

OKLAHOMA HOUSE OF REPRESENTATIVES

June 30, 2011 and 2010

OKLAHOMA HOUSE OF REPRESENTATIVES

June 30, 2011 and 2010

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REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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Independent Auditors' Report

The Honorable Kris Steele
Speaker of the House
Oklahoma House of Representatives

We have audited the accompanying financial statements of the governmental activities and the general fund of the Oklahoma House of Representatives (the "House") as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents, which collectively comprise the House's basic financial statements. These financial statements are the responsibility of the House's leadership. 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the leadership, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A, the financial statements of the House 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 House. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2011 and 2010, and the respective changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the House as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012, on our consideration of the House's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 11, 2012

**Oklahoma House of Representatives
Management's Discussion and Analysis
For the Years Ended June 30, 2011, 2010 and 2009**

As leadership of the Oklahoma House of Representatives (the "House"), we offer readers of the House's financial statements this overview and analysis of the financial activities for the fiscal year 2011, with fiscal years 2010 and 2009 data presented for comparative purposes.

FINANCIAL HIGHLIGHTS

- During 2011, the House's net assets decreased \$1,632,775 from June 30, 2010, resulting in net assets of \$1,960,973 at June 30, 2011. During 2010, the House's net assets decreased \$4,063,778 from June 30, 2009, resulting in net assets of \$3,593,748 at June 30, 2010.
- At June 30, 2011, the House's assets totaling \$2,595,122 decreased \$1,767,797 from June 30, 2010, due to the decrease in net assets and the timing of payments of current liabilities totaling \$458,657. At June 30, 2010, the House's assets totaling \$4,362,919 decreased \$4,123,911 from June 30, 2009, due to the decrease in net assets and the timing of payments of current liabilities totaling \$543,882.
- At June 30, 2011, the House's liabilities totaling \$634,149 decreased \$135,002 from June 30, 2010, due mainly to the timing of payments of current liabilities. At June 30, 2010, the House's liabilities totaling \$769,171 decreased \$60,133 from June 30, 2009, due mainly to the timing of payments of current liabilities and a decrease in accrued salaries and benefits.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Oklahoma House of Representatives
Management's Discussion and Analysis--Continued
For the Years Ended June 30, 2011, 2010 and 2009

OVERVIEW OF THE FINANCIAL STATEMENTS--Continued

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

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

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

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

**Oklahoma House of Representatives
Management's Discussion and Analysis--Continued
For the Years Ended June 30, 2011, 2010 and 2009**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current assets	\$ 1,017,044	\$ 2,577,001	\$ 6,434,034
Capital assets, net	<u>1,578,078</u>	<u>1,785,918</u>	<u>2,052,796</u>
TOTAL ASSETS	<u>2,595,122</u>	<u>4,362,919</u>	<u>8,486,830</u>
LIABILITIES			
Current liabilities	458,657	543,882	606,568
Noncurrent liabilities	<u>175,492</u>	<u>225,289</u>	<u>222,736</u>
TOTAL LIABILITIES	<u>634,149</u>	<u>769,171</u>	<u>829,304</u>
NET ASSETS			
Invested in capital assets, net	1,578,078	1,785,918	2,052,796
Unrestricted	<u>382,895</u>	<u>1,807,830</u>	<u>5,604,730</u>
TOTAL NET ASSETS	<u>\$ 1,960,973</u>	<u>\$ 3,593,748</u>	<u>\$ 7,657,526</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General revenues--other	\$ 29,000	\$ 9,186	\$ 41,213
Expenses	<u>(19,003,545)</u>	<u>(20,660,913)</u>	<u>(20,527,704)</u>
Excess expenses before transfers	<u>(18,974,545)</u>	<u>(20,651,727)</u>	<u>(20,486,491)</u>
APPROPRIATIONS AND TRANSFERS			
Appropriations from the General			
Fund of the State of Oklahoma	15,341,770	16,519,703	19,153,264
Transfers and on-behalf contributions			
from the Legislative Service Bureau	<u>2,000,000</u>	<u>68,246</u>	<u>748,729</u>
Total Appropriations and Transfers	<u>17,341,770</u>	<u>16,587,949</u>	<u>19,901,993</u>
CHANGE IN NET ASSETS	(1,632,775)	(4,063,778)	(584,498)
NET ASSETS, BEGINNING OF YEAR	<u>3,593,748</u>	<u>7,657,526</u>	<u>8,242,024</u>
NET ASSETS, END OF YEAR	<u>\$ 1,960,973</u>	<u>\$ 3,593,748</u>	<u>\$ 7,657,526</u>

This discussion and analysis of the House's financial performance provides an overview of the House's financial activities for the fiscal years ended June 30, 2011 and 2010.

**Oklahoma House of Representatives
Management's Discussion and Analysis--Continued
For the Years Ended June 30, 2011, 2010 and 2009**

GOVERNMENT-WIDE FINANCIAL ANALYSIS--Continued

Appropriations and Transfers: The House's FY 2011 appropriation from the State of Oklahoma decreased \$1,177,933 from FY 2010 due to revenue shortfalls in FY 2009. The House's FY 2010 appropriation from the State of Oklahoma decreased \$2,633,561 from FY 2009 due to the economic climate and anticipated revenue shortfalls.

In FY 2011, the Legislative Service Bureau ("LSB") transferred \$2,000,000 of its appropriations to the House. In FY 2010 and 2009, no such transfers were made; however, the LSB paid expenses on behalf of the House totaling \$68,246 and \$748,729, respectively.

Expenses: The House's FY 2011 expenses, not including depreciation and compensated absences, decreased approximately 9.7% from FY 2010, primarily due to the decrease in personnel services due to fewer employees in FY 2010. The House's FY 2010 expenses, not including depreciation and compensated absences, maintained consistent with those of FY 2009.

CAPITAL ASSETS

As of June 30, 2011 and 2010, the House's investment in capital assets, net of accumulated depreciation, totaled approximately \$1,578,000 and \$1,786,000, respectively. Depreciation for 2011 and 2010 totaled approximately \$422,000 and \$429,000, respectively. Capital assets include computer equipment, office equipment, and furniture.

CONTACTING THE HOUSE'S FINANCIAL MANAGEMENT

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

STATEMENTS OF NET ASSETS

OKLAHOMA HOUSE OF REPRESENTATIVES

	June 30	
	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,017,044	\$ 2,577,001
TOTAL CURRENT ASSETS	<u>1,017,044</u>	<u>2,577,001</u>
NONCURRENT ASSETS		
Capital assets, net	1,578,078	1,785,918
TOTAL NONCURRENT ASSETS	<u>1,578,078</u>	<u>1,785,918</u>
TOTAL ASSETS	<u>\$ 2,595,122</u>	<u>\$ 4,362,919</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 137,851	\$ 97,841
Accrued salaries and benefits	8,819	8,716
Accrued compensated absences, current portion	311,987	437,325
TOTAL CURRENT LIABILITIES	<u>458,657</u>	<u>543,882</u>
NONCURRENT LIABILITIES		
Accrued compensated absences, net	175,492	225,289
TOTAL LIABILITIES	<u>\$ 634,149</u>	<u>\$ 769,171</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 1,578,078	\$ 1,785,918
Unrestricted	382,895	1,807,830
TOTAL NET ASSETS	<u>\$ 1,960,973</u>	<u>\$ 3,593,748</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

OKLAHOMA HOUSE OF REPRESENTATIVES

Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
GOVERNMENTAL ACTIVITIES				
Legislative operations	\$ (19,003,545)	\$ -	\$ 2,000,000	\$ (17,003,545)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (19,003,545)</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>(17,003,545)</u>
GENERAL REVENUES				
State appropriations				15,341,770
Other				<u>29,000</u>
TOTAL GENERAL REVENUES				<u>15,370,770</u>
CHANGE IN NET ASSETS				(1,632,775)
NET ASSETS, BEGINNING OF YEAR				<u>3,593,748</u>
NET ASSETS, END OF YEAR				<u>\$ 1,960,973</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES--Continued

OKLAHOMA HOUSE OF REPRESENTATIVES

Year Ended June 30, 2010

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
GOVERNMENTAL ACTIVITIES				
Legislative operations	\$ (20,660,913)	\$ -	\$ 68,246	\$ (20,592,667)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (20,660,913)</u>	<u>\$ -</u>	<u>\$ 68,246</u>	<u>(20,592,667)</u>
GENERAL REVENUES				
State appropriations				16,519,703
Other				<u>9,186</u>
TOTAL GENERAL REVENUES				<u>16,528,889</u>
CHANGE IN NET ASSETS				(4,063,778)
NET ASSETS, BEGINNING OF YEAR				<u>7,657,526</u>
NET ASSETS, END OF YEAR				<u>\$ 3,593,748</u>

See notes to financial statements.

BALANCE SHEETS--GENERAL FUND

OKLAHOMA HOUSE OF REPRESENTATIVES

	June 30	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 1,017,044	\$ 2,577,001
TOTAL ASSETS	<u>\$ 1,017,044</u>	<u>\$ 2,577,001</u>
LIABILITIES AND FUND BALANCE		
Accounts payable	\$ 137,851	\$ 97,841
Accrued salaries and benefits	<u>8,819</u>	<u>8,716</u>
TOTAL LIABILITIES	<u>146,670</u>	<u>106,557</u>
FUND BALANCE		
Unreserved	<u>870,374</u>	<u>2,470,444</u>
TOTAL FUND BALANCE	<u>870,374</u>	<u>2,470,444</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,017,044</u>	<u>\$ 2,577,001</u>
RECONCILIATION OF FUND BALANCE TO NET ASSETS		
Total fund balance from above	\$ 870,374	\$ 2,470,444
Amounts reported in the statements of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.	1,578,078	1,785,918
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund financial statements:		
Compensated absences	<u>(487,479)</u>	<u>(662,614)</u>
NET ASSETS, per statements of net assets	<u>\$ 1,960,973</u>	<u>\$ 3,593,748</u>

See notes to financial statements.

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

OKLAHOMA HOUSE OF REPRESENTATIVES

	Years Ended June 30	
	2011	2010
REVENUES		
Contributions	\$ 2,000,000	\$ 68,246
Other	29,000	9,186
TOTAL REVENUES	<u>2,029,000</u>	<u>77,432</u>
EXPENDITURES		
Personnel services	16,004,184	17,193,659
Contractual services	1,487,941	1,583,949
Capital outlay	492,924	326,887
Travel	842,565	1,043,298
Supplies and materials	143,226	220,017
TOTAL EXPENDITURES	<u>18,970,840</u>	<u>20,367,810</u>
Deficiency of revenues over expenditures	(16,941,840)	(20,290,378)
OTHER FUNDING SOURCES		
State appropriations	<u>15,341,770</u>	<u>16,519,703</u>
NET CHANGE IN FUND BALANCE	(1,600,070)	(3,770,675)
BEGINNING FUND BALANCE	<u>2,470,444</u>	<u>6,241,119</u>
ENDING FUND BALANCE	<u>\$ 870,374</u>	<u>\$ 2,470,444</u>

See notes to financial statements.

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

OKLAHOMA HOUSE OF REPRESENTATIVES

	Years Ended	
	June 30	
	<u>2011</u>	<u>2010</u>
NET CHANGE IN FUND BALANCE--GENERAL FUND	\$ (1,600,070)	\$ (3,770,675)
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	(421,973)	(429,434)
Capital asset purchases capitalized	<u>214,133</u>	<u>162,556</u>
	<u>(207,840)</u>	<u>(266,878)</u>
Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued compensated absences	<u>175,135</u>	<u>(26,225)</u>
CHANGE IN NET ASSETS, per statements of activities	<u>\$ (1,632,775)</u>	<u>\$ (4,063,778)</u>

See notes to financial statements.

OKLAHOMA HOUSE OF REPRESENTATIVES

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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

The operations of the House are recorded in the governmental fund type. Governmental funds are accounted for using a spending (or financial flow) measurement focus. Only current assets and current liabilities are included on their balance sheets. Their operations present sources and uses of available spendable resources during a given period of time. The general fund is used to account for the House's expendable financial resources and related liabilities. All transactions related to the general administration of the House are accounted for in this fund.

Cash and Cash Equivalents: The House's cash and cash equivalents are considered to be cash on-hand and interest bearing demand deposits held by the Oklahoma State Treasurer.

Net Assets: Invested in capital asset, net, represents the House's total investment in capital assets, net of accumulated depreciation.

Capital Assets: Capital assets are recorded as expenditures in the governmental fund statements of revenues, expenditures, and changes in fund balance--general fund, but are capitalized in the statements of net assets. Capital assets are stated at actual or estimated historical cost in the statements of net assets.

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

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

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

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

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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

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

Use of Estimates: Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

New Pronouncements: The GASB has issued several new accounting pronouncements, which will be effective to the House in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the House's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2013

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.* GASB No. 60 addresses issues related to service concession arrangements ("SCAs"), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The House will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- *Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.* GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The House does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

New Pronouncements--Continued:

- *Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The House does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.
- *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement will require the House to make changes in its financial statement presentation.

Fiscal Year Ended June 30, 2014

- *Statement No. 65, Items Previously Reported as Assets and Liabilities.*
GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The House has not quantified the effects of adoption of GASB No. 65 on its net position.

Fiscal Year Ended June 30, 2015

- *Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*
GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the House has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE B--CASH AND DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The House does not have a deposit policy for custodial credit risk. However, all of the House's bank deposits are held by the Oklahoma State Treasurer ("OST") and therefore, as required by Oklahoma State Statutes, all bank deposits held by the OST are insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations and therefore are not considered to be exposed to custodial credit risk. As of June 30, 2012 and 2011, the carrying amounts of the House's deposits with the OST were \$1,017,044 and \$2,577,001, respectively

NOTE C--CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended June 30, 2011:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
CAPITAL ASSETS				
Computer equipment	\$ 1,056,843	\$ 181,859	\$ -	\$ 1,238,702
Office equipment	627,448	7,595	-	635,043
Furniture	1,084,889	2,850	-	1,087,739
Building improvements	<u>1,246,892</u>	<u>21,829</u>	-	<u>1,268,721</u>
TOTAL CAPITAL ASSETS	<u>4,016,072</u>	<u>214,133</u>	-	<u>4,230,205</u>
ACCUMULATED DEPRECIATION				
Computer equipment	1,004,685	84,074	-	1,088,759
Office equipment	326,630	62,034	-	388,664
Furniture	523,736	148,993	-	672,729
Building improvements	<u>375,103</u>	<u>126,872</u>	-	<u>501,975</u>
TOTAL ACCUMULATED DEPRECIATION	<u>2,230,154</u>	<u>421,973</u>	-	<u>2,652,127</u>
CAPITAL ASSETS, NET	<u>\$ 1,785,918</u>	<u>\$ (207,840)</u>	<u>\$ -</u>	<u>\$ 1,578,078</u>

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE C--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2010:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>
CAPITAL ASSETS				
Computer equipment	\$ 1,023,340	\$ 33,503	\$ -	\$ 1,056,843
Office equipment	509,595	117,853	-	627,448
Furniture	1,077,089	8,700	(900)	1,084,889
Building improvements	1,244,392	2,500	-	1,246,892
TOTAL CAPITAL ASSETS	<u>3,854,416</u>	<u>162,556</u>	<u>(900)</u>	<u>4,016,072</u>
ACCUMULATED DEPRECIATION				
Computer equipment	913,804	90,881	-	1,004,685
Office equipment	265,573	61,057	-	326,630
Furniture	371,829	152,807	(900)	523,736
Building improvements	250,414	124,689	-	375,103
TOTAL ACCUMULATED DEPRECIATION	<u>1,801,620</u>	<u>429,434</u>	<u>(900)</u>	<u>2,230,154</u>
CAPITAL ASSETS, NET	<u>\$ 2,052,796</u>	<u>\$ (266,878)</u>	<u>\$ -</u>	<u>\$ 1,785,918</u>

Depreciation expense for the years ended June 30, 2011 and 2010, was \$421,973 and \$429,434, respectively.

NOTE D--COMPENSATED ABSENCES

The following is a summary of changes in the House's liability for compensated absences during the period ended June 30:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$ 662,614	\$ 210,312	\$ (385,447)	\$ 487,479	\$ 311,987
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$ 636,389	\$ 460,603	\$ (434,378)	\$ 662,614	\$ 437,325

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE E--RETIREMENT PLAN

Plan Description: The House contributes to the Oklahoma Public Employees Retirement Plan (the "Retirement Plan"), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). The Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901-932 and 935, as amended, assigns the authority for management and operation of the Retirement Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118, or by calling 1-800-733-9008.

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

Fiscal Year 2011		
<u>State Employees</u>	<u>Members of the House</u>	<u>The House</u>
<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>
3.5%	4.5%-10%	15.5%
Fiscal Year 2010		
<u>State Employees</u>	<u>Members of the House</u>	<u>The House</u>
<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>
3.5%	4.5%-10%	15.5%
Fiscal Year 2009		
<u>State Employees</u>	<u>Members of the House</u>	<u>The House</u>
<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>
3.5%	4.5%-10.0%	14.5%

The House's contributions to the Retirement Plan for the years ended June 30, 2011, 2010, and 2009, were approximately \$1,567,000, \$1,718,000, and \$1,628,000, respectively, equal to the required contributions for each year.

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE F--OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

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

The supervisory authority for the management and operation of the Plan is the Board of Trustees of the Oklahoma Public Employees Retirement System (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 Internal Revenue Service, currently \$16,500 for calendar year 2011.

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 are 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 of up to \$5,500 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.

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE F--OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN--Continued

Deferred Compensation Plan--Continued: Under the terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of the Plan's participants and their beneficiaries. Prior to the establishment of the Trust, the Plan's assets were subject to the claims of general creditors of the State. The Board acts as trustee of the Trust. The participants' accounts are invested in accordance with the investment elections of the participants. The Board is accountable for all deferred compensation received, but has no duty to require any compensation to be deferred or to determine that the amounts received comply with the Plan or to determine that the Trust Fund is adequate to provide the benefits payable pursuant to the Plan.

Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2011 and 2010. The House believes that it has no liabilities in 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 that is an active participant in the Oklahoma State Employees Deferred Compensation 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 Oklahoma State Employees Deferred Compensation Plan and is not voluntary.

Upon cessation of contributions to the Oklahoma State Employees Deferred Compensation 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.

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE G--LEGISLATIVE SERVICE BUREAU PAYMENTS

The Legislative Service Bureau ("LSB") was created to serve, in various capacities, the House and the Oklahoma State Senate. It is responsible for such services as directed by the Speaker of the House and the President Pro Tempore of the Senate. One service which the LSB has been directed to provide the House is the payment of certain expenditures. For the years ended June 30, these expenditures are included in the House's financial statements and are presented as follows:

	<u>2011</u>	<u>2010</u>
Contractual services	\$ -	\$ 62,957
Supplies and materials	-	582
Capital outlay	<u>-</u>	<u>4,707</u>
Total expenditures	<u>\$ -</u>	<u>\$ 68,246</u>

During the year ended June 30, 2011, LSB contributed \$2,000,000 to the House for operational activities and did not pay for any expenditures directly.

NOTE H--OTHER STATE AGENCY PAYMENTS

During the current year, the House has paid other state agencies for administrative and other services, which are included in contractual services in the statements of revenues, expenditures, changes in fund balance--general fund. The following is a breakdown of contractual services paid to the various state agencies as of June 30:

	<u>2011</u>	<u>2010</u>
CompSource Oklahoma	\$ 80,418	\$ 86,587
Department of Central Services--Central Printing Division	44,646	50,089
Department of Libraries	6,339	4,869
Office of State Finance--Information Services Division	13,521	12,199
Employee Benefits Council	7,774	6,527
Oklahoma Public Employees Retirement System	20,971	95,373
State Treasurer	105	-
Oklahoma State University	50	-
Oklahoma Turnpike Authority	<u>23</u>	<u>109</u>
	<u>\$ 173,847</u>	<u>\$ 255,753</u>

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE I--OPERATING LEASE COMMITMENTS

The House has various operating leases for equipment. The future minimum rental commitments for equipment operating leases as of June 30, 2011, are as follows:

2012	\$ 349,018
2013	349,018
2014	349,018
2015	175,210
2016	<u>17,834</u>
	<u>\$ 1,240,098</u>

The rental expense was approximately \$188,000 and \$331,000 for the years ended June 30, 2011 and 2010, respectively.

NOTE J--RISK MANAGEMENT

The Risk Management Division of the Department of Central Services (the "Division") is empowered by the authority of Title 74 O.S. Supp. 1993, Section 85.34 et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for the use by the State for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The Division is authorized to settle claims of the State and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided by the State, an agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Government Tort Claims Act, as provided by Title 51 O.S. Supp. 1988, Section 154. The Division oversees the collection of liability claims owed to the State incurred as a result of a loss through the wrongful or negligent act of a private person or other entity.

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

OKLAHOMA HOUSE OF REPRESENTATIVES--Continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE K--CONTINGENCIES

The House is subject to litigation in the ordinary course of its operations. In the opinion of the House's management and its legal counsel, the outcome of such litigation will not have a material impact on the net assets or changes in net assets of the House for the years ended June 30, 2011 and 2010.

Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

The Honorable Kris Steele
Speaker of the House
Oklahoma House of Representatives

We have audited the basic financial statements of the governmental activities and the general fund of the Oklahoma House of Representatives (the "House") as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 11, 2012, which includes an explanatory paragraph regarding management's discussion and analysis and an explanatory paragraph stating that the basic financial statements of the House are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the general fund of the State of Oklahoma attributable to the transactions of the House. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the House's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the House's leadership and staff, the Governor, the State of Oklahoma, and the Oklahoma Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 11, 2012