

Oklahoma Municipal Retirement Fund

*The Auditors' Communication with
Those Charged with Governance*

June 30, 2018





December 20, 2018

To the Board of Trustees of
the Oklahoma Municipal Retirement Fund

We have audited the financial statements the Oklahoma Municipal Retirement Fund (the "Fund") as of and for the year ended June 30, 2018, and have issued our report thereon dated December 20, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated February 19, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 1 to the financial statements. The Fund adopted new accounting guidance during the year ended June 30, 2018, as noted below. We noted no transactions entered into by the Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities' accounting and financial reporting when participating in an other postemployment benefit (OPEB) plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The Fund adopted GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The adoption had no significant impact on the financial statements.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

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

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

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

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, Continued

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

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimates of the fair value of investments are based on the investment custodian. We evaluated the key factors and assumptions used to develop the estimates of the fair value of investments and determined that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Significant Audit Matters, Continued

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Fund's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Matters or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Fund's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the schedule of investment returns, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the analysis of fund ownership for defined contribution plans, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Required Communications

We as independent auditors are required to:

- a. Communicate significant deficiencies and material weaknesses in internal control to the audit committee or its equivalent.
- b. Report directly to the audit committee (or equivalent) any fraud that causes a material misstatement of the financial statements and any fraud involving senior management. Fraud perpetrated by lower-level employees is also to be reported if it resulted in an individually significant misstatement.
- c. Report illegal acts that come to our attention (except those that are clearly inconsequential).

We have nothing to report.

Other Procedures

In conducting our audit, we selected 493 individual participant accounts for testing. The following is a summary of the testwork performed, with comparative totals for 2017:

| | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Tax withholding testwork | 25 | 25 |
| Positive confirmations of distributions to participants | 330 | 324 |
| Positive confirmations of loans to participants | 25 | 25 |
| General file documentation (see below) | 53 | 17 |
| Distribution check endorsement | 25 | 65 |
| Benefit recalculations | 35 | 22 |
| | <u>493</u> | <u>478</u> |

Of the 330 participant account distribution confirmations, 254 were received without exception. For those not received, general file testwork or benefit recalculations were performed. In addition to the individual participant accounts, we also sent positive confirmations to 155 towns/cities that participated in the Fund during the year.

No material discrepancies were noted.

Restriction on Use

This information is intended solely for the information and use of the Board of Trustees and management of the Fund and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Finley + Cook, PLLC

OKLAHOMA MUNICIPAL RETIREMENT FUND

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

June 30, 2018

| Defined Contribution Plan | Statement of | | Statement of Changes in | |
|--|-------------------------------|----------------------|--------------------------------|----------------------|
| | Fiduciary Net Position | | Fiduciary Net Position | |
| | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> |
| Beginning net position | \$ 334,281 | | | |
| Retirement, death benefits | | | | 334,281 |
| <i>To properly state beginning net position due to incorrect amount accrued for payable to participants as of June 30, 2017.</i> | | | | |
| | <u>\$ 334,281</u> | <u> </u> | <u> </u> | <u>334,281</u> |