

Legislative Service Bureau

Financial Statements

June 30, 2018 and 2017
(With Independent Auditors' Report Thereon)



LEGISLATIVE SERVICE BUREAU

FINANCIAL STATEMENTS

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LEGISLATIVE SERVICE BUREAU

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INDEPENDENT AUDITORS' REPORT

Legislative Service Bureau

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Legislative Service Bureau (the "Bureau"), a component of the General Fund of the State of Oklahoma, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Bureau'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 audits 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 Bureau'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 Bureau'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 Bureau as of June 30, 2018 and 2017, 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 Bureau 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 Bureau. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2018 or 2017, or the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in Note 1 to the financial statements, in 2018 the Bureau adopted new accounting guidance, Statement No. 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The implementation of GASB 75 resulted in the restatement of the 2017 financial statements. 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 and the schedule of the Bureau's proportionate share of net pension liability, the schedule of the Bureau's contributions, the Schedule of the Bureau's Proportionate Share of the Net OPEB Liability—Oklahoma Public Employees Health Insurance Subsidy Plan, the Schedule of the Bureau's Contributions—Oklahoma Public Employees Health Insurance Subsidy, and the Schedule of the Bureau's Changes in Total OPEB Liability and Related Ratios—Implicit Rate Subsidy of Health Insurance OPEB Liability on pages 45 through 49, respectively, 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Other Information, Continued

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2019, on our consideration of the Bureau'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 Bureau's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
January 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Legislative Service Bureau (the "Bureau"), we offer readers of the Bureau's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2018, 2017, and 2016.

Financial Highlights

- At June 30, 2018, the Bureau's net position decreased \$3,469,854 from June 30, 2017, resulting in a net position of \$1,352,540. At June 30, 2017, the Bureau's net position increased \$1,884,959 from June 30, 2016, resulting in a net position of \$4,847,578. At June 30, 2016, the Bureau's net position increased \$1,988,555 from June 30, 2015, resulting in a net position of \$2,962,619.
- At June 30, 2018, the Bureau's assets totaling \$1,467,296 decreased \$3,475,015 mainly due to a decrease of \$3,455,145 in cash. At June 30, 2017, the Bureau's assets totaling \$4,942,311 increased \$1,881,856 mainly due to an increase of \$1,924,296 in cash. At June 30, 2016, the Bureau's assets totaling \$3,060,455 increased \$1,889,853 due to an increase of \$1,886,523 in cash and an increase of \$3,330 in capital assets.
- At June 30, 2018, the Bureau's liabilities totaling \$199,409 decreased by \$117,734, due mainly to a \$133,217 decrease in net pension liability. At June 30, 2017, the Bureau's liabilities totaling \$317,143 increased by \$192,114, due mainly to a \$164,710 increase in net pension liability and recording of the OPEB liability resulting from the adoption of GASB 75. At June 30, 2016, the Bureau's liabilities totaling \$125,029 increased by \$12,174, due mainly to a \$20,697 decrease in accounts payable and a \$37,513 increase in net pension liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bureau's basic financial statements and is 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 Bureau's finances in a manner similar to a private sector business.

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

The statements of activities present information showing how the Bureau'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 this statement for some items that will only result in cash flows in future periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS, 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 Bureau 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a 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 sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Bureau 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 balances for the General Fund. All transactions related to the general administration of the Bureau 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Government-Wide Financial Analysis

The Bureau's net position at June 30 was reported as follows:

	<u>2018</u>	<u>2017*</u>	<u>2016</u>
Current assets	\$ 1,449,039	4,904,184	2,979,888
Capital assets, net	<u>18,257</u>	<u>38,127</u>	<u>80,567</u>
Total assets	<u>1,467,296</u>	<u>4,942,311</u>	<u>3,060,455</u>
Deferred outflows of resources related to the pension and OPEB	<u>123,540</u>	<u>284,266</u>	<u>138,337</u>
Current liabilities	38,377	28,942	28,915
Noncurrent liabilities	<u>161,032</u>	<u>288,201</u>	<u>96,114</u>
Total liabilities	<u>199,409</u>	<u>317,143</u>	<u>125,029</u>
Deferred inflows of resources related to the pension and OPEB	<u>38,887</u>	<u>87,040</u>	<u>111,144</u>
Net position:			
Net investment in capital assets	18,257	38,127	80,567
Unrestricted	<u>1,334,283</u>	<u>4,784,267</u>	<u>2,882,052</u>
Total net position	<u>\$ 1,352,540</u>	<u>4,822,394</u>	<u>2,962,619</u>

* Restated for the adoption of GASB 75

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Government-Wide Financial Analysis, Continued

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Governmental activities:			
Contributions to the House	\$ (7,531,510)	(7,584,603)	(1,521,219)
Contributions to the Senate	(8,574,501)	(3,472,745)	-
Expenses, net	<u>(1,070,102)</u>	<u>(1,076,761)</u>	<u>(1,040,563)</u>
Total governmental activities	<u>(17,176,113)</u>	<u>(12,134,109)</u>	<u>(2,561,782)</u>
General revenues:			
Appropriations from the State	13,704,076	13,892,835	4,550,337
Refund of appropriations	-	126,233	-
Gain on disposal of capital assets	<u>2,183</u>	<u>-</u>	<u>-</u>
Total general revenues	<u>13,706,259</u>	<u>14,019,068</u>	<u>4,550,337</u>
Changes in net position	(3,469,854)	1,884,959	1,988,555
Net position, beginning of year	4,822,394	2,962,619	974,064
Restatement for the adoption of GASB 75	<u>-</u>	<u>(25,184)</u>	<u>-</u>
Net position, end of year	<u>\$ 1,352,540</u>	<u>4,822,394</u>	<u>2,962,619</u>

This discussion and analysis of the Bureau's financial performance provides an overview of the Bureau's financial activities for the fiscal years ended June 30, 2018, 2017, and 2016.

The Bureau's 2018 total general revenues decreased approximately 2% from fiscal year 2017, due to a decrease in state appropriations. The Bureau's 2017 total general revenues increased approximately 208% from fiscal year 2016, due to an increase in state appropriations and a refund of appropriations. The Bureau's 2016 total general revenues decreased approximately 7% from fiscal year 2015, due to a decrease in state appropriations.

The Bureau's total expenses for fiscal year 2018 increased approximately 42%, due to an increase in the Bureau's contribution to the Oklahoma House of Representatives and the Oklahoma State Senate. The Bureau's total expenses for fiscal year 2017 increased approximately 374%, due to an increase in the Bureau's contribution to the Oklahoma House of Representatives and the Oklahoma State Senate. The Bureau's total expenses for fiscal year 2016 decreased approximately 46%, due to a decrease in the Bureau's contribution to the Oklahoma State Senate.

The Bureau's 2018 appropriations from the State of Oklahoma, including refunds, decreased \$314,992 from fiscal year 2017. The Bureau's 2017 appropriations from the State of Oklahoma, including refunds, increased \$9,468,731 from fiscal year 2016. The Bureau's 2016 appropriations from the State of Oklahoma decreased \$342,498 from fiscal year 2015.

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

Capital Assets

As of June 30, 2018, 2017, and 2016, the Bureau had invested approximately \$365,000, \$443,000, and \$466,000, respectively, in capital assets, including computer equipment and software, office equipment, and furniture. Net of accumulated depreciation, the Bureau’s net capital assets as of June 30, 2018, 2017, and 2016, totaled approximately \$18,000, \$38,000, and \$81,000, respectively. As of June 30, 2018, 2017, and 2016, these amounts represented a net (decrease) increase of approximately \$(20,000), \$(43,000), and \$4,000, respectively. For the year ended June 30, 2018, there was approximately \$16,000 in capital asset additions. For the year ended June 30, 2017, there was no capital asset additions. For the year ended June 30, 2016, there was approximately \$70,000 in capital asset additions.

Capital Leases

As of June 30, 2018, 2017, and 2016, the Bureau had no capital lease obligations outstanding. During the fiscal years 2018, 2017, and 2016, the Bureau made no capital lease payments.

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 Bureau’s appropriation for the fiscal year July 1, 2018, to June 30, 2019.

The Bureau 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 Bureau’s Financial Management

This financial report is designed to provide interested parties with a general overview of the Bureau’s finances and to demonstrate the Bureau’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Legislative Service Bureau, 2300 North Lincoln Boulevard, Room 309-1, State Capitol Building, Oklahoma City, Oklahoma 73105-4801.

LEGISLATIVE SERVICE BUREAU

STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2018</i>	<i>2017</i>
Assets		
Current assets:		
Cash	\$ 1,449,039	4,904,184
Total current assets	<u>1,449,039</u>	<u>4,904,184</u>
Capital assets, net of accumulated depreciation	<u>18,257</u>	<u>38,127</u>
Total assets	<u>1,467,296</u>	<u>4,942,311</u>
Deferred Outflows of Resources		
Deferred amounts related to the pension and OPEB	<u>123,540</u>	<u>284,266</u>
Total deferred outflows of resources	<u>123,540</u>	<u>284,266</u>
Total assets and deferred outflows of resources	<u>\$ 1,590,836</u>	<u>5,226,577</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 22,151	-
Current portion of compensated absences	<u>16,226</u>	<u>28,942</u>
Total current liabilities	<u>38,377</u>	<u>28,942</u>
Noncurrent liabilities:		
Compensated absences, less current portion	25,380	20,113
Net pension liability	109,687	242,904
Net OPEB liability, as restated	<u>25,965</u>	<u>25,184</u>
Total noncurrent liabilities	<u>161,032</u>	<u>288,201</u>
Total liabilities	<u>199,409</u>	<u>317,143</u>
Deferred Inflows of Resources		
Deferred amounts related to the pension and OPEB	<u>38,887</u>	<u>87,040</u>
Total deferred inflows of resources	<u>38,887</u>	<u>87,040</u>
Net Position		
Net investment in capital assets	18,257	38,127
Unrestricted, as restated	<u>1,334,283</u>	<u>4,784,267</u>
Total net position	<u>1,352,540</u>	<u>4,822,394</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,590,836</u>	<u>5,226,577</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2018

		<u>Program Revenues</u>		
	<u>General</u> <u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Federal</u> <u>Operating</u> <u>Grants</u>	<u>Net (Expenses)</u> <u>Revenues/Changes</u> <u>in Net Position</u>
Governmental activities:				
General government support services	\$ (1,070,102)	-	-	(1,070,102)
Contributions to the House	(7,531,510)	-	-	(7,531,510)
Contributions to the Senate	<u>(8,574,501)</u>	<u>-</u>	<u>-</u>	<u>(8,574,501)</u>
Total governmental activities	<u>\$ (17,176,113)</u>	<u>-</u>	<u>-</u>	<u>(17,176,113)</u>
General revenues:				
Appropriations from the State				13,704,076
Gain on disposal of capital assets				<u>2,183</u>
Total general revenues				<u>13,706,259</u>
Changes in net position				(3,469,854)
Net position, beginning of year, restated (see Note 1)				<u>4,822,394</u>
Net position, end of year				<u>\$ 1,352,540</u>

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

LEGISLATIVE SERVICE BUREAU

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2017

		Program Revenues		
	General	Charges for	Federal	Net (Expenses)
	<u>Expenses</u>	<u>Services</u>	<u>Operating</u>	<u>Revenues/Changes</u>
			<u>Grants</u>	<u>in Net Position</u>
Governmental activities:				
General government support services	\$ (1,076,761)	-	-	(1,076,761)
Contributions to the House	(7,584,603)	-	-	(7,584,603)
Contributions to the Senate	<u>(3,472,745)</u>	-	-	<u>(3,472,745)</u>
Total governmental activities	<u>\$ (12,134,109)</u>	<u>-</u>	<u>-</u>	<u>(12,134,109)</u>
General revenues:				
Appropriations from the State				13,892,835
Refund of appropriations				<u>126,233</u>
Total general revenues				<u>14,019,068</u>
Changes in net position				1,884,959
Net position, beginning of year				2,962,619
Restatement for adoption of GASB 75				<u>(25,184)</u>
Net position, end of year, as restated				<u>\$ 4,822,394</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU**BALANCE SHEETS—GENERAL FUND**

<i>June 30,</i>	<i>2018</i>	<i>2017</i>
Assets		
Cash	\$ 1,449,039	4,904,184
Total assets	<u>\$ 1,449,039</u>	<u>4,904,184</u>
Liabilities and Fund Balances		
Accounts payable	\$ 22,151	-
Total liabilities	<u>22,151</u>	<u>-</u>
Fund balances:		
Assigned	145,582	3,700,525
Unassigned	<u>1,281,306</u>	<u>1,203,659</u>
Total fund balances	<u>1,426,888</u>	<u>4,904,184</u>
Total liabilities and fund balances	<u>\$ 1,449,039</u>	<u>4,904,184</u>
Reconciliation of Fund Balances to Net Position		
Total fund balances from above	\$ 1,426,888	4,904,184
Amounts reported in the statements of net position are different because they are not financial resources and therefore are not reported in the governmental fund financial statements:		
Net capital assets used in governmental activities	18,257	38,127
Deferred outflows related to the pension and OPEB	123,540	284,266
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund financial statements:		
Compensated absences	(41,606)	(49,055)
Net pension liability	(109,687)	(242,904)
Net OPEB liability, as restated	(25,965)	(25,184)
Deferred inflows related to the pension and OPEB	<u>(38,887)</u>	<u>(87,040)</u>
Net position, per the statements of net position	<u>\$ 1,352,540</u>	<u>4,822,394</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

LEGISLATIVE SERVICE BUREAU**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—
GENERAL FUND**

<i>Years Ended June 30,</i>	<i>2018</i>	<i>2017</i>
Revenues:		
Other	\$ -	-
Total revenues	-	-
Expenditures:		
Personnel services	546,085	509,970
Contractual services	505,334	508,879
Supplies and materials	4,362	493
Capital outlay	19,580	16,046
Contributions to the House	7,531,510	7,584,603
Contributions to the Senate	8,574,501	3,472,745
Total expenditures	17,181,372	12,092,736
Deficiency of revenues over expenditures	(17,181,372)	(12,092,736)
Other funding sources:		
Appropriations from the State	13,704,076	13,892,835
Refund of appropriations	-	126,233
Net changes in fund balances	(3,477,296)	1,926,332
Fund balances, beginning of year	4,904,184	2,977,852
Fund balances, end of year	\$ 1,426,888	4,904,184

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

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

<i>Years Ended June 30,</i>	<i>2018</i>	<i>2017</i>
Net changes in fund balances, per the statements of revenues, expenditures, and changes in fund balances—General Fund	\$ (3,477,296)	1,926,332
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	(26,674)	(42,440)
Capital asset purchases capitalized, net	4,622	-
Gain on disposal of capital assets	2,183	-
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 fund financial statements:		
Accrued compensated absences	7,449	(4,256)
Deferred inflows related to the pension and OPEB	<u>19,862</u>	<u>5,323</u>
Changes in net position, per the statements of activities	<u>\$ (3,469,854)</u>	<u>1,884,959</u>

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

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

(1) **NATURE OF THE ORGANIZATION**

The Legislative Service Bureau (the “Bureau”) was created to serve, in various capacities, the Oklahoma House of Representatives (the “House”) and the Oklahoma State Senate (the “Senate”). The Bureau is responsible for such services as directed by the Speaker of the House and the President Pro Tempore of the Senate.

Financial Reporting Entity

The financial statements of the Bureau have been prepared in conformity 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 Bureau’s accounting policies are described below.

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

Fund Accounting and Budgetary Information

The Bureau is included in the General Fund—Government of the State of Oklahoma (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 Bureau, and not those of the State. The Bureau 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 Bureau to utilize unexpended appropriations from the prior year before expending current year appropriations. The Bureau is not required by statute to prepare a line-item budget. Accordingly, a schedule of revenues, expenditures, and changes in fund balances—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 government. Governmental activities are supported by taxes and intergovernmental revenues.

See Independent Auditors’ Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation and Basis of Accounting, Continued

The statements of activities demonstrate the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with the Bureau's grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general 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 Bureau's expendable financial resources and related liabilities. All transactions related to the general administration of the Bureau 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 Bureau 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.

The Bureau receives certain monies that are designated as to how they can be transferred or used. The Bureau retains full control of all monies to achieve the designated purposes.

Cash

Cash includes amounts on deposit with the Office of the State Treasurer (the "State Treasurer"), which is responsible for ensuring proper collateralization and insurance on 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.

(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 balances—General Fund, but are capitalized in the statements of net position. Capital assets are stated at actual or estimated historical cost, net of accumulated depreciation, 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:

Computer equipment and software	3 years
Office equipment	5 years
Furniture	7 years

Upon disposition, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is recorded.

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 5 or more 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.

Contribution Expense

The Bureau records as contribution expense assets and/or services that are paid to other state agencies other than for contractual services rendered by such agencies.

Pension Plans

Defined Benefit Plan

The Bureau participates in a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement Plan and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

See Independent Auditors' Report.

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

Pension Plans, Continued

Defined Contribution Plan

Effective November 1, 2015, OPERS established Pathfinder, a mandatory defined contribution plan for eligible state employees who first become employed by a participating employer on or after November 1, 2015, and have no prior participation in OPERS. Under Pathfinder, members will choose a contribution rate which will be matched by their employer up to 7%. During the year ended June 30, 2018 and 2017, the Bureau made contributions to Pathfinder of approximately \$1,400 and \$1,000, respectively.

Other Postemployment Employee Benefits

The Bureau participates in the OPERS Health Insurance Subsidy Plan (HISP), a cost-sharing, multiple-employer defined benefit public employee health insurance subsidy retirement plan which is administered by OPERS.

The Bureau participates in the Oklahoma Employees Group Insurance Division's (EGID) health insurance plan, which is a non-trusted single-employer plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the health insurance plan before retiring.

The Bureau adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) effective July 1, 2017, which required the recording of the Bureau's allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense. The effect of implementing GASB 75 was recognized during the year ended June 30, 2018, and there was a restatement presented as of and for the year ended June 30, 2017.

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

Equity Classifications

Government-Wide Financial Statements

Equity is classified as net position 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 notes or other borrowings that are attributable to the acquisition 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 does not meet the definition of “net investment in capital assets” or “restricted net position.”

As of June 30, 2018 and 2017, the Bureau 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—The nonspendable fund balance classification includes amounts that cannot be spent because they are either i) not in spendable form or ii) legally or contractually required to be maintained intact.
- b. Restricted fund balance—The restricted fund balance classification should be reported when constraints placed on the use of resources are either i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or ii) 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 Bureau’s highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.

See Independent Auditors’ Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classifications, Continued

Fund Financial Statements, Continued

- d. Assigned fund balance—The assigned fund balance classification reflects amounts that are constrained by the Bureau’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 the unassigned fund balance.

For purposes of an assigned fund balance, the Bureau has given authority to the Speaker of the House and the President Pro Tempore of the Senate to assign state appropriations received by the Bureau 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. An 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 Bureau’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 a restricted and an unrestricted fund balance are available. The Bureau’s policy for the use of the 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.

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

	<u>2018</u>	<u>2017</u>
Fund balances:		
Assigned:		
State appropriations assigned to the House	\$ 63,384	63,384
State appropriations assigned to the Senate	82,198	3,637,141
Total fund balance assigned	<u>145,582</u>	<u>3,700,525</u>
Unassigned:		
State appropriations	<u>1,281,306</u>	<u>1,203,659</u>
	<u>\$ 1,426,888</u>	<u>4,904,184</u>

See Independent Auditors’ Report.

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

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, 2018 and 2017, there were no such encumbrances outstanding.

Income Taxes

The income of the Bureau, as an integral part of the State, is exempt from federal and state income taxes.

Deferred Inflows and Outflows of Resources

Government-Wide Financial Statements

Deferred inflows and outflows of resources represent amounts associated with pension and OPEB differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions. Notes 6 and 7 detail the components of these items.

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 June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of GASB 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that are required to 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. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Bureau adopted GASB 75 effective July 1, 2017, and the prior period financial statements were restated.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The Bureau adopted GASB 81 effective July 1, 2017. The adoption of this statement did not have a significant impact on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonably estimable for the incurrence of such a liability. The Bureau will adopt GASB 83 effective July 1, 2018, for the June 30, 2019, reporting year. The Bureau does not expect GASB 83 to have a significant impact on the financial statements.

See Independent Auditors' Report.

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

Recent Accounting Pronouncements, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The Bureau will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The Bureau does not expect GASB 84 to have a significant impact on the financial statements.

In March 2017, GASB issued Statement No 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The Bureau adopted GASB 85 effective July 1, 2017. The adoption of this statement did not have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Bureau has not determined the impact of GASB 87 on the financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 provides certain clarifications regarding debt as a liability and identifies additional required disclosures related to debt, including direct borrowings and direct placements of debt. The Bureau will adopt GASB 88 on July 1, 2019, for the June 30, 2020, reporting year. The Bureau does not expect GASB 88 to have a significant impact on the financial statements.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. The Bureau will adopt GASB 89 on July 1, 2020, for the June 30, 2021, reporting year. The Bureau does not expect GASB 89 to significantly impact the financial statements.

Restatement of Prior Year Financial Statements

The 2017 financial statements have been restated for implementation of GASB 75 in relation to the OPEB liability for implicit rate subsidy (see Note 7). The effects of the changes on the financial statements were as follows:

	Net OPEB <u>Liability</u>	Unrestricted <u>Net Position</u>	Total <u>Net Position</u>
As previously reported	\$ -	4,809,451	4,847,578
Effects of changes	<u>25,184</u>	<u>(25,184)</u>	<u>(25,184)</u>
As restated	<u>\$ 25,184</u>	<u>4,784,267</u>	<u>4,822,394</u>

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through January 31, 2019, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(3) CASH BALANCES

At June 30, 2018 and 2017, the Bureau maintained cash balances of approximately \$1,449,000 and \$4,904,000, respectively, with the State Treasurer. The Bureau'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.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) **CAPITAL ASSETS**

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

	Balance at June 30, 2017	Additions	Disposals	Balance at June 30, 2018
Capital assets:				
Computer equipment and software	\$ 352,347	2,858	(48,978)	306,227
Office equipment	86,028	13,608	(45,706)	53,930
Furniture	5,079	-	-	5,079
Total capital assets	<u>443,454</u>	<u>16,466</u>	<u>(94,684)</u>	<u>365,236</u>
Accumulated depreciation:				
Computer equipment and software	322,447	18,498	(37,362)	303,583
Office equipment	77,801	8,176	(47,660)	38,317
Furniture	5,079	-	-	5,079
Total accumulated depreciation	<u>405,327</u>	<u>26,674</u>	<u>(85,022)</u>	<u>346,979</u>
Net capital assets	<u>\$ 38,127</u>	<u>(10,208)</u>	<u>(9,662)</u>	<u>18,257</u>
	Balance at June 30, 2016	Additions	Disposals	Balance at June 30, 2017
Capital assets:				
Computer equipment and software	\$ 373,442	-	(21,095)	352,347
Office equipment	87,027	-	(999)	86,028
Furniture	6,017	-	(938)	5,079
Total capital assets	<u>466,486</u>	<u>-</u>	<u>(23,032)</u>	<u>443,454</u>
Accumulated depreciation:				
Computer equipment and software	314,259	29,283	(21,095)	322,447
Office equipment	65,643	13,157	(999)	77,801
Furniture	6,017	-	(938)	5,079
Total accumulated depreciation	<u>385,919</u>	<u>42,440</u>	<u>(23,032)</u>	<u>405,327</u>
Net capital assets	<u>\$ 80,567</u>	<u>(42,440)</u>	<u>-</u>	<u>38,127</u>

The Bureau did not have any capitalized lease assets as of June 30, 2018 or 2017. The Bureau has no significant infrastructure assets.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS, CONTINUED

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

The depreciation expense, by program activity, for the years ended June 30 is allocated as follows:

	<u>2018</u>	<u>2017</u>
General government support services	\$ <u>26,674</u>	<u>42,440</u>

(5) ACCRUED COMPENSATED ABSENCES

Changes in accrued compensated absences for the years ended June 30 were as follows:

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Amount Due Within 1 Year</u>
Compensated absences	\$ <u>49,055</u>	<u>29,303</u>	<u>(36,752)</u>	<u>41,606</u>	<u>25,380</u>
	\$ <u>49,055</u>	<u>29,303</u>	<u>(36,752)</u>	<u>41,606</u>	<u>25,380</u>

	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2017</u>	<u>Amount Due Within 1 Year</u>
Compensated absences	\$ <u>44,799</u>	<u>29,696</u>	<u>(25,440)</u>	<u>49,055</u>	<u>28,942</u>
	\$ <u>44,799</u>	<u>29,696</u>	<u>(25,440)</u>	<u>49,055</u>	<u>28,942</u>

For the statements of net position and the statements of activities, the changes in the accounts are reflected and the amounts estimated to be current are based on the average amount used in prior years.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) **PENSION PLAN**

Plan Description

The Bureau contributes to the Oklahoma Public Employees Retirement Plan, a cost-sharing, multiple-employer defined benefit public employee retirement plan administered by OPERS. OPERS 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 Oklahoma Public Employees Retirement Plan to the Board of Trustees of OPERS (the “Board”). OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the Oklahoma Public Employees Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5400 N. Grand Boulevard, Suite 400, Oklahoma City, Oklahoma 73112 or by calling 1-800-733-9008, or can be obtained at www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2017-OPERS.pdf.

Benefits Provided

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

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have 6 or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of 10 years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having 8 years of credited service whose disability status has been certified as being within 1 year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

State, county, and local agency employees become eligible to vest fully upon termination of employment after attaining 8 years of credited service, or the members’ contributions may be withdrawn upon termination of employment.

See Independent Auditors’ Report.

(6) **PENSION PLAN, CONTINUED**

Benefits Provided, Continued

For state, county, and local agency employees, benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years. Normal retirement age under the plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the plan.

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

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least 6 years of participating elected service and was married at least 3 years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

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

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PENSION PLAN, CONTINUED

Benefits Provided, Continued

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional \$200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to OPERS. In April 2001, limited benefit payments began for qualified retired members.

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

For 2018, 2017, and 2016, state agency employers contributed 16.5% on all salary, and state employees contributed 3.5% on all salary.

For 2018, 2017, and 2016, contributions of participating county and local agencies totaled 20.0% of salary composed of a minimum employee contribution rate of 3.5% up to a maximum of 8.5% and a minimum employer contribution rate of 11.5% up to a maximum of 16.5%.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91%, which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Contributions to OPERS by the Bureau for 2018, 2017, and 2016 were approximately as follows:

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ <u>57,000</u>	<u>58,000</u>	<u>73,000</u>

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PENSION PLAN, CONTINUED

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

At June 30, 2018 and 2017, the Bureau reported a liability for its proportionate share of the net pension liability. As of June 30, 2018, the net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. As of June 30, 2017, the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Bureau's proportion of the net pension liability was based on the Bureau's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2017 and 2016. Based upon this information, the Bureau's proportion for June 30, 2018 and 2017, was 0.02028745% and 0.02448055%, respectively.

For the years ended June 30, 2018 and 2017, the Bureau recognized pension (credit) expense of \$(19,306) and \$53,069, respectively. At June 30, 2018 and 2017, the Bureau reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2018</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	19,615	
Changes of assumptions	48,695	-	
Net difference between projected and actual earnings on pension plan investments	4,900	-	
Changes in proportion	5,355	12,977	
Bureau contributions subsequent to the measurement date	<u>56,957</u>	<u>-</u>	
	<u>\$ 115,907</u>	<u>32,592</u>	

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PENSION PLAN, CONTINUED

**Pension Liabilities, Pension Expense, and Deferred Outflows of
Resources and Deferred Inflows of Resources Related to Pensions, Continued**

		Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>2017</u>		
Differences between expected and actual experience		\$ -	10,674
Changes of assumptions		38,833	-
Net difference between projected and actual earnings on pension plan investments		176,727	75,090
Changes in proportion		10,314	1,276
Bureau contributions subsequent to the measurement date		<u>58,392</u>	<u>-</u>
		<u>\$ 284,266</u>	<u>87,040</u>

Reported deferred outflows of resources of \$56,957 related to pensions resulting from the Bureau's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2019. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	
2019	\$ 8,205
2020	10,728
2021	10,728
2022	10,728
2023	<u>(14,031)</u>
	<u>\$ 26,358</u>

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions

The total pension liability as of June 30, 2018 and 2017, was determined on an actuarial valuation prepared as of July 1, 2017 and 2016, using the following actuarial assumptions:

Investment return:	7.00% for 2017 and 7.25% for 2016 compounded annually, net of investment expense and including inflation
Salary increases:	3.50% to 9.50% for 2017 and 4.50% to 8.40% for 2016, including inflation
Mortality rates:	For 2017 Calculation—Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2015 by Scale MP-2016 (disabled pensioners set forward 12 years). For 2016 Calculations—Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years).
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75% for 2017 and 3.00% for 2016
Payroll growth:	3.50% for 2017 and 4.00% for 2016
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PENSION PLAN, CONTINUEDActuarial Methods and Assumptions, Continued

The actuarial assumptions used in the July 1, 2017, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017. The long-term rate of return was modified by the Board during 2017.

The actuarial assumptions used in the July 1, 2016, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated May 9, 2014. The long-term rate of return was modified by the Board during 2016.

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 and 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	<u>3.5%</u>	1.5%
	<u>100.0%</u>	

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) PENSION PLAN, CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 7.00% in 2017 and 7.25% in 2016. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability (asset) as of June 30, 2018 and 2017, of the employer calculated using the discount rate of 7.00% and 7.25%, respectively, as well as what the Bureau's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate as of June 30:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<u>2018</u>			
Net pension liability (asset)	\$ <u>324,184</u>	<u>109,687</u>	<u>(71,942)</u>
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<u>2017</u>			
Net pension liability	\$ <u>497,235</u>	<u>242,904</u>	<u>26,998</u>

Pension Plan Fiduciary Net Position

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

See Independent Auditors' Report.

(7) **OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS**

HEALTH INSURANCE SUBSIDY OPEB

Description

The Bureau participates in the OPERS Health Insurance Subsidy Plan (HISP), a cost-sharing, multiple-employer defined benefit public employee health insurance subsidy retirement plan which is administered by OPERS. The HISP is classified as an “other postemployment employee benefit.”

As previously mentioned, effective July 1, 2017, the Bureau adopted GASB 75, which required the recording of the Bureau’s allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense associated with the HISP. The effect of implementing GASB 75 was recognized during the year ended June 30, 2018, and there was no restatement presented as of and for the year ended June 30, 2017, in relation to HISP as beginning balances were not readily available.

Benefits Provided

HISP provides a health insurance premium subsidy for retirees of OPERS who elect to maintain health insurance with EGID or other qualified insurance plan provided by the employers. The HISP subsidy is capped at \$105 per month per retiree. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. An actuarially determined portion of the total contribution to OPERS are set aside to finance the cost of the benefits of the HISP in accordance with provisions of the Internal Revenue Code.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation. Only employers contribute to the HISP. For 2018, state agency employers contributed 16.5% on all salary.

Contributions to OPERS for the HISP by the Bureau for the year ended June 30, 2018, were approximately \$4,000.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) **OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the Bureau reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. The Bureau's proportion of the net OPEB liability was based on the Bureau's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2017. Based upon this information, the Bureau's proportion was 0.02028745%.

For the year ended June 30, 2018, the Bureau recognized OPEB expense related to the HISP of \$5,803. At June 30, 2018, the Bureau reported deferred outflows of resources and deferred inflows of resources related to the HISP from the following sources:

	<u>2018</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	-	2,864
Changes in assumptions		1,893	-
Net difference between projected and actual earnings on OPEB investments		-	2,508
The Bureau's contributions subsequent to the measurement date		<u>3,987</u>	<u>-</u>
		<u>\$ 5,880</u>	<u>5,372</u>

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) **OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources Related to OPEB, Continued**

Reported deferred outflows of resources of \$3,987 related to OPEB resulting from the Bureau's contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2018, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2019	\$ (808)
2020	(808)
2021	(808)
2022	(808)
2023	<u>(247)</u>
	<u>\$ (3,479)</u>

See Independent Auditors' Report.

(7) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED***HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*****Actuarial Methods and Assumptions**

The total OPEB liability was determined on an actuarial valuation prepared as of July 1, 2017:

Investment return:	7.00%, compounded annually, net of investment expense and including inflation
Salary increases:	3.5% to 9.5% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	2.75% per year
Payroll growth:	3.5% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years
Healthcare trend rate	Not applicable based on how OPERS is structured and benefit payments are made.

See Independent Auditors' Report.

(7) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED***HEALTH INSURANCE SUBSIDY OPEB, CONTINUED*****Actuarial Methods and Assumptions, Continued**

The actuarial assumptions used in the July 1, 2017, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	<u>3.5%</u>	1.5%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% for 2017. The projection of cash flows used to determine the discount rate assumed that contributions from the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determined does not use a municipal bond rate.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

HEALTH INSURANCE SUBSIDY OPEB, CONTINUED

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

The following presents the net OPEB liability of the Bureau calculated using the discount rate of 7.00% for 2018, as well as what the Bureau's net OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
June 30, 2018			
Net OPEB liability (asset)	\$ 9,179	2,324	(3,570)

OPEB Plan Fiduciary Net Position

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

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY

Description

The Bureau participates in the EGID's health insurance plan, which is a non-trusted single-employer plan that provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the health insurance plan before retiring.

In conjunction with providing the postretirement medical benefits through the health insurance plan, the State of Oklahoma determined that an OPEB liability existed in relation to an implicit rate subsidy. The State of Oklahoma calculated the implicit rate subsidy of health insurance plan OPEB liability (IRSHIP OPEB liability) for all state agencies that participate in the EGID health insurance plan and whose payroll is processed through the State of Oklahoma's payroll system. The Bureau met these criteria and therefore was one of the Agency's included in the State of Oklahoma's calculation.

As previously discussed, the Bureau adopted GASB 75 effective July 1, 2017, which required the recording of the Bureau's allocated share of the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense associated with the IRSHIP OPEB liability. The effect of implementing GASB 75 was recognized during the year ended June 30, 2018, and a restatement in relation to the IRSHIP OPEB liability was presented as of and for the year ended June 30, 2017.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

Description, Continued

The IRSHIP provides members with postretirement medical benefits until age 65 if the retiree and spouse pay the full active premium. Participation in the health insurance plan can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65. Contributions to the health insurance plan are made by both participants and the Bureau on a “pay as you go” basis. The Bureau contributions for the year ended June 30, 2018, were approximately \$1,800.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Bureau reported a liability for its proportionate share of the net IRSHIP OPEB liability. The net IRSHIP OPEB liability was measured as of June 30, 2017, and the total IRSHIP OPEB liability used to calculate the net IRSHIP OPEB liability was determined by an actuarial valuation as of July 1, 2017. The Bureau’s proportion of the net IRSHIP OPEB liability was based on the Bureau’s active employees as of July 1, 2017, to all active employees of the State agencies included in the State of Oklahoma’s calculation. Based upon this information, the Bureau’s proportion was .01592010%.

For the year ended June 30, 2018, the Bureau recognized a net OPEB credit of \$(2,373). At June 30, 2018, the Bureau reported deferred outflows of resources and deferred inflows of resources related to the IRSHIP OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2018</u>		
Changes in assumptions	\$ -	923
The Bureau's contributions subsequent to the measurement date	<u>1,753</u>	<u>-</u>
	<u>\$ 1,753</u>	<u>923</u>

See Independent Auditors’ Report.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, Continued

Reported deferred outflows of resources of \$1,753 related to OPEB resulting from the Bureau's contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Deferred inflows of resources and deferred outflows of resources related to the IRSHIP OPEB liability as of June 30, 2018, will be recognized in OPEB expense as follows:

Years Ending June 30:	
2019	\$ (355)
2020	(355)
2021	<u>(213)</u>
	<u>\$ (923)</u>

Actuarial Methods and Assumptions

The total IRSHIP OPEB liability was determined based on actuarial valuations prepared using a July 1, 2017, measurement date using the following actuarial assumptions:

- Investment return—Not applicable, as the health insurance plan is unfunded and benefits are not paid from a qualifying trust
- Mortality rates—RP-2006 Combined Healthy Mortality Table, with a fully generational projection using Scale MP-2017
- Salary scale, retirement rate, withdrawal rate, and disability rate actuarial assumptions are based on rates for the various retirement systems that the health insurance plan's participants are in, including—
 - Oklahoma Public Employees Retirement System
 - Oklahoma Law Enforcement Retirement System
 - Teachers' Retirement System of Oklahoma
 - Uniform Retirement System of Justices & Judges
 - Oklahoma Department of Wildlife Conservation
Defined Benefit Pension Plan

See Independent Auditors' Report.

(7) **OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

Actuarial Methods and Assumptions, Continued

- Plan participation—40% of retired employees are assumed to participate in the health insurance plan.
- Marital assumptions—Male participants: 25% who elect coverage are assumed to have a spouse who will receive coverage
Female participants: 15% who elect coverage are assumed to have a spouse who will receive coverage
Males are assumed to be 3 years older than their spouses
- Plan entry date is the date of hire
- Actuarial cost method—Entry age normal based upon salary
- Healthcare trend rate—7.10% decreasing to 4.60%

At July 1, 2017, the Bureau had 7 participants in the plan, consisting of 7 active participants and no retirees or surviving spouses.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.58% for June 30, 2018. The discount rate was determined using the Bond Buyer GO 20-Bond Municipal Bond Index.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) **OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED**

IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED

Changes in the Net OPEB Liability

The following table reports the components of changes in the net OPEB liability as of and for the year ended June 30, 2018:

Balance at beginning of year, as restated	\$	25,184
Changes for the year:		
Service cost		942
Interest expense		716
Changes in assumptions		(1,179)
Benefits paid		<u>(2,022)</u>
Net changes		<u>(1,543)</u>
Balance at end of year	\$	<u>23,641</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and the Healthcare Trend Rate

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate—The following presents the net IRSHIP OPEB liability of the Bureau calculated using the discount rate of 3.58% for 2018, as well as what the Bureau net IRSHIP OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
<u>June 30, 2018</u>			
Net OPEB liability	\$ <u>25,233</u>	<u>23,641</u>	<u>22,158</u>

See Independent Auditors' Report.

(7) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS, CONTINUED***IMPLICIT RATE SUBSIDY OF HEALTH INSURANCE OPEB LIABILITY, CONTINUED*****Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and the Healthcare Trend Rate, Continued**

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate—The following presents the net OPEB liability at June 30, 2018, calculated using the healthcare trend rate of 7.10% decreasing to 4.60%, as well as what the liability would be if it were calculated using a healthcare trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease in Healthcare Trend Rate (6.10% decreasing to <u>3.60%</u>)	Current Healthcare Trend Rate (7.10% decreasing to <u>4.60%</u>)	1% Increase in Healthcare Trend Rate (8.10% decreasing to <u>5.60%</u>)
Net OPEB liability	\$ <u>21,698</u>	<u>23,641</u>	<u>25,891</u>

A copy of the actuarial valuations for the IRSHIP OPEB liability can be obtained at the following link:

<http://omes.ok.gov/sites/g/files/gmc316/f/ActuarialValuationReport2018.pdf>

(8) **OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN,
DEFERRED SAVINGS INCENTIVE PLAN, AND
DEFINED CONTRIBUTION 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 through 1706 of Title 74 of the Oklahoma Statutes.

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

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 IRS.

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.

See Independent Auditors’ Report.

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

Deferred Compensation Plan, Continued

Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2018 and 2017. The Bureau believes that it has no liabilities with respect to the Plan.

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 and 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.

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

Defined Contribution Plan

Pathfinder is a mandatory contribution plan for eligible state employees who first became employed by a participating employer on or after November 1, 2015, and who have no prior participation in OPERS.

Under this plan, members choose a contribution rate, which is matched by their employer up to 7%, and members have the freedom to select and change their investments. A defined contribution plan like Pathfinder does not provide a guaranteed lifetime source of income. The amount a participant has at retirement under a defined contribution plan is dependent upon how much was contributed over his/her career, how well those investments performed, and how quickly distributions are taken in retirement.

The Pathfinder plan is one retirement plan with two components: a savings incentive 401(a) plan for mandatory contributions; and a deferred compensation 457(b) plan for additional voluntary contributions. The mandatory 401(a) plan contribution is 4.5% of the participant's annual salary, and state agency employers contribute an additional 6%. In addition, the participant can receive an additional 1% matching contribution when they make a voluntary contribution of 2.5% to the 457(b) plan. The agency contributes 16.5% to all eligible employees. The amounts not used for matching with Pathfinder are given to OPERS and do not come back to the agency.

(9) **OKLAHOMA LEGISLATURE CONTRIBUTIONS**

During the year ended June 30, 2018, the Bureau contributed \$8,574,501 to the Senate to be utilized by the Senate for operational activities. During the year ended June 30, 2017, the Bureau contributed \$3,472,745 to the Senate to be utilized by the Senate for operational activities. During the years ended June 30, 2018 and 2017, the Bureau contributed \$7,531,510 and \$7,584,603, respectively, to the House to be utilized by the House for operational activities. The contributions, totaling \$16,106,011 and \$11,057,348 during the years ended June 30, 2018 and 2017, respectively, were paid from state appropriations of the Bureau and were reflected on the government-wide and fund financial statements as an expenditure.

LEGISLATIVE SERVICE BUREAU

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) OTHER STATE AGENCY PAYMENTS

The Bureau 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 various state agencies as of June 30:

	<u>2018</u>	<u>2017</u>
Office of Management and Enterprise Services	\$ 12,570	6,799
Oklahoma State Senate	<u>35,000</u>	<u>35,000</u>
	<u>\$ 47,570</u>	<u>41,799</u>

(11) 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 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 the 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 Office of 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 Bureau, their pro rata share of the premiums purchased. The Bureau has no obligations to any claims submitted against the Bureau.

(12) CONTINGENCIES

The Bureau is involved in legal proceedings in the normal course of operations, none of which, in the opinion of the Bureau's leadership, will have a material effect on the financial statements of the Bureau.

See Independent Auditors' Report.

**SUPPLEMENTARY INFORMATION REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 68 AND NO. 75**

LEGISLATIVE SERVICE BUREAU**SCHEDULE OF THE BUREAU'S PROPORTIONATE SHARE OF
NET PENSION LIABILITY****Oklahoma Public Employees Retirement
System****Last 4 Fiscal Years**

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
The Bureau's proportion of the net pension liability	0.02028745%	0.02448055%	0.02173967%	0.02216159%
The Bureau's proportionate share of the net pension liability	\$ 109,687	242,904	78,194	40,681
The Bureau's covered payroll	\$ 351,515	442,424	381,818	375,758
The Bureau's proportionate share of the net pension liability as a percentage of its covered payroll	31.20%	54.90%	20.48%	10.83%
OPERS' fiduciary net position as a percentage of the total pension liability	94.28%	89.48%	96.00%	97.90%

* The amounts presented for each fiscal year were determined as of June 30th of the prior year.

Only the last 4 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report

LEGISLATIVE SERVICE BUREAU**SCHEDULE OF THE BUREAU'S CONTRIBUTIONS
Oklahoma Public Employees Retirement System****Last 8 Fiscal Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 56,957	58,000	73,000	63,000	62,000	64,000	65,000	76,000
Contributions in relation to the contractually required contributions	<u>56,957</u>	<u>58,000</u>	<u>73,000</u>	<u>63,000</u>	<u>62,000</u>	<u>64,000</u>	<u>65,000</u>	<u>76,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
The Bureau's covered payroll	\$369,360	\$351,515	442,424	381,818	375,758	387,879	393,939	490,323
Contributions as a percentage of covered payroll	15.42%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%	15.50%

Only the last 8 fiscal years are presented because 10-year data is not readily available.

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU**SCHEDULE OF THE BUREAU'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY****Oklahoma Public Employees Health Insurance Subsidy Plan****Current Year***2018

The Bureau's proportion of the net OPEB liability	0.20208745%
The Bureau's proportionate share of the net OPEB liability	\$ 2,324
The Bureau's covered payroll	351,515
The Bureau's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.66%
OPERS' fiduciary net position as a percentage of the total OPEB liability	96.50%

*The amounts presented for the fiscal year were determined as of June 30 of the prior year.

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

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU**SCHEDULE OF THE BUREAU'S CONTRIBUTIONS
Oklahoma Public Employees Health Insurance Subsidy Plan**

Current Year	
	<u>2018</u>
Contractually required contribution	\$ 3,987
Contributions in relation to the contractually required contributions	<u>3,987</u>
Contribution deficiency (excess)	<u>\$ -</u>
The Bureau's covered payroll	\$ 369,360
Contributions as a percentage of covered payroll	1.08%

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

See Independent Auditors' Report.

LEGISLATIVE SERVICE BUREAU**SCHEDULE OF THE BUREAU'S CHANGES IN TOTAL OPEB LIABILITY AND
RELATED RATIOS****Implicit Rate Subsidy of Health Insurance OPEB Liability**

<u>Current Year</u>	
	<u>2018</u>
Total OPEB liability:	
Service cost	\$ 942
Interest	716
Changes in assumptions	(1,179)
Benefit payments, including refunds of member contributions	<u>(2,022)</u>
Net change in total OPEB liability	(1,543)
 Total OPEB—beginning, restated	 <u>25,184</u>
Total OPEB liability—ending	<u>\$ 23,641</u>
 Covered-employee payroll	 \$ 351,515
 Total OPEB liability as a percentage of covered-employee payroll	 6.73%

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

The discount rate used for 2018 is 3.58%.

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**

Legislative Service Bureau

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 Legislative Service Bureau (the "Bureau"), a component of the General Fund of the State of Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements, and have issued our report thereon dated January 31, 2019. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information, an explanatory paragraph to emphasize the fact that the financial statements of the Bureau 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 attributable to the transactions of the Bureau, an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 75 by the Bureau, requiring restatement of the 2017 financial statements, and an explanatory paragraph stating that the Bureau 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 Bureau'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 Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bureau'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 Bureau's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

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

Internal Control Over Financial Reporting, Continued

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau'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 Bureau'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 Bureau's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
January 31, 2019