

Oklahoma State Senate

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



OKLAHOMA STATE SENATE

FINANCIAL STATEMENTS

Table of Contents

	<u>Page</u>
<u>Independent Auditors’ Report</u>	1
<u>Management’s Discussion and Analysis</u>	I-1
<u>Basic Financial Statements:</u>	
<i>Government-Wide Financial Statements:</i>	
Statements of Net Position.....	4
Statements of Activities	5
<i>Fund Financial Statements:</i>	
Balance Sheets—General Fund	7
Statements of Revenues, Expenditures, and Changes in Fund Balance—General Fund.....	8
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balance—General Fund to the Statements of Activities	9
Notes to Financial Statements.....	10
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <u>Accordance with Government Auditing Standards</u>	29



INDEPENDENT AUDITORS' REPORT

The Honorable Brian Bingman
President Pro Tempore
Oklahoma State Senate

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

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

Emphasis of Matters

Department-Only Financial Statements

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

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of the Senate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Senate's internal control over financial reporting and compliance.

Handwritten signature in cursive script that reads "Finley & Cook, PLLC".

Shawnee, Oklahoma
December 17, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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

FINANCIAL HIGHLIGHTS

- During 2013, the Senate's net position increased \$3,593,708 from June 30, 2012, resulting in a net position of \$3,434,575 at June 30, 2013. During 2012, the Senate's net position increased \$187,926 from June 30, 2011, resulting in net position of \$(159,133) at June 30, 2012. During 2011, the Senate's net position increased \$381,462 from June 30, 2010, resulting in net position of \$(347,059) at June 30, 2011.
- At June 30, 2013, the Senate's assets totaling \$4,320,390 increased \$3,696,079 from June 30, 2012, due to an increase in cash and capital assets. At June 30, 2012, the Senate's assets totaling \$624,311 increased \$59,990 from June 30, 2011, due to an increase in capital assets. At June 30, 2011, the Senate's assets totaling \$564,321 decreased \$160,129 from June 30, 2010, due to a decrease in cash and capital assets.
- At June 30, 2013, the Senate's liabilities totaling \$885,815 increased \$102,371 from June 30, 2012, due to an increase in accounts payable. At June 30, 2012, the Senate's liabilities totaling \$783,444 decreased \$127,936 from June 30, 2011, due to personnel services reductions, which were necessary due to a decrease in the Senate's general appropriation. At June 30, 2011, the Senate's liabilities totaling \$911,380 decreased \$541,591 from June 30, 2010, due to personnel services reductions as well as reductions for capital expenditures, both of which were necessary due to a significant decrease in the Senate's general appropriation.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

Fund Financial Statements

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

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

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

Notes to Financial Statements

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Current assets	\$ 3,803,750	450,595	476,598
Capital assets, net	<u>516,640</u>	<u>173,716</u>	<u>87,723</u>
Total assets	<u>4,320,390</u>	<u>624,311</u>	<u>564,321</u>
Liabilities			
Current liabilities	664,992	529,330	617,058
Noncurrent liabilities	<u>220,823</u>	<u>254,114</u>	<u>294,322</u>
Total liabilities	<u>885,815</u>	<u>783,444</u>	<u>911,380</u>
Net position			
Net investment in capital assets	491,591	102,165	(25,923)
Unrestricted, surplus (deficit)	<u>2,942,984</u>	<u>(261,298)</u>	<u>(321,136)</u>
Total net position	<u>\$ 3,434,575</u>	<u>(159,133)</u>	<u>(347,059)</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Governmental activities:			
Charges for services	\$ 61,579	112,887	281,135
Contributions from the Legislative Service Bureau (LSB)	4,562,452	1,250,000	1,000,000
Expenses	<u>(13,202,112)</u>	<u>(12,346,750)</u>	<u>(12,659,451)</u>
Total governmental activities	<u>(8,578,081)</u>	<u>(10,983,863)</u>	<u>(11,378,316)</u>
General revenues:			
Appropriations from the general fund of the State of Oklahoma	<u>12,171,789</u>	<u>11,171,789</u>	<u>11,759,778</u>
Total general revenues	<u>12,171,789</u>	<u>11,171,789</u>	<u>11,759,778</u>
Changes in net position	3,593,708	187,926	381,462
Net position, beginning of year	<u>(159,133)</u>	<u>(347,059)</u>	<u>(728,521)</u>
Net position, end of year	<u>\$ 3,434,575</u>	<u>(159,133)</u>	<u>(347,059)</u>

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS, CONTINUED

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

The Senate's 2013 appropriation from the State of Oklahoma increased approximately 9%, or \$1,000,000, from FY 2012 due to the recovery of the State's economy and the resulting positive impact on State revenues as certified by the Board of Equalization. In addition to the increase in appropriations, \$4,562,000 was contributed by LSB to the Senate. The Senate's 2012 appropriation from the State of Oklahoma decreased approximately 5%, or \$588,000, from FY 2011 due to the continued downturn of the State's economy and resulting negative impact on State revenues as certified by the Board of Equalization. To offset the reduction in appropriations, \$1,250,000 was contributed by LSB to the Senate. The Senate's 2011 appropriation from the State of Oklahoma decreased approximately 7%, or \$903,000, from FY 2010 due to the continued downturn of the State's economy and resulting negative impact on State revenues as certified by the Board of Equalization. To offset the reduction in appropriations, \$1,000,000 was contributed by LSB to the Senate.

The Senate's 2013 expenditures, not including adjustments for depreciation, capitalized lease items, and compensated absences, increased approximately 9%, or \$1,139,000, from FY 2012 due to an increase in salaries and wages and the purchase of new data processing equipment that had been delayed due to the recent economic downturn. The Senate's 2012 expenditures, not including adjustments for depreciation, capitalized lease items, and compensated absences, decreased approximately 1%, or \$184,000, from FY 2011 solely due to the need to reduce expenses to match a corresponding reduction in the Senate's general appropriation allocation. The Senate's 2011 expenditures, not including adjustments for depreciation, capitalized lease items, and compensated absences, decreased approximately 20%, or \$3,246,000, from FY 2010 solely due to the need to reduce expenses to match a corresponding reduction in the Senate's general appropriation allocation.

CAPITAL ASSETS

As of June 30, 2013, 2012, and 2011, the Senate's investment in capital assets, net of accumulated depreciation, totaled approximately \$517,000, \$174,000, and \$88,000, respectively. Depreciation for 2013, 2012, and 2011 totaled approximately \$225,000, \$110,000, and \$59,000, respectively. Capital assets include computer equipment, office furniture, and other equipment.

CAPITAL LEASES

As of June 30, 2013, 2012, and 2011, the Senate had approximately \$25,000, \$72,000, and \$114,000, respectively, of capital lease obligations outstanding for the lease of certain office equipment. During the years ended June 30, 2013, 2012, and 2011, the Senate paid approximately \$52,000, \$52,000, and \$52,000, respectively, in lease payments, of which approximately \$5,000, \$9,000, and \$13,000, respectively, related to interest expense.

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

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

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

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

CONTACTING THE SENATE'S FINANCIAL MANAGEMENT

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

OKLAHOMA STATE SENATE

STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Assets		
Current assets:		
Cash, including short-term investments	\$ 3,803,750	450,595
Total current assets	<u>3,803,750</u>	<u>450,595</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>516,640</u>	<u>173,716</u>
Total assets	<u>\$ 4,320,390</u>	<u>624,311</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 204,542	19,333
Current portion of long-term obligations	455,183	491,316
Accrued salaries and benefits	<u>5,267</u>	<u>18,681</u>
Total current liabilities	<u>664,992</u>	<u>529,330</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	<u>220,823</u>	<u>254,114</u>
Total liabilities	<u>885,815</u>	<u>783,444</u>
Net investment in capital assets	491,591	102,165
Unrestricted, (deficit)	<u>2,942,984</u>	<u>(261,298)</u>
Total net position	<u>3,434,575</u>	<u>(159,133)</u>
Total liabilities and net position	<u>\$ 4,320,390</u>	<u>624,311</u>

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

OKLAHOMA STATE SENATE

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2013

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

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

OKLAHOMA STATE SENATE

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2012

	<u>PROGRAM REVENUES</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues</u>
Governmental activities:				
Legislative operations	\$ (12,337,280)	112,887	-	(12,224,393)
Contributions from the Legislative Service Bureau	-	-	1,250,000	1,250,000
Interest expense	(9,470)	-	-	(9,470)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$ (12,346,750)</u>	<u>112,887</u>	<u>1,250,000</u>	<u>(10,983,863)</u>
General revenues:				
State appropriations				<u>11,171,789</u>
Total general revenues				<u>11,171,789</u>
Changes in net position				187,926
Net position, beginning of year				<u>(347,059)</u>
Net position, end of year				<u>\$ (159,133)</u>

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

OKLAHOMA STATE SENATE

BALANCE SHEETS—GENERAL FUND

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
Assets		
Assets:		
Cash, including short-term investments	\$ 3,803,750	450,595
Total assets	<u>\$ 3,803,750</u>	<u>450,595</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$ 204,542	19,333
Accrued salaries and benefits	5,267	18,681
Total liabilities	<u>209,809</u>	<u>38,014</u>
Fund balance:		
Unassigned	3,593,941	412,581
Total fund balance	<u>3,593,941</u>	<u>412,581</u>
Total liabilities and fund balance	<u>\$ 3,803,750</u>	<u>450,595</u>
Reconciliation of Fund Balance to Net Position		
Total fund balance from above	\$ 3,593,941	412,581
Amounts reported in the statements of net position are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements	516,640	173,716
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund financial statements:		
Compensated absences	(650,957)	(673,879)
Capital lease obligations	<u>(25,049)</u>	<u>(71,551)</u>
Net position, per the statements of net position	<u>\$ 3,434,575</u>	<u>(159,133)</u>

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

OKLAHOMA STATE SENATE

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

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Revenues:		
Contributions from the Legislative Service Bureau	\$ 4,562,452	1,250,000
Other	<u>61,579</u>	<u>112,887</u>
Total revenues	<u>4,624,031</u>	<u>1,362,887</u>
Expenditures:		
Personnel services	11,777,462	11,019,527
Contractual services	521,233	649,490
Travel	412,023	386,117
Supplies and materials	852,178	369,093
Debt service (capitalized leases):		
Principal	46,502	42,094
Interest	<u>5,062</u>	<u>9,470</u>
Total expenditures	<u>13,614,460</u>	<u>12,475,791</u>
Deficiency of revenues over expenditures	(8,990,429)	(11,112,904)
Other funding sources:		
State appropriations	<u>12,171,789</u>	<u>11,171,789</u>
Net changes in fund balance	3,181,360	58,885
Fund balance, beginning of year	<u>412,581</u>	<u>353,696</u>
Fund balance, end of year	<u>\$ 3,593,941</u>	<u>412,581</u>

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

OKLAHOMA STATE SENATE

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

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Net changes in fund balance—General Fund	\$ 3,181,360	58,885
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:</p>		
Depreciation expense	(224,736)	(109,929)
Capital asset purchases capitalized	567,660	195,922
	342,924	85,993
<p>In the statements of activities, the amount of the capital lease payment that represents principal payments is used to reduce the capital lease payable:</p>		
Principal payments on capital lease	46,502	42,094
<p>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:</p>		
Accrued compensated absences	22,922	954
Changes in net position, per the statements of activities	\$ 3,593,708	187,926

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

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

(1) NATURE OF THE ORGANIZATION

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

Financial Reporting Entity

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

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

Fund Accounting and Budgetary Information

The Senate is included in the General Fund—Government of the State. The accompanying financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the Senate and not the financial position of the State. The Senate is funded by an appropriation from unallocated general funds earmarked for state government. Appropriations are available for expenditures for a period of 30 months from the date the appropriations are approved. It is the practice of the Senate to utilize unexpended appropriations from the prior year before expending current-year appropriations. The Senate is not required by statute to prepare a line-item budget and is only subject to the limitation of the total appropriation provided by the Oklahoma Legislature. Accordingly, a schedule of revenues, expenditures, and changes in fund balance—budget to actual is not presented herein.

See Independent Auditors’ Report.

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

Basis of Presentation and Basis of Accounting

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

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

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

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

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

Contributions

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

Cash

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

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 balance—General Fund, but are capitalized in the statements of net position. Capital assets are stated at actual or estimated historical cost in the statements of net position.

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

Computer equipment	3 years
Office furniture and other equipment	5 years

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

Compensated Absences

Employees earn annual vacation leave based upon their start date and years of service. Unused annual leave may be accumulated to a maximum of 240 hours for employees with less than 5 years of service and a maximum of 480 hours for employees with more than 5 years of service. All accrued annual leave is payable upon termination, resignation, retirement, or death. The General Fund records expenditures when employees are paid for leave. Accrued annual leave is considered a long-term liability and is included in the statements of net position. Sick leave does not vest to the employee and therefore is not recorded as a liability.

Capital Lease Obligations

The Senate entered into capital lease obligations, as more fully described in Note 6 to the financial statements. The amounts reflected in the statements of net position are the principal balances due as of June 30, 2013 and 2012.

Income Taxes

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

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

Equity Classifications

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

See Independent Auditors’ Report.

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

Equity Classifications, Continued

Fund Financial Statements, Continued

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

For purposes of an assigned fund balance, the Senate has given authority to the President Pro Tempore of the Senate to assign state appropriations received by the Senate for specific purposes.

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

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

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Equity Classifications, Continued

Fund Financial Statements, Continued

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

	<u>General Fund</u>	
	<u>2013</u>	<u>2012</u>
Fund balances:		
Unassigned:		
State appropriations	\$ 3,593,941	412,581
Total fund balances	<u>\$ 3,593,941</u>	<u>412,581</u>

Encumbrances

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

Deficit Unrestricted Net Position

The deficit unrestricted net position at June 30, 2012, was partly due to long-term liabilities, such as compensated absences, being recorded in the statement of net position. During the years ended June 30, 2013 and 2012, the Senate received contributions totaling \$4,562,452 and \$1,250,000, respectively, from the Legislative Service Bureau (LSB) to assist in eliminating the deficit balance.

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.

See Independent Auditors' Report.

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

Recent Accounting Pronouncements

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

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

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

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

See Independent Auditors' Report.

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

Recent Accounting Pronouncements, Continued

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

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

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

Date of Management's Review of Subsequent Events

The Senate's leadership has evaluated subsequent events through December 17, 2013, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

(3) **CASH BALANCES**

At June 30, 2013 and 2012, the Senate maintained cash balances of approximately \$3,804,000 and \$451,000, respectively, with the State Treasurer. The Senate's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitation, are placed in banks or invested as the State Treasurer may determine. Deposits are fully insured or collateralized with securities held by an agent of the State, in the State's name.

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS

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

	July 1, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2013</u>
Capital assets:				
Computer equipment	\$ 1,020,114	545,364	-	1,565,478
Office furniture and other equipment	<u>647,590</u>	<u>22,296</u>	-	<u>669,886</u>
Total capital assets	<u>1,667,704</u>	<u>567,660</u>	-	<u>2,235,364</u>
Accumulated depreciation:				
Computer equipment	(893,163)	(176,013)	-	(1,069,176)
Office furniture and other equipment	<u>(600,825)</u>	<u>(48,723)</u>	-	<u>(649,548)</u>
Total accumulated depreciation	<u>(1,493,988)</u>	<u>(224,736)</u>	-	<u>(1,718,724)</u>
Net capital assets	<u>\$ 173,716</u>	<u>342,924</u>	-	<u>516,640</u>
	July 1, <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2012</u>
Capital assets:				
Computer equipment	\$ 831,435	188,679	-	1,020,114
Office furniture and other equipment	<u>640,347</u>	<u>7,243</u>	-	<u>647,590</u>
Total capital assets	<u>1,471,782</u>	<u>195,922</u>	-	<u>1,667,704</u>
Accumulated depreciation:				
Computer equipment	(828,729)	(64,434)	-	(893,163)
Office furniture and other equipment	<u>(555,330)</u>	<u>(45,495)</u>	-	<u>(600,825)</u>
Total accumulated depreciation	<u>(1,384,059)</u>	<u>(109,929)</u>	-	<u>(1,493,988)</u>
Net capital assets	<u>\$ 87,723</u>	<u>85,993</u>	-	<u>173,716</u>

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS, CONTINUED

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

	<u>2013</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Office furniture and other equipment	<u>\$ 202,241</u>	<u>(202,241)</u>	<u>-</u>
	<u>2012</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Office furniture and other equipment	<u>\$ 202,241</u>	<u>(161,793)</u>	<u>40,448</u>

The Senate has no significant infrastructure assets.

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

Depreciation expense for 2013 and 2012 was approximately \$225,000 and \$110,000, respectively.

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) LONG-TERM LIABILITIES

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

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

	July 1, <u>2011</u>	<u>Increase</u>	<u>Paid</u>	June 30, <u>2012</u>	Amount Due Within <u>1 Year</u>
Compensated absences	\$ 674,833	391,543	(392,497)	673,879	444,814
Capital leases	<u>113,645</u>	<u>-</u>	<u>(42,094)</u>	<u>71,551</u>	<u>46,502</u>
Total long-term liabilities	<u>\$ 788,478</u>	<u>391,543</u>	<u>(434,591)</u>	<u>745,430</u>	<u>491,316</u>

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) CAPITAL LEASE OBLIGATIONS

The Senate has entered into agreements to lease certain office equipment. The agreements are in substance a purchase (capital lease) and are reported as capital lease obligations. The leases expire in December 2014.

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

<u>Minimum Lease Payments</u>	
2014	\$ 25,785
Less interest	<u>(736)</u>
Present value of minimum lease payments	<u>\$ 25,049</u>

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

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 71,551	113,645
Principal payments	<u>(46,502)</u>	<u>(42,094)</u>
Balance, end of year	<u>\$ 25,049</u>	<u>71,551</u>

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) RETIREMENT PLAN

Plan Description

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

Funding Policy

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

<u>Fiscal Year 2013</u>			<u>Fiscal Year 2012</u>		
<u>State Employees</u>	<u>Senators</u>	<u>Senate</u>	<u>State Employees</u>	<u>Senators</u>	<u>Senate</u>
<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>
3.5%	4.5%–10%	16.5%	3.5%	4.5%–10%	16.5%
<u>Fiscal Year 2011</u>					
	<u>State Employees</u>	<u>Senators</u>	<u>Senate</u>		
	<u>All Salaries</u>	<u>All Salaries</u>	<u>All Salaries</u>		
	3.5%	4.5%–10%	15.5%		

The Senate’s contributions to the Retirement Plan for the years ended June 30, 2013, 2012, and 2011, were approximately \$1,260,000, \$1,204,000, and \$1,244,000, respectively, and were equal to its required contributions for each year.

See Independent Auditors’ Report.

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

Deferred Compensation Plan

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

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

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

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

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

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

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

See Independent Auditors’ Report.

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

Deferred Compensation Plan, Continued

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

Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2013 and 2012. The Senate 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 who is an active participant in the Plan is eligible for a contribution of the amount determined by the Oklahoma Legislature, currently the equivalent of \$25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Plan and is not voluntary.

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

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

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) LEGISLATIVE SERVICE BUREAU

LSB was created to serve, in various capacities, the Senate and the Oklahoma House of Representatives. It is responsible for such services as directed by the President Pro Tempore of the Senate and the Speaker of the House. One service in which LSB has been directed to serve the Senate is the payment of certain expenditures. These expenditures are included in the Senate's financial statements. LSB did not incur expenditures paid on behalf of the Senate for the years ended June 30, 2013 or 2012. During the years ended June 30, 2013 and 2012, LSB paid contributions totaling \$4,562,452 and \$1,250,000, respectively, to the Senate to assist in the Senate's operating expenditures. These amounts were paid from appropriations of LSB and are reflected as contributions from LSB. For the years ended June 30, 2013 and 2012, LSB did not pay for capital assets for the benefit of the Senate. For the year ended June 30, 2013, LSB had not assigned funds for the benefit of the Senate for the Senate's operating expenditures. For the year ended June 30, 2012, LSB had assigned funds for the benefit of the Senate of \$2,607,509 for the Senate's operating expenditures. All amounts were funded in the current year at the discretion of the President Pro Tempore of the Senate.

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) OTHER STATE AGENCY PAYMENTS

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

	<u>2013</u>	<u>2012</u>
CompSource Oklahoma	\$ 35,051	44,716
Division of Capital Assets Management— Office of Facilities Management	-	8,134
Division of Capital Assets Management— Central Printing	18,632	10,489
Division of Capital Assets Management— Fleet Management Division	12,320	8,931
Division of Capital Assets Management— Risk Management Division	7,176	5,514
Legislative Service Bureau	9,675	-
Office of Management and Enterprise Services	10,338	9,248
Department of Libraries	3,057	2,885
Employee Benefit Council	-	4,133
Energy Council	3,200	-
Department of Human Services	5,250	-
Oklahoma Bar Association	1,937	-
Oklahoma State Bureau of Investigation	38	57
Oklahoma Public Employees Retirement System	22,679	2,676
Oklahoma Tax Commission	-	800
Oklahoma State Election Board	<u>36,920</u>	<u>32,287</u>
	<u>\$ 166,273</u>	<u>129,870</u>

See Independent Auditors' Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) OPERATING LEASE COMMITMENTS

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

2014	\$	11,139
2015		3,564
2016		<u>920</u>
	\$	<u>15,623</u>

The rental expense was approximately \$27,000 and \$25,000 for the years ended June 30, 2013 and 2012, respectively.

(12) RISK MANAGEMENT

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

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

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

See Independent Auditors’ Report.

OKLAHOMA STATE SENATE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(13) COMMITMENTS AND CONTINGENCIES

Legal

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

Construction/Remodeling

The Senate is in the process of remodeling the north wing of the 2nd, 3rd, and 5th floors of the State Capitol Building. The remodel was not complete as of June 30, 2013. There are contracts in place with the general contractor and the architect. The estimated cost of completion for the remodel is approximately \$2,992,000. As of June 30, 2013, the Senate had expended approximately \$273,000 on the remodel. The estimated completion date for the project is January 31, 2014.

See Independent Auditors' Report.



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

The Honorable Brian Bingman
President Pro Tempore
Oklahoma State Senate

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Oklahoma State Senate (the "Senate") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Senate's basic financial statements, and have issued our report thereon dated December 17, 2013. Our report includes an explanatory paragraph regarding management's discussion and analysis, an explanatory paragraph stating that the financial statements of the Senate are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the State of Oklahoma attributable to the transactions of the Senate, and an explanatory paragraph stating that the Senate is not required by statute to prepare a line-item budget. In addition, our report includes an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 63 by the Senate.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Senate's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Senate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Senate's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

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

Internal Control Over Financial Reporting, Continued

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

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Senate's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Senate's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
December 17, 2013