 2015, the date that 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.

(3) CASH BALANCES

At June 30, 2014 and 2013, the Senate maintained cash balances of approximately $4,955,000 and $3,804,000, respectively, with the State Treasurer. The Senate's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitation, are 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 the activity in capital assets during the years ended June 30:

	July 1, 2013	Additions	Retirements	June 30, 2014
Capital assets:				
Computer equipment	$ 1,565,478	1,777	-	1,567,255
Office furniture and other equipment	669,886	354,972	(202,241)	822,617
Building improvements	-	2,702,856	-	2,702,856
Total capital assets	2,235,364	3,059,605	(202,241)	5,092,728
Accumulated depreciation:				
Computer equipment	(1,069,176)	(245,273)	-	(1,314,449)
Office furniture and other equipment	(649,548)	(75,143)	202,241	(522,450)
Building improvements	-	(270,286)	-	(270,286)
Total accumulated depreciation	(1,718,724)	(590,702)	202,241	(2,107,185)
Net capital assets	$ 516,640	2,468,903	-	2,985,543

	July 1, 2012	Additions	Retirements	June 30, 2013
Capital assets:				
Computer equipment	$ 1,020,114	545,364	-	1,565,478
Office furniture and other equipment	647,590	22,296	-	669,886
Total capital assets	1,667,704	567,660	-	2,235,364
Accumulated depreciation:				
Computer equipment	(893,163)	(176,013)	-	(1,069,176)
Office furniture and other equipment	(600,825)	(48,723)	-	(649,548)
Total accumulated depreciation	(1,493,988)	(224,736)	-	(1,718,724)
Net capital assets	$ 173,716	342,924	-	516,640

See Independent Auditors' Report.

(4) CAPITAL ASSETS, CONTINUED

The Senate did not have any capitalized lease assets as of June 30, 2014. A summary of capitalized lease assets included above is as follows as of June 30, 2013:

	Cost	Accumulated Depreciation	Net Capital Assets
Office furniture and other equipment	$ 202,241	(202,241)	-

The Senate has no significant infrastructure assets.

The assets are valued at cost and are depreciated using the straight-line method over their estimated useful lives, which is 5 years for office furniture and other equipment.

Depreciation expense for 2014 and 2013 was approximately $591,000 and $225,000, respectively.

(5) LONG-TERM LIABILITIES

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

	July 1, 2013	Increase	Paid	June 30, 2014	Amount Due Within 1 Year
Compensated absences	$ 650,957	426,003	(440,825)	636,135	421,289
Capital leases	25,049	-	(25,049)	-	-
Total long-term liabilities	$ 676,006	426,003	(465,874)	636,135	421,289

	July 1, 2012	Increase	Paid	June 30, 2013	Amount Due Within 1 Year
Compensated absences	$ 673,879	426,547	(449,469)	650,957	430,134
Capital leases	71,551	-	(46,502)	25,049	25,049
Total long-term liabilities	$ 745,430	426,547	(495,971)	676,006	455,183

See Independent Auditors' Report.

(6) CAPITAL LEASE OBLIGATIONS

The Senate 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 expired in December 2013.

Changes in the lease obligations for the years ended June 30 were as follows:

	2014	2013
Balance, beginning of year	$ 25,049	71,551
Principal payments	(25,049)	(46,502)
Balance, end of year	$ -	25,049

(7) RETIREMENT PLAN

Plan Description

The Senate 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.

(7) RETIREMENT PLAN, CONTINUED

Funding Policy

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

Fiscal Year 2014			Fiscal Year 2013		
State Employees	Senators	Senate	State Employees	Senators	Senate
All Salaries	All Salaries	All Salaries	All Salaries	All Salaries	All Salaries
3.5%	3.5%–10%	16.5%	3.5%	3.5%–10%	16.5%

Fiscal Year 2012		
State Employees	Senators	Senate
All Salaries	All Salaries	All Salaries
3.5%	3.5%–10%	16.5%

The Senate's contributions to the Retirement Plan for the years ended June 30, 2014, 2013, and 2012, were approximately $1,276,000, $1,260,000, and $1,204,000, respectively, and were equal to its required contributions for each year.

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

Deferred Compensation Plan

The State offers its employees a 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 1701–1706 of Title 74 of the Oklahoma Statutes.

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

(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 three 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 three 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 Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2014 and 2013. The Senate believes that it has no liabilities with respect to the Plan.

(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 (LSB)

LSB was created to serve, in various capacities, the Senate and the Oklahoma House of Representatives. It is responsible for such services as directed by the President Pro Tempore of the Senate and the Speaker of the House. One service in which LSB has been directed to serve the Senate is the payment of certain expenditures. These expenditures are included in the Senate's financial statements. LSB did not incur expenditures paid on behalf of the Senate for the years ended June 30, 2014 or 2013. During the years ended June 30, 2014 and 2013, LSB paid contributions totaling $4,454,943 and $4,562,452, respectively, to the Senate to assist in the Senate's operating expenditures. These amounts were paid from appropriations of LSB and are reflected as contributions from LSB. For the years ended June 30, 2014 and 2013, LSB did not pay for capital assets for the benefit of the Senate. For the years ended June 30, 2014 and 2013, LSB had not assigned funds for the benefit of the Senate for the Senate's operating expenditures. All amounts were funded in the current year at the discretion of the President Pro Tempore of the Senate.

See Independent Auditors' Report.

(10) OTHER STATE AGENCY PAYMENTS

The Senate has paid other state agencies for administrative and other services during the current year, 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:

		2014	2013
CompSource Oklahoma	$	49,989	35,051
Division of Capital Assets Management—Central Printing		7,187	18,632
Division of Capital Assets Management—Fleet Management Division		15,418	12,320
Division of Capital Assets Management—Risk Management Division		6,037	7,176
Legislative Service Bureau		6,400	9,675
Office of Management and Enterprise Services		11,395	10,338
Department of Libraries		3,240	3,057
Energy Council		-	3,200
Department of Human Services		-	5,250
Oklahoma Bar Association		1,975	1,937
Oklahoma State Bureau of Investigation		-	38
Oklahoma Public Employees Retirement System		14,286	22,679
Oklahoma State Election Board		41,552	36,920
Oklahoma State Treasurer		15	-
Supreme Court		235	-
	$	157,729	166,273

(11) OPERATING LEASE COMMITMENTS

The Senate has various operating leases for equipment and office space. The lease for the office space expires on June 30, 2015. The future minimum rental commitments for the operating leases as of June 30, 2014, are as follows:

2015	$	85,721
2016		83,077
2017		76,609
2018		74,759
2019		32,126
	$	352,292

The rental expense was approximately $59,000 and $27,000 for the years ended June 30, 2014 and 2013, respectively.

See Independent Auditors' Report.

(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 Senate, their pro rata share of the premiums purchased.

(13) COMMITMENTS AND CONTINGENCIES

Legal

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

Construction/Remodeling

As of June 30, 2013, the Senate was in the process of remodeling the north wing of the 2nd, 3rd, and 5th floors of the State Capitol Building. During 2014, the Senate expended approximately $3,114,000 on the remodel, which was completed on January 15, 2014. The Senate plans to also remodel the 3rd floor Senate offices during 2015.

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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 Brian Bingman
President Pro Tempore
Oklahoma State Senate

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 State Senate (the "Senate") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Senate's basic financial statements, and have issued our report thereon dated January 8, 2015. Our report includes an explanatory paragraph regarding management's discussion and analysis, an explanatory paragraph stating that the financial statements of the Senate 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 Senate, and an explanatory paragraph stating that the Senate is not required by statute to prepare a line-item budget.

Internal Control Over Financial Reporting

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

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

Internal Control Over Financial Reporting, Continued

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

Compliance and Other Matters

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

Purpose of This Report

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

Finley & Cook, PLLC

Shawnee, Oklahoma
January 8, 2015