



Financial Statements
June 30, 2016 and 2015

Oklahoma Insurance Department

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Independent Auditor's Report

State of Oklahoma
Oklahoma Insurance Department

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oklahoma Insurance Department (the "Department") as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Department'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 of America; 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.

Auditor's 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 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 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 auditor's 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department as of June 30, 2016 and 2015, and the respective changes in financial position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Oklahoma that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2016 and 2015, or the changes in its financial position, in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedules of receipts, transfers, disbursements and changes in cash balance are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The schedules of receipts, transfers, disbursements and changes in cash balance and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedules of receipts, transfers, disbursements and changes in cash balance and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the Department'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 Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Erik Sallly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 26, 2016

As management of the Oklahoma Insurance Department (the "Department"), we offer readers of the Department's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2016, 2015, and 2014.

Financial Highlights

2016

- During 2016, the Department earned revenues of \$318 million, which included net revenues of \$285 million of premium and other taxes, net of refunds. This is a decrease of approximately \$8.6 million in total revenues from the prior year.
- Approximately 64% of expenditures during fiscal year 2016 related to direct regulatory and enforcement activities.
- The net position of the Department decreased \$2.8 million, resulting in a net position of \$29.7 million at June 30, 2016.

2015

- During 2015, the Department earned revenues of \$327 million, which included net revenues of \$289 million of premium and other taxes, net of refunds. This is an increase of approximately \$29 million in total revenues from the prior year.
- Approximately 64% of expenditures during fiscal year 2015 related to direct regulatory and enforcement activities.
- The net position of the Department increased \$4.5 million, resulting in a net position of \$32.5 million at June 30, 2015.

2014

- During 2014, the Department earned revenues of \$298 million, which included net revenues of \$256 million of premium and other taxes, net of refunds. This is an increase of approximately \$9 million in total revenues from the prior year.
- Approximately 65% of expenditures during fiscal year 2014 related to direct regulatory and enforcement activities.
- The net position of the Department increased \$4.2 million, resulting in a net position of \$37.0 million at June 30, 2014.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private-sector business.

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

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

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 Department are reflected in the general fund. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Department maintains two types of funds: governmental funds and fiduciary funds. Information is presented separately for the governmental funds and the fiduciary funds. All transactions related to the general administration of the Department are accounted for in the governmental fund statements of revenues, expenditures, and changes in fund balances-general fund, whereas the fiduciary funds are custodial in nature and do not present results of operations or have a measurement focus.

Government-Wide Financial Analysis

The Department's net position is reported as follows:

Oklahoma Insurance Department's Net Position

| | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|
| Current assets | \$ 91,289,478 | \$93,784,845 | \$95,679,938 |
| Capital assets, net | 103,050 | 214,820 | 248,061 |
| Total assets | <u>\$ 91,392,528</u> | <u>\$ 93,999,665</u> | <u>\$ 95,927,999</u> |
| Current liabilities | <u>\$ 61,679,673</u> | <u>\$61,451,704</u> | <u>\$ 58,891,236</u> |
| Net position | | | |
| Invested in capital assets, net of related debt | 103,050 | 214,820 | 248,061 |
| Restricted for statutorily required transfers | 20,785,832 | 25,323,402 | 25,086,648 |
| Unrestricted | <u>8,823,973</u> | <u>7,009,739</u> | <u>11,702,054</u> |
| Total net position | <u>\$ 29,712,855</u> | <u>\$ 32,547,961</u> | <u>\$ 37,036,763</u> |

Oklahoma Insurance Department's Changes in Net Position

| | 2016 | 2015 | 2014 |
|---|---------------|---------------|---------------|
| Program revenues | | | |
| Charges for service | \$ 32,479,705 | \$36,746,297 | \$ 40,825,645 |
| Sales and service | 44,675 | 61,434 | 126,674 |
| Federal operating grant revenue | 1,152,142 | 1,165,782 | 949,953 |
| Total program revenues | 33,676,522 | 37,973,513 | 41,902,272 |
| General revenues | | | |
| Premium and other taxes, net of refunds | 284,544,650 | 288,881,959 | 255,615,301 |
| Total revenues | 318,221,172 | 326,855,472 | 297,517,573 |
| Total expenses | 12,298,236 | 12,520,396 | 12,835,183 |
| Excess of revenues before transfers | 305,922,936 | 314,335,076 | 284,682,390 |
| Transfers in/out | | | |
| Appropriations | 1,546,442 | 1,768,980 | 1,871,937 |
| General fund of the State of Oklahoma | (168,892,900) | (169,332,391) | (151,935,431) |
| Specific accounts of the State of Oklahoma and net transfers to agency funds | (141,411,584) | (151,260,467) | (130,421,618) |
| Total transfers in/out | (308,758,042) | (318,823,878) | (280,485,112) |
| Changes in net position | (2,835,106) | (4,488,802) | 4,197,278 |
| Net position, beginning of year | 32,547,961 | 37,036,763 | 32,839,485 |
| Net position, end of year | \$ 29,712,855 | \$ 32,547,961 | \$ 37,036,763 |

Our discussion and analysis of the Department's financial performance provides an overview of the Department's financial activities for the fiscal years ended June 30, 2016, 2015, and 2014.

Program revenues are variable from year to year. A significant portion of the "charges for service" annual revenues is comprised of annual licensing fees for licensed professionals in the state. The licenses are issued for a 2-year period. This renewal cycle creates a fluctuation in associated revenues in the same pattern, as reflected between 2016 and 2015 with the exception of appointment fees which have transitioned from biennial to annual collections. The Department experienced a 2% decrease in premium and other taxes for fiscal year 2016 and a 13% increase in premium and other taxes for fiscal year 2015. The decrease in revenue is a result of a decrease in reported premiums collected by the companies operating within the state. Other premium-based taxes reflected a similar trend for the year, resulting in an overall decrease in tax revenue available for distribution of \$4,337,308 for fiscal year 2016. There was an overall increase of tax revenue of \$33,266,658 and an increase of \$3,566,089 for fiscal years 2015 and 2014, respectively.

Oklahoma Insurance Department
Management's Discussion and Analysis

Program revenues are all specifically identified for Department distribution. The change in total transfers out for fiscal years June 30, 2016, 2015, and 2014 compared to the respective prior year is a result of the increase or decrease in program revenues and final distribution based on current statutory requirements. Total Department liabilities at June 30, 2016 were approximately \$227,970 more than the prior year. Total department liabilities at June 30, 2015 were \$2,560,000 more than the prior year and total department liabilities at June 30, 2014 were \$1,638,000 more than the previous year.

At June 30, 2016, the Department had unrestricted net position of \$ 8,823,973. At June 30, 2015 and 2014, the Department had unrestricted net position of \$7,009,739, and \$11,702,054, respectively.

Budget-to-Actual Expenditures

| | Year Ended June 30, 2016 | | | | |
|-------------------------------------|---------------------------------|-----------|-------------------------|------------------------|--|
| | Original and Final Budget | Revision | Revised Final Budget | Actual Budget Basis | Favorable (Unfavorable) Variance |
| Budgeted revenues | | | | | |
| State appropriations | \$ 1,662,841 | \$ - | \$ 1,662,841 | \$ 1,546,442 | \$ (116,399) |
| Licenses, permits and fees | 13,216,820 | - | 13,216,820 | 10,493,997 | (2,722,823) |
| Federal funds | 1,120,339 | - | 1,120,339 | 1,152,142 | 31,803 |
| Total budgeted revenues | 16,000,000 | - | 16,000,000 | 13,192,581 | (2,807,419) |
| Budgeted expenditures | | | | | |
| Personnel and professional services | 12,868,503 | 116,399 | 12,984,902 | 10,377,270 | 2,607,632 |
| Travel and expense reimbursement | 422,564 | - | 422,564 | 181,193 | 241,371 |
| Contractual service | 864,800 | - | 864,800 | 602,429 | 262,371 |
| Supplies and materials | 65,300 | - | 65,300 | 20,090 | 45,210 |
| Equipment | 389,800 | - | 389,800 | 64,548 | 325,252 |
| Other | 1,389,033 | (116,399) | 1,272,634 | 1,041,830 | 230,804 |
| Total budgeted expenditures | \$ 16,000,000 | \$ - | \$ 16,000,000 | \$ 12,287,360 | \$ 3,712,640 |

| | Year Ended June 30, 2015 | | |
|-------------------------------------|--------------------------|------------------------|--|
| | Original Budget | Actual Budget Basis | Favorable (Unfavorable) Variance |
| Budgeted revenues | | | |
| State appropriations | \$ 1,768,980 | \$ 1,768,980 | \$ - |
| Licenses, permits and fees | 13,106,020 | 9,614,371 | (3,491,649) |
| Federal funds | 1,625,000 | 1,165,782 | (459,218) |
| Total budgeted revenues | 16,500,000 | 12,549,133 | (3,950,867) |
| Budgeted expenditures | | | |
| Personnel and professional services | 13,290,920 | 10,933,652 | 2,357,268 |
| Travel and expense reimbursement | 453,104 | 193,670 | 259,434 |
| Contractual service | 916,497 | 607,757 | 308,740 |
| Supplies and materials | 70,000 | 33,457 | 36,543 |
| Equipment | 400,500 | 127,017 | 273,483 |
| Other | 1,368,979 | 830,875 | 538,104 |
| Total budgeted expenditures | \$ 16,500,000 | \$ 12,726,428 | \$ 3,773,572 |

Oklahoma Insurance Department
Management's Discussion and Analysis

| | Year Ended June 30, 2014 | | | | |
|-------------------------------------|--------------------------|------------|-------------------------|------------------------|--|
| | Original Budget | Revision | Revised Final Budget | Actual Budget Basis | Favorable (Unfavorable) Variance |
| Budgeted revenues | | | | | |
| State appropriations | \$ 1,871,937 | | \$ 1,871,937 | \$ 1,871,937 | \$ - |
| Licenses, permits and fees | 12,061,063 | 55,000 | 12,116,063 | 9,063,451 | (3,052,612) |
| Federal funds | 1,567,000 | 445,000 | 2,012,000 | 949,953 | (1,062,047) |
| Total budgeted revenues | 15,500,000 | 500,000 | 16,000,000 | 11,885,341 | (4,114,659) |
| Budgeted expenditures | | | | | |
| Personnel and professional services | 12,517,978 | 404,673 | \$ 12,922,651 | 10,988,598 | 1,934,053 |
| Travel and expense reimbursement | 398,454 | 4,223 | 402,677 | 268,880 | 133,797 |
| Contractual service | 278,299 | - | 278,299 | 149,924 | 128,375 |
| Supplies and materials | 46,911 | - | 46,911 | 76,062 | (29,151) |
| Equipment | 389,400 | - | 389,400 | 96,268 | 293,132 |
| Other | 1,811,383 | 91,104 | 1,902,487 | 1,222,201 | 680,286 |
| Payment to other state agencies | 57,575 | - | 57,575 | 43,905 | 13,670 |
| Total budgeted expenditures | \$ 15,500,000 | \$ 500,000 | \$ 16,000,000 | \$ 12,845,838 | \$ 3,154,162 |

2016

The variance between the final 2016 budgeted total revenues and expenditures and the original budget consisted of changes related to the State's declared revenue failure for Fiscal Year 2016.

In 2016, overall Department expenditures were \$3,712,640 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, equipment and other expenditures. The Department usually budgets to its limits but attempts to keep expenditures at a level close to or below the actual revenue for the year so as not to deplete its reserves.

2015

In 2015, overall Department expenditures were \$3,773,572 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, equipment and other expenditures. The Department usually budgets to its limits but attempts to keep expenditures at a level close to or below the actual revenue for the year so as not to deplete its reserves.

2014

The variance between the final 2014 budgeted total revenues and expenditures and the original budget consisted of changes related to changes in the structure of the funding of the MIPPA Grant.

In 2014, overall Department expenditures were \$3,154,162 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, equipment and other expenditures. The Department usually budgets to its limits but attempts to keep expenditures at a level close to or below the actual revenue for the year so as not to deplete its reserves.

Capital Assets

As of June 30, 2016, 2015, and 2014, the Department had total investments of \$1,729,326, \$1,747,576, and \$1,715,869, respectively, in capital assets, including computer equipment and software, office equipment, and furniture. Net of accumulated depreciation, the Department's net capital assets at June 30, 2016, 2015, and 2014, totaled \$103,050, \$214,820, and \$248,061, respectively.

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 fiscal year 2017 budget for the Department was approved by the Office of Management & Enterprise Services. The change in anticipated expenditures, which will have no effect on future operations, is reflected by funding sources as follows:

| Funding Source | 2017 Budget Compared to 2016 | 2016 Budget Compared to 2015 | 2015 Budget Compared to 2014 |
|---------------------|------------------------------------|------------------------------------|------------------------------------|
| State-appropriated | \$ (1,503,542) | (106,139) | (102,957) |
| Revolving funds | 1,120,348 | (393,861) | 724,183 |
| Other funds | 31,594 | - | (121,226) |
| Total budget change | <u>\$ (351,600)</u> | <u>\$ (500,000)</u> | <u>\$ 500,000</u> |

For the year ending June 30, 2017, the change in funding is due to a legislated elimination of the agency's appropriation which the agency had to fund from its revolving funds; and an increase of \$31,594 in grant funding for agency programs.

Contacting the Department's Financial Management

This financial report is designed to provide interested parties with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Oklahoma Insurance Department, 3625 NW 56th, Suite 100, Oklahoma City, OK 73112.

Oklahoma Insurance Department
Statement of Net Position
For Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Current assets | | |
| Cash, including short-term investments | 67,083,597 | 66,027,447 |
| Premium and other taxes receivable | <u>24,205,881</u> | <u>27,757,398</u> |
| Total current assets | <u>91,289,478</u> | <u>93,784,845</u> |
| Noncurrent assets | | |
| Capital assets, depreciable, net of accumulated depreciation | <u>103,050</u> | <u>214,820</u> |
| Total assets | <u><u>\$ 91,392,528</u></u> | <u><u>\$ 93,999,665</u></u> |
| Liabilities and net position | | |
| Liabilities | | |
| Amount due to | | |
| General fund of the State of Oklahoma | 25,718,436 | 26,266,786 |
| Firefighters Retirement System | 19,128,363 | 19,758,933 |
| Police Retirement System | 7,438,808 | 7,684,030 |
| Law Enforcement Retirement System | 2,656,717 | 2,744,296 |
| State Attorney General | <u>153,018</u> | <u>180,562</u> |
| Total amount due to | <u>55,095,342</u> | <u>56,634,607</u> |
| Current liabilities | | |
| Accounts payable | 253,526 | 206,516 |
| Premium and other tax refunds payable | 2,295,735 | 1,607,010 |
| Unearned tax revenue | 3,420,049 | 2,433,996 |
| Compensated absences | <u>615,021</u> | <u>569,575</u> |
| Total current liabilities | <u>6,584,331</u> | <u>4,817,097</u> |
| Total liabilities | <u>61,679,673</u> | <u>61,451,704</u> |
| Net Position | | |
| Invested in capital assets, net of related debt | 103,050 | 214,820 |
| Restricted for statutorily required transfers | 20,785,832 | 25,323,402 |
| Unrestricted | <u>8,823,973</u> | <u>7,009,739</u> |
| Total net position | <u>29,712,855</u> | <u>32,547,961</u> |
| Total liabilities and net position | <u><u>\$ 91,392,528</u></u> | <u><u>\$ 93,999,665</u></u> |

Oklahoma Insurance Department
Statement of Activities
Year Ended June 30, 2016

| | | REVENUE | | |
|--|----------------------|-------------------------------------|--|------------------------------|
| | Expenses | Sales and Charges for Service | Operating Grants and Contributions | Net (Expenses) Revenue |
| Governmental activities | | | | |
| General government Operations | \$ 11,136,147 | \$ 32,524,380 | \$ - | \$ 21,388,233 |
| Total general government | 11,136,147 | 32,524,380 | - | 21,388,233 |
| Grant programs | 1,162,089 | - | 1,152,142 | (9,947) |
| Total governmental activities | <u>\$ 12,298,236</u> | <u>\$ 32,524,380</u> | <u>\$ 1,152,142</u> | <u>21,378,286</u> |
| General revenues | | | | |
| Premium and other taxes | | | | 287,091,153 |
| Less refunds | | | | <u>(2,546,503)</u> |
| Total general revenues | | | | <u>284,544,650</u> |
| Other uses | | | | |
| Transfers in/out | | | | |
| Appropriations | | | | 1,546,442 |
| General fund of the State of Oklahoma | | | | (168,892,900) |
| Specific accounts of the State of Oklahoma | | | | <u>(141,411,584)</u> |
| Total other uses | | | | <u>(308,758,042)</u> |
| Changes in net position | | | | (2,835,106) |
| Net position, beginning of year | | | | <u>32,547,961</u> |
| Net position, end of year | | | | <u>\$ 29,712,855</u> |

Oklahoma Insurance Department
Statement of Activities
Year Ended June 30, 2015

| | | REVENUE | | |
|--|---------------|-------------------------------------|--|------------------------------|
| | Expenses | Sales and Charges for Service | Operating Grants and Contributions | Net (Expenses) Revenue |
| Governmental activities | | | | |
| General government Operations | 11,353,015 | 36,807,731 | \$ - | 25,454,716 |
| Total general government | 11,353,015 | 36,807,731 | - | 25,454,716 |
| Grant programs | 1,167,381 | - | 1,165,782 | (1,599) |
| Total governmental activities | \$ 12,520,396 | \$ 36,807,731 | \$ 1,165,782 | 25,453,117 |
| General revenues | | | | |
| Premium and other taxes | | | | 290,695,218 |
| Less refunds | | | | (1,813,259) |
| Total general revenues | | | | 288,881,959 |
| Other uses | | | | |
| Transfers in/out | | | | |
| Appropriations | | | | 1,768,980 |
| General fund of the State of Oklahoma | | | | (169,332,391) |
| Specific accounts of the State of Oklahoma | | | | (151,260,467) |
| Total other uses | | | | (318,823,878) |
| Changes in net position | | | | (4,488,802) |
| Net position, beginning of year | | | | 37,036,763 |
| Net position, end of year | | | | \$ 32,547,961 |

Oklahoma Insurance Department
Balance Sheet – General Fund
Years ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Assets | | |
| Cash, including short-term investments | 67,083,597 | 66,027,447 |
| Premium and other taxes receivable | <u>24,205,881</u> | <u>27,757,398</u> |
| Total assets | <u><u>\$ 91,289,478</u></u> | <u><u>\$ 93,784,845</u></u> |
| Liabilities, Deferred Inflows and Fund Balances | | |
| Liabilities | | |
| Amount due to | | |
| General fund of the State of Oklahoma | 25,718,436 | 26,266,786 |
| Firefighters Retirement System | 19,128,363 | 19,758,933 |
| Police Retirement System | 7,438,808 | 7,684,030 |
| Law Enforcement Retirement System | 2,656,717 | 2,744,296 |
| State Attorney General | <u>153,018</u> | <u>180,562</u> |
| Total amount due to | 55,095,342 | 56,634,607 |
| Accounts payable | 253,526 | 206,516 |
| Premium and other tax refunds payable | 2,295,735 | 1,607,010 |
| Unearned tax revenue | <u>3,420,049</u> | <u>2,433,996</u> |
| Total liabilities | <u>61,064,652</u> | <u>60,882,129</u> |
| Deferred inflows of resources | | |
| Deferred revenue | <u>15,477,418</u> | <u>17,732,331</u> |
| Fund balances | | |
| Restricted - statutorily required transfers | 5,308,414 | 7,591,071 |
| Assigned - encumbrances | 608,502 | 1,045,426 |
| Unassigned | <u>8,830,492</u> | <u>6,533,888</u> |
| Total fund balances | <u>14,747,408</u> | <u>15,170,385</u> |
| Total liabilities, deferred inflows and fund balances | <u><u>\$ 91,289,478</u></u> | <u><u>\$ 93,784,845</u></u> |

Oklahoma Insurance Department

Reconciliation of Statements of Balance Sheets – General Fund to Statements of Net Position

Years ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| Reconciliation of Fund Balances to Net Position | | |
| Total fund balances from above | \$ 14,747,408 | \$ 15,170,385 |
| Amounts reported in the statements of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore not reported in the fund | | |
| Capital assets of \$1,729,325 and \$1,747,576 and net of accumulated depreciation of \$1,626,276 and \$1,532,756 at June 30, 2016 and 2015, respectively | 103,050 | 214,820 |
| Certain liabilities are not due and payable in the current period and therefore not reported in the fund: | | |
| Accrued compensated absences | (615,021) | (569,575) |
| Deferred inflows of resources - deferred inflows that do not meet the earnings criteria and therefore reported in the fund: | | |
| Deferred revenue | <u>15,477,418</u> | <u>17,732,331</u> |
| | <u><u>\$ 29,712,855</u></u> | <u><u>\$ 32,547,961</u></u> |

Oklahoma Insurance Department
Statements of Revenues, Expenditures and Changes in Fund Balances – General Fund
Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| Revenues | | |
| Federal grant revenues | 1,152,142 | 1,165,782 |
| Program income | 32,524,836 | 36,807,731 |
| Premium and other taxes, net of refunds | 286,799,564 | 290,168,546 |
| Total revenues | 320,476,542 | 328,142,059 |
| Expenditures | | |
| Administrative overhead | | |
| Executive | 1,051,997 | 1,052,204 |
| Comptroller | 736,530 | 758,377 |
| Data processing | 281,616 | 343,155 |
| Legal | 939,717 | 1,094,885 |
| Communications | 717,147 | 705,794 |
| Government Relations/Public Affairs | 259,961 | 209,367 |
| Field Operations | 209,501 | 242,463 |
| Administrative services | 132,255 | 132,360 |
| Total administrative overhead | 4,328,724 | 4,538,605 |
| Agent licensing/title | 611,854 | 598,021 |
| Consumer assistance/claims | 1,132,542 | 1,174,766 |
| Premium Tax/Financial Services | 2,299,954 | 2,362,442 |
| Life and health | 773,129 | 821,818 |
| Publications and outreach | 1,202,094 | 1,179,530 |
| Bail bonds | 323,515 | 321,657 |
| Real estate appraisal | 469,984 | 479,297 |
| Fraud | 816,599 | 841,347 |
| ISO Advocacy | 183,082 | 193,582 |
| Total expenditures | 12,141,477 | 12,511,065 |
| Excess of revenues over expenditures | 308,335,065 | 315,630,994 |
| Other funding sources/uses | | |
| State appropriations | 1,546,442 | 1,768,980 |
| General fund of the State of Oklahoma | (168,892,900) | (169,332,391) |
| Specific accounts of the State of Oklahoma | (141,411,584) | (151,260,467) |
| Total other funding sources/uses | (308,758,042) | (318,823,878) |
| Net change in fund balances | (422,977) | (3,192,884) |
| Fund balances, beginning of year | 15,170,385 | 18,363,269 |
| Fund balances, end of year | \$ 14,747,408 | \$ 15,170,385 |

Oklahoma Insurance Department
Reconciliation of Statements of Revenues, Expenditures and Changes in Fund Balances-General Fund to the
Statements of Activities
Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|------------------------------|------------------------------|
| Net changes in fund balance - general fund | <u>\$ (422,977)</u> | <u>\$ (3,192,884)</u> |
| 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 | (130,431) | (141,921) |
| Loss on disposal of capital assets | (456) | - |
| Capital asset purchases capitalized | <u>19,117</u> | <u>108,680</u> |
| | <u>(111,770)</u> | <u>(33,241)</u> |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds | | |
| Changes in accrued compensated absences | (45,446) | 23,910 |
| Because some premium taxes will not be collected for several months after the Department's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental fund | <u>(2,254,913)</u> | <u>(1,286,587)</u> |
| Changes in net position, per statement of activities | <u><u>\$ (2,835,106)</u></u> | <u><u>\$ (4,488,802)</u></u> |

Oklahoma Insurance Department
Statement of Fiduciary Assets and Liabilities – Agency Fund
Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash, including short-term investments | <u>20,533</u> | <u>279,410</u> |
| Total assets | <u><u>\$ 20,533</u></u> | <u><u>\$ 279,410</u></u> |
| Liabilities | | |
| Amounts due to other parties | | |
| Premium taxes paid under protest | - | 161,259 |
| Bail bondsmen funds forfeited | <u>20,533</u> | <u>118,151</u> |
| | <u><u>\$ 20,533</u></u> | <u><u>\$ 279,410</u></u> |

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The financial statements of the Oklahoma Insurance Department (the "Department") have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) 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 Department's accounting policies are described below.

Reporting Entity

The Department was created by Article VI of the Oklahoma State Constitution in 1907. The Department is a department of the State of Oklahoma (the "State") and is included within the State's General Fund-Regulatory Services. The Department regulates and oversees the insurance industry through administration and enforcement of the Oklahoma Insurance Code. In exercising that single program, the Department has the following responsibilities as specified in the Oklahoma statutes:

- The approval of the organization of domestic insurance companies and the approval of applications by foreign insurance companies to do business in the state;
- Licensing of all insurers authorized to do business in the state, along with the collections of licensing fees and premium taxes;
- Audit and examination of the affairs of insurers at least once every 5 years;
- Licensing, supervision, and regulation of all insurance agents and adjusters; and
- Administration of the licensing, supervision, and regulation of bail bondsmen, the collection of bond forfeitures, and the supervision of bond deposits.

The Department also regulates the investment practices of insurance companies, approves new policy forms and reinsurance agreements, processes complaints made by the public against insurers, licensed real estate appraisers, and approves companies that perform utilization reviews. Refer to Title 36, Sections 301 et seq., as amended, of the Oklahoma Statutes for more information.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Accounting

The financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the remaining fund information of the State that is attributable to the transactions of the Department, and not those of the entire State.

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

The statements of activities demonstrate the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with the Department's function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the Department's function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

The 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 Department as 60 days after fiscal year-end. Revenues measurable but not available are reported as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The major revenue source susceptible to accrual is premium taxes.

The agency fund uses the accrual basis of accounting and does not measure the results of operations.

The operations of the Department are recorded in the following fund types:

Governmental Fund Type - Governmental funds are accounted for using a spending (or current financial resources) 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.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds - Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Agency fund - This fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. Payments of allegedly invalid fees or taxes under protest are deposited and retained for a period of 60 days to allow the remitter to file suit. If within 60 days, a summons is not served in a suit for the recovery of said fees or taxes, or a specified part thereof, the funds shall be considered earned by the Department and transferred out of the agency fund. However, if a written protest is made and a suit is filed in a timely manner, the fees paid under protest shall be retained pending a final determination of the suit.

The majority of monies received by the Department are designated as to how they can be transferred or used. Such designations are disclosed in Note 2. The Department retains full control of all monies to achieve the designated purposes.

Securities

Securities owned by insurance companies doing business in the state previously required by law to be deposited with the Office of the State Treasurer ("State Treasurer") are now held for safekeeping at the Department. Such securities deposited are not included in the Department's financial statements. Likewise, deposits from bail bondsmen doing business in the state are received by the Department, where they are held in safekeeping and accounted for. These deposits held in safekeeping are not included in the Department's financial statements unless a bail bond is forfeited or the license of a professional bondsman is revoked. At that point, the deposit from the bail bondsman is deposited into the Department's agency fund cash account entitled "Bail Bondsmen Account," and the deposit is remitted to the county courts or to the bail bondsman at the direction of the various courts.

Capital Assets

Capital assets are recorded as expenditures in the governmental fund statements of revenues, expenditures, and changes in fund balances 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 and software | 3 years |
| Office equipment | 5 years |
| Furniture | 7 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.

Note 1 - 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 240 hours for employees with less than five years of service and 480 hours for employees with five or more years of service. All accrued annual leave is payable upon termination, resignation, retirement, or death. The general fund records expenditures when employees are paid for leave. GASB Interpretation 6 indicates that liabilities for compensated absences are normally expected to be liquidated with expendable available financial resources and should be recognized as governmental fund liabilities to the extent that they have matured each period. The Department does not have financial resources to fund accrued annual leave at year-end; therefore, accrued annual leave is reported as a current liability in the statements of net position. Sick leave does not vest to the employee and, therefore, is not recorded as a liability.

Income Taxes

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

Cash Accounts

The cash accounts of the Department are organized on a functional basis. Expenditures are allocated among the various cash accounts by management based on statutory requirements and cash balance requirements.

The various monies received or disbursed are recorded in one of the following accounts in accordance with the statutes and intent of how the monies are to be expended:

General Operating Account - This account contains monies received from the State by annual appropriation for operations of the Department. Monies may only be expended for personnel payroll and operating expenses as directed by statute.

Department Clearing Account - All receipts of the Department, except for the appropriation from the State, receipts of federal funds, and deposits made by bail bondsmen, are deposited into the Department Clearing Account. Transfers to the various funds of the Department and the State are made monthly from this account. Refunds for overpayments and receipts returned for insufficient funds are the only disbursements made other than transfers to other funds.

In accordance with the Oklahoma statutes, a percentage of the premium taxes is used to fund the Firefighters, Police, and Law Enforcement Retirement systems. The remainder goes to the State's General Revenue Fund. The monies collected and allocated by the Department are transferred directly from the Department Clearing Account and Protest Escrow Account on a monthly basis to the Firefighters, Police, and Law Enforcement Retirement systems.

Department Revolving Account - This account operates on a continuing basis. The revenues consist of monies received by the Department and transferred from the Department Clearing Account. These revenues include insurance policy and rate filing fees, review fees of an insurance company's annual statement, certain agent licenses and fees as designated by statute, fees for furnishing study manuals, examination fees, licensing and examining bail bondsmen, fraud assessment fees, and fees for copies of records. These revenues are used by the Department to pay for operating expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

In accordance with the Oklahoma statutes, 25% of the fraud assessment fees collected by the Department are transferred directly from the Department Clearing Account to the State Attorney General.

Federal Grant Program Account - This account contains grant monies received from the federal government for the operation of the agency's Medicare Assistance Program. The expenditures for this account are restricted to the uses directed by the federal agency awarding the grant.

Special Payroll Account - This account is used to pay the Department's monthly payroll. Transfers are made from the General Operating Account, the Department Revolving Account, the Federal Grant Program Account, and the Real Estate Appraisers Revolving Account to the Special Payroll Account for payment of each monthly payroll.

Real Estate Appraisers Revolving Account - This account was created as a result of the Real Estate Appraisers Act and operates on a continuing basis. The revenues consist of monies received by the Department that are first deposited into the Department Clearing Account and then transferred to the Real Estate Appraisers Revolving Account. These revenues include fees for examinations and certification of real estate appraisers and are used by the Department to pay for operating expenses.

Anti-Fraud Account – This account is used for the purpose of administering investigations of abuse, negligence or criminal conduct regarding insurance laws or regulations. It contains monies received as a result of insurance related crimes and other fines, late fees, and penalties.

Agency Fund Accounts

Protest Escrow Account - This account contains monies received from premium taxes paid under protest that are restricted. These monies are maintained in the Protest Escrow Account for 60 days pending notification of litigation. If litigation is pursued by the protesting insurance company within 60 days, the monies paid in protest remain in the Protest Escrow Account until the litigation is resolved. If after 60 days no litigation arises from the protesting insurance company, the monies are transferred to the State's General Revenue Fund and the Firefighters, Police, and Law Enforcement Retirement systems in accordance with Oklahoma statutes.

Bail Bondsmen Account - This account contains bail bondsmen certificates of deposit previously held in safekeeping by the State Treasurer for bail bondsmen operating in the state. Bail bondsmen certificates of deposit are cashed, deposited into the Bail Bondsmen Account, and paid to the courts only if a bondsman fails to pay an order and judgment of forfeiture after being properly notified or if the license of a professional bondsman has been revoked.

Equity Classifications, Government-wide Statement of Net Position

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

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

- Unrestricted net position – all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the Department'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.

Governmental fund equity is classified as fund balance. In accordance with GASB 54, the Department classifies fund balance as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- Non-spendable – consists of balances that are either not in spendable form or legally or contractually required to be maintained intact. Balances most likely to be classified as nonspendable include inventory, prepaids, and interfund advances.
- Restricted – consists of balances that have constraints placed on the net asset use 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. The Department's resources constrained for statutorily required pension system and State General Fund transfers are reported as restricted at year-end.
- Committed – consists of assets that can only be used for specific purposes as a result of constraints imposed by formal action of the individual government's highest level of decision-making authority. Committed amounts cannot be uncommitted except by removing the constraints through the same type of formal action.
- Assigned – consists of amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of resources for a specific purpose that are not made by the government's highest level of decision-making authority are reported in this classification. The Department's outstanding encumbrances at year-end are reported as assigned.
- Unassigned – consists of the residual resources that have not been restricted, committed or assigned to a specific purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available (i.e. in the case of federal or private grant revenues), the Department considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Department considers the amount to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Department has provided otherwise in its commitment or assignment actions.

The Department establishes (and modifies or rescinds) fund balance commitments by adoption and amendment of the annual budget. Assigned fund balances are established by Department management.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The Department has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses and the related disclosures to prepare the financial statements in accordance with accounting principles generally accepted in the United States. The most significant of these estimates is the amount of premium taxes expected to be received during the subsequent fiscal year, based on actual premiums reported by insurance companies in their annual statements. This estimate was based on historical settlements occurring after the annual reports are filed, assuming half of the settlements are related to the first 6 months of the calendar year and the other half are related to the second 6 months of the calendar year. The actual results could differ from those estimates.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Note 2 - Cash Balances

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 is established by rules promulgated by the State Treasurer. In accordance with the State Treasurer's policies, the amount of collateral securities to be pledged by financial institutions through the State Treasurer is pledged at market value and must be at 100% of value to collateralize the amount on deposit, less any federal insurance coverage. This percentage may vary for political subdivisions according to their respective policies.

In accordance with State statute, the State Treasurer may purchase and invest in the following:

- Obligations of the United States Government, its agencies and instrumentalities;
- Collateralized or insured certificates of deposit;
- Prime bankers' acceptances;
- Negotiable certificates of deposit;
- Investment grade obligations of state and local governments;
- Prime commercial paper;
- Money market funds; and
- Repurchase agreements.

Note 2 – Cash Balance (Continued)

Designations of cash balances and reservations of fund balance by cash account are as follows:

General Operating Account - There was no cash balance remaining at June 30, 2016 and 2015 that can be carried forward to the next fiscal year. There were no outstanding encumbrances at June 30, 2016.

Department Clearing Account - The cash balance at June 30, 2016 and 2015, of approximately \$53,310,000 and \$59,197,000, respectively, represents cash maintained by the Department to be transferred to other state agencies to cover returned tax payment checks and tax refunds that are carried forward to the next fiscal year.

Department Revolving Account - The cash balance at June 30, 2016 and 2015, of approximately \$12,353,000 and \$5,562,000, respectively, represents the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2016 and 2015 was approximately \$418,000 and \$616,000, respectively.

Federal Grant Program Account - The cash balance at June 30, 2016 and 2015, of approximately \$0 and \$2,500, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2016 and 2015 were approximately \$142,500 and \$330,000, respectively.

Special Payroll Account - There were no cash balances or outstanding encumbrances in the Special Payroll Account as of June 30, 2016 and 2015.

Real Estate Appraisers Revolving Account - The cash balances remaining at June 30, 2016 and 2015, of approximately \$662,000 and \$604,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2016 and 2015 were approximately \$47,500 and \$69,000, respectively.

Anti-Fraud Account –The cash balance at June 30, 2016 and 2015, of approximately \$654,000 and \$662,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2016 and 2015 were approximately \$0 and \$30,000, respectively.

Protest Escrow Account - The balance of premium taxes remaining in this account at June 30, 2016 and 2015, of \$0 and approximately \$161,000 represents premium taxes paid under protest. The Department holds these funds for a period of time in a fiduciary capacity. The funds are included in the agency fund of the financial statements. These funds will either be paid back to the insurance companies or transferred to the appropriate State fund.

Bail Bondsmen Account - The cash balances at June 30, 2016 and 2015, of approximately \$20,500 and \$118,000, respectively, are being held by the Department in a fiduciary capacity. The funds are included in the agency fund of the financial statements. These funds are to be paid according to court orders.

Note 3 - Capital Assets

A summary of changes in capital assets during the years ended June 30, 2016 and 2015 is as follows:

| | <u>June 30, 2015</u> | <u>Acquisitions</u> | <u>Dispositions</u> | <u>June 30, 2016</u> |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|
| Capital assets | | | | |
| Computer equipment and software | \$ 905,538 | \$ 16,377 | \$ (35,112) | \$ 886,803 |
| Office equipment | 205,063 | 1,026 | - | 206,089 |
| Furniture | <u>636,975</u> | <u>1,714</u> | <u>(2,255)</u> | <u>636,434</u> |
| Total capital assets | <u>1,747,576</u> | <u>19,117</u> | <u>(37,367)</u> | <u>1,729,326</u> |
| Accumulated depreciation | | | | |
| Computer equipment and software | 815,124 | 61,822 | (35,112) | 841,834 |
| Office equipment | 127,748 | 37,881 | - | 165,629 |
| Furniture | <u>589,884</u> | <u>30,728</u> | <u>(1,799)</u> | <u>618,813</u> |
| Total accumulated depreciation | <u>1,532,756</u> | <u>130,431</u> | <u>(36,911)</u> | <u>1,626,276</u> |
| Net capital assets | <u>\$ 214,820</u> | <u>\$ (111,314)</u> | <u>\$ (456)</u> | <u>\$ 103,050</u> |
| | | | | |
| | <u>June 30, 2014</u> | <u>Acquisitions</u> | <u>Dispositions</u> | <u>June 30, 2015</u> |
| Capital assets | | | | |
| Computer equipment and software | \$ 879,401 | \$ 102,150 | \$ (76,013) | \$ 905,538 |
| Office equipment | 202,785 | 3,238 | (960) | 205,063 |
| Furniture | <u>633,683</u> | <u>3,292</u> | <u>-</u> | <u>636,975</u> |
| Total capital assets | <u>1,715,869</u> | <u>\$ 108,680</u> | <u>\$ (76,973)</u> | <u>1,747,576</u> |
| Accumulated depreciation | | | | |
| Computer equipment and software | 817,769 | 73,368 | (76,013) | 815,124 |
| Office equipment | 90,922 | 37,786 | (960) | 127,748 |
| Furniture | <u>559,117</u> | <u>30,767</u> | <u>-</u> | <u>589,884</u> |
| Total accumulated depreciation | <u>1,467,808</u> | <u>141,921</u> | <u>(76,973)</u> | <u>1,532,756</u> |
| Net capital assets | <u>\$ 248,061</u> | <u>\$ (33,241)</u> | <u>\$ -</u> | <u>\$ 214,820</u> |

Note 3 – Capital Assets (Continued)

Depreciation charged to the function as of June 30, 2016 is as follows:

| | 2016 | 2015 |
|----------------------------|-------------------|-------------------|
| Administrative | \$ 47,216 | \$ 53,000 |
| Agents licensing/title | 7,825 | 7,130 |
| Consumer assistance/claims | 14,348 | 12,135 |
| Premium tax | 29,347 | 30,366 |
| Life and health | 10,043 | 12,329 |
| Publications and outreach | 4,956 | 7,826 |
| Bail bonds | 3,913 | 4,207 |
| Real estate appraisal | 2,609 | 2,642 |
| Fraud | 10,174 | 11,234 |
| Insure Oklahoma | - | 1,052 |
| Total depreciation expense | <u>\$ 130,431</u> | <u>\$ 141,921</u> |

Note 4 - Premium and Other Taxes

Revenues from premium and other taxes consisted of the following for the fiscal year ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|-------------------------|-----------------------|-----------------------|
| Premium taxes | \$ 257,338,325 | \$ 253,033,688 |
| Surplus lines taxes | 31,721,338 | 34,913,842 |
| Fire marshal taxes | <u>2,569,060</u> | <u>2,510,934</u> |
| Total cash basis | 291,628,723 | 290,458,464 |
| Change in accrued taxes | <u>(4,537,570)</u> | <u>236,754</u> |
| Total accrual basis | <u>\$ 287,091,153</u> | <u>\$ 290,695,218</u> |

Premium taxes are required to be remitted quarterly by insurance companies. Such quarterly payments are estimated based upon the premium taxes paid in the prior year. The due dates for premium taxes are April 15, June 15, September 15, and December 15. Upon the filing of the annual statement due March 1, any amount due in excess of the estimated quarterly payments is then required to be paid. If the estimated quarterly payments exceed the premium tax liability, a refund check is issued by the Department. Surplus lines taxes are also required to be remitted quarterly. Fire marshal taxes are required to be remitted annually. Surplus lines and fire marshal taxes are not measurable and available and are recorded on a cash basis. Premium taxes due June 15 that have not been paid as of June 30 are considered a receivable at June 30, as such amounts are measurable and available. As of June 30, 2016 and 2015, in the governmental fund balance sheet, tax revenues of approximately \$3,420,000 and \$15,477,000 and \$2,433,000 and \$17,732,000, respectively, have been reported as a liability (unearned revenue) and as a deferred inflow of resources, respectively, in accordance with GASB Statement No. 33, as amended by GASB Statement No. 65, as they have not been earned as of year-end.

Note 5 - Compensated Absences

The following summarizes the activity in compensated absences during the years:

| <u>June 30, 2015</u> | <u>Increase</u> | <u>Paid</u> | <u>June 30, 2016</u> |
|--------------------------|-----------------------|-------------------------|--------------------------|
| <u>\$ 569,575</u> | <u>\$ 419,452</u> | <u>\$ (374,006)</u> | <u>\$ 615,021</u> |
| <u>June 30, 2014</u> | <u>Increase</u> | <u>Paid</u> | <u>June 30, 2015</u> |
| <u>\$ 593,485</u> | <u>\$ 406,684</u> | <u>\$ (430,594)</u> | <u>\$ 569,575</u> |

The balance is presented as a current liability in the statements of net position because historical trends indicate the liability will be paid out within the next fiscal year using current resources.

Note 6 - Leases

The Department leases operating facilities and equipment on an annual basis. Rent of approximately \$610,000 and \$714,000 was paid under lease agreements for the year ended June 30, 2016 and 2015, respectively.

Future minimum rental payments under the office building lease agreements are as follows:

| <u>Years Ending June 30,</u> | <u>Operating Leases</u> |
|------------------------------|-----------------------------|
| 2017 | \$ 498,874 |
| 2018 | 420,768 |
| 2019 | 420,768 |
| 2020 | 280,512 |
| | <u>\$ 1,620,922</u> |

The lease agreements for equipment vary in length from 1 to 6 years.

Future minimum rental payments under the equipment lease agreements are as follows

| <u>Years Ending June 30,</u> | |
|------------------------------|-------------------|
| 2017 | \$ 112,628 |
| 2018 | 13,495 |
| 2019 | 9,679 |
| | <u>\$ 135,802</u> |

Note 7 - Interfund Transfers

Interfund transfers for the years ended June 30, 2016 and 2015 consisted of the following:

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| Transfers in | | |
| Appropriations from the general fund of the State of Oklahoma | \$ 1,546,442 | \$ 1,768,980 |
| Transfers out | | |
| General fund of the State of Oklahoma | (168,892,900) | (169,332,391) |
| Firefighters Retirement System | (92,330,270) | (91,235,806) |
| Police Retirement System | (35,915,245) | (35,489,619) |
| Law enforcement Retirement System | (12,823,301) | (12,671,292) |
| Attorney General | (342,768) | (363,750) |
| Special Cash Fund of the State | | |
| Treasury (SB 2127, Sec 167) | - | (5,500,000) |
| Treasury (HB 2242, Sec 174) | - | (6,000,000) |
| Net transfers | <u>\$ (308,758,042)</u> | <u>\$ (318,823,878)</u> |

Note 8 - Retirement Plan

Description

The Department 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 legislature of the State. 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 System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. The 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

Plan members and the Department are required to contribute at a rate set by statute. The contribution requirements of plan members and the Department are established and may be amended by the legislature of the State. The contribution rate for the Department and plan members is as follows:

| Fiscal Year 2016 | |
|------------------|------------|
| State Employees | Department |
| All salary | All Salary |
| 3.50% | 16.50% |

Note 8 – Retirement Plan (continued)

The Department's contribution to the Retirement Plan for the year ended June 30, 2016 was approximately \$1,019,000 and was equal to its required contribution for the year-end. The Department's contribution to the Retirement Plan for the years ended June 30, 2015 and 2014 were \$1,024,000 and \$1,014,000, respectively, and were equal to its required contributions for each year.

GASB Statement No 68

As stated in the disclosure of significant accounting policies, the Department is a part of the primary government of the State of Oklahoma. Compliance with GASB 68 regarding accounting and reporting for pension plans and for state and local governments regarding pensions does not apply to the Department's financial statements. The reporting of financial information for GASB 68 are reported in the Comprehensive Annual Financial Report for the State of Oklahoma. The amount of calculated pension liability for the Department at June 30, 2015 (the latest information available) was approximately \$1,273,000.

Note 9 - 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 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 \$17,500.

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 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 three 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.

**Note 9 - Oklahoma State Employees Deferred Compensation Plan and Deferred Savings Incentive Plan
(continued)**

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

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

Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2016 and 2015. The Department believes that it has no liabilities in respect to the Plan.

Employee contributions to the plan for the years ended June 30, 2016 and 2015 were approximately \$166,000 and \$159,000, respectively.

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 from the State of the amount determined by the State 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.

Contributions made to qualified participants for the years ended June 30, 2016 and 2015 were approximately \$29,000 in both years.

Note 10 - Risk Management

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

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

The Division is also charged with the responsibility to immediately notify the 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 Department, their pro rata share of the premiums purchased. The Department has no obligations to any claims submitted against the Department.

Note 11 - Contingencies

The Department is involved in legal proceedings in the normal course of operations, none of which, in the opinion of management, will have a material effect on the net position or changes in net position of the Department.



Required Supplementary Information
June 30, 2016 and 2015

Oklahoma Insurance Department

Oklahoma Insurance Department
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual (Non-GAAP Budget Basis) – General Fund
Years Ended June 30, 2016 and 2015

| | Year Ended June 30, 2016 | | | | |
|---|---------------------------------|-----------|-------------------------|------------------------|--|
| | Original and Final Budget | Revision | Revised Final Budget | Actual Budget Basis | Favorable (Unfavorable) Variance |
| Budgeted revenues | | | | | |
| State appropriations | \$ 1,662,841 | \$ - | \$ 1,662,841 | \$ 1,546,442 | \$ (116,399) |
| Licenses, permits and fees | 13,216,820 | - | 13,216,820 | 10,493,997 | (2,722,823) |
| Federal funds | 1,120,339 | - | 1,120,339 | 1,152,142 | 31,803 |
| Total budgeted revenues | 16,000,000 | - | 16,000,000 | 13,192,581 | (2,807,419) |
| Budgeted expenditures | | | | | |
| Personnel and professional services | 12,868,503 | 116,399 | 12,984,902 | 10,377,270 | 2,607,632 |
| Travel and expense reimbursement | 422,564 | - | 422,564 | 181,193 | 241,371 |
| Contractual service | 864,800 | - | 864,800 | 602,429 | 262,371 |
| Supplies and materials | 65,300 | - | 65,300 | 20,090 | 45,210 |
| Equipment | 389,800 | - | 389,800 | 64,548 | 325,252 |
| Other | 1,389,033 | (116,399) | 1,272,634 | 1,041,830 | 230,804 |
| Total budgeted expenditures | \$ 16,000,000 | \$ - | \$ 16,000,000 | \$ 12,287,360 | \$ 3,712,640 |
| Excess of budgeted revenues over(under) budgeted expenditures | \$ - | \$ - | \$ - | \$ 905,221 | \$ 905,221 |

| | Year Ended June 30, 2015 | | |
|---|--------------------------|------------------------|--|
| | Original Budget | Actual Budget Basis | Favorable (Unfavorable) Variance |
| Budgeted revenues | | | |
| State appropriations | \$ 1,768,980 | \$ 1,768,980 | \$ - |
| Licenses, permits and fees | 13,106,020 | 9,614,371 | (3,491,649) |
| Federal funds | 1,625,000 | 1,165,782 | (459,218) |
| Total budgeted revenues | 16,500,000 | 12,549,133 | (3,950,867) |
| Budgeted expenditures | | | |
| Personnel and professional services | 13,290,920 | 10,933,652 | 2,357,268 |
| Travel and expense reimbursement | 453,104 | 193,670 | 259,434 |
| Contractual service | 916,497 | 607,757 | 308,740 |
| Supplies and materials | 70,000 | 33,457 | 36,543 |
| Equipment | 400,500 | 127,017 | 273,483 |
| Other | 1,368,979 | 830,875 | 538,104 |
| Total budgeted expenditures | \$ 16,500,000 | \$ 12,726,428 | \$ 3,773,572 |
| Excess of budgeted revenues over(under) budgeted expenditures | \$ - | \$ (177,295) | \$ (177,295) |

Oklahoma Insurance Department
Reconciliations of Non-GAAP Budget Basis to GAAP – Schedules of Revenues, Expenditures and Changes in
Fund Balances – General Fund
Year Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| Excess of budgeted revenues (under) over budgeted expenditures | \$ 905,221 | \$ (177,295) |
| Other revenues | | |
| Taxes | 291,628,723 | 290,458,465 |
| Less refunds | <u>(1,857,778)</u> | <u>(3,764,663)</u> |
| Net taxes | 289,770,945 | 286,693,802 |
| Licenses, permits and fees | 24,784,349 | 26,713,533 |
| Less refunds | (3,386,243) | (83,510) |
| Fines, forfeitures and penalties | 491,536 | 382,657 |
| Sales and services | 44,675 | 61,434 |
| Other grants and reimbursement | <u>96,523</u> | <u>119,247</u> |
| Total other revenues | <u>311,801,785</u> | <u>313,887,163</u> |
| Excess of budgeted and other revenues over budgeted expenditures | <u>312,707,006</u> | <u>313,709,868</u> |
| Other uses | | |
| Transfers in/out | | |
| General fund | (169,441,250) | (166,118,781) |
| Specific accounts | <u>(142,402,499)</u> | <u>(146,951,277)</u> |
| Total other uses | <u>(311,843,749)</u> | <u>(313,070,058)</u> |
| Revenues greater than expenditures and other uses | <u>863,257</u> | <u>639,810</u> |
| Changes in accrual not reflected in the actual revenues and expenditures | | |
| Premium taxes | (2,282,657) | 1,523,340 |
| Premium tax refunds | (688,725) | 1,951,404 |
| General fund of the State of Oklahoma transfers | 548,350 | (3,213,610) |
| Specific accounts of the State of Oklahoma transfers | 990,915 | (4,309,191) |
| Other grants and reimbursements | - | (10,835) |
| Personnel and professional services | <u>145,883</u> | <u>226,198</u> |
| | <u>(1,286,234)</u> | <u>(3,832,694)</u> |
| Revenues under expenditures and other uses | (422,977) | (3,192,884) |
| Fund balances, beginning of year | <u>15,170,385</u> | <u>18,363,269</u> |
| Fund balances, end of year | <u><u>\$ 14,747,408</u></u> | <u><u>\$ 15,170,385</u></u> |

The Department's budget is adopted on a cash basis by account. In addition, not all of the Department's revenues and expenditures are part of the legally adopted budget; specifically, revenues collected and then later required to be transferred out are not included. The annual appropriated budget is adopted for the Department as a whole. The cash accounts included in the budget are as follows:

- General Operating Account,
- Department Clearing Account,
- Department Revolving Account,
- Federal Grant Program Account,
- Special Payroll Account,
- Anti-Fraud Account, and
- Real Estate Appraisers Revolving Account.

All revisions to the budget must be approved by the Oklahoma Office of Management and Enterprise Services.



Reports and Schedules Required by *Government
Auditing Standards* and Uniform Guidance
June 30, 2016

Oklahoma Insurance Department



Independent Auditor's 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*

To the State of Oklahoma
Oklahoma Insurance Department

We have audited, in accordance with the 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, the financial statements of the governmental activities, the major fund, and the remaining fund information of the Oklahoma Insurance Department (the "Department") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 26, 2016. Our report includes an explanatory paragraph stating that the financial statements of the Department are intended to present the financial position and results of operations of only that portion of the State of Oklahoma attributable to the transactions of the Department.

Internal Control Over Financial Reporting

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

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 Department'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 26, 2016



Independent Auditor's Report On Compliance For Its Major Program And On Internal Control Over Compliance Required By Uniform Guidance

State of Oklahoma
Oklahoma Insurance Department

Report on Compliance for the Major Federal Program

We have audited the Oklahoma Insurance Department's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Oklahoma Insurance Department's major federal program for the year ended June 30, 2016. The Oklahoma Insurance Department's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance the Oklahoma Insurance Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Oklahoma Insurance Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Oklahoma Insurance Department's compliance.

Opinion on the Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Oklahoma Insurance Department (the Department) is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 26, 2016

Oklahoma Insurance Department
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

| Federal Grantor/Program Title | Federal CFDA Number | Grant Number | Expenditures |
|--|---------------------------|---|--------------|
| Department of Health and Human Services | | | |
| Special Programs for the Aging - Title IV and | | | |
| Title II - Discretionary Project - | | | |
| Senior Medicare Patrol/Senior Medicare | | | |
| Patrol Integration Program | 93.048 | 90MP0082-04 | \$ 210,178 |
| Senior Medicare Patrol/Senior Medicare | | | |
| Patrol Integration Program | | | |
| Expansion Project | 93.048 | 90SP0094-02 | 55,288 |
| Special Programs for the Aging Subtotal | | | 265,466 |
| Administration for Community Living | | | |
| State Health Insurance Assistance Program (SHIP) | | | |
| SHIP 16 | 93.324 | 90SA0007-01 | 521,461 |
| SHIP 17 | 93.324 | 90SA0007-02 | 103,242 |
| Total State Health Insurance Assistance Program | | | 624,703 |
| Medicare Improvements for Patients | | 13AAOKMAAA, 12AAOKMADRC, & 12AAOKMSHI | |
| and Providers Act | 93.071 | | 271,920 |
| Community Living Programs Subtotal | | | 896,623 |
| Total Federal Expenditures | | | \$ 1,162,089 |

Note 1 - Summary Of Significant Accounting Policies

The schedule of expenditures of federal awards includes the federal grant activity of the Department and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Significant Accounting Policies

Governmental fund types account for the Department's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available resources. The Department's summary of significant accounting policies is presented in Note 1 to the Department's basic financial statements.

The Department has not elected to use the 10% de minimus cost rate.

Note 3 - Sub-Recipients

During 2016, the Department did not have any sub-recipients.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified not considered to be material weakness(es)? | None reported |
| Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified not considered to be material weakness(es)? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516? | No |

Identification of major programs:

| | |
|---|-----------------------|
| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number(s)</u> |
| Department of Health and Human Services- State Health Insurance Assistance Program | 93.324 |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

There are no findings under this section.

Section III – Federal Award Findings and Questioned Costs

There are no findings under this section.

**2015-001 Department of Health and Human Services
CFDA #93.324 State Health Insurance Assistance Program (SHIP)
CFDA #93.048 Senior Medicare Patrol (SMP)**

**Time and Effort Control (Allowable Costs/Cost Principles)
Material Weakness in Internal Control over Compliance; Material Noncompliance**

Initial Fiscal Year Occurred: 2015

Finding Summary:

Employees working with the SHIP and SMP programs did not have proper time and effort documentation as required by OMB Circular A-87, Attachment B, paragraph 8.h. and as recently updated by the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Department of Health and Human Services (DHHS) awards under Title 45 CFR Part 75.

Status:

There were no similar findings in this year's audit.



Other Supplementary Information
June 30, 2016

Oklahoma Insurance Department

Oklahoma Insurance Department

Other Supplementary Information – Schedule of Receipts, Transfers, Disbursements and Changes in Cash Balance

June 30, 2016

| | General Operating Account | Department Clearing Account | Department Revolving Account | Private Grant Account | Federal Grant Program Account | Special Payroll Account | Anti Fraud Account | Real Estate Appraisers Revolving Account | Total (Cash Basis) |
|--|---------------------------------|-----------------------------------|------------------------------------|-----------------------------|--|-------------------------------|--------------------------|---|-----------------------|
| Receipts | | | | | | | | | |
| State Appropriations | \$ 1,546,442 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,546,442 |
| Premium and other taxes | - | 291,628,723 | - | - | - | - | - | - | 291,628,723 |
| Less refunds | - | (1,857,778) | - | - | - | - | - | - | (1,857,778) |
| Net taxes | - | 289,770,945 | - | - | - | - | - | - | 289,770,945 |
| Licenses, permits and fees | - | 39,994,204 | - | - | - | - | - | - | 39,994,204 |
| Less refunds | - | (3,386,243) | - | - | - | - | - | - | (3,386,243) |
| Fines, forfeitures and penalties | - | 491,536 | - | - | - | - | - | - | 491,536 |
| Sales and services | - | 44,675 | - | - | - | - | - | - | 44,675 |
| Other grants and reimbursements | - | 96,523 | - | - | - | - | - | - | 96,523 |
| Federal funds | - | (4,673,859) | - | - | 1,152,142 | - | - | - | (3,521,717) |
| Total receipts | 1,546,442 | 322,337,781 | - | - | 1,152,142 | - | - | - | 325,036,365 |
| Transfers | | | | | | | | | |
| Ins Commission Funds | (1,441,871) | - | (7,359,264) | - | (355,860) | - | - | (178,616) | (9,335,611) |
| Revolving 200 | - | (15,826,971) | 15,826,971 | - | - | - | - | - | - |
| Revolving 225 | - | (554,430) | - | - | - | - | - | 554,430 | - |
| Gen Fund of State | - | (169,441,250) | - | - | - | - | - | - | (169,441,250) |
| Special Accts - State | - | (142,402,499) | - | - | - | - | - | - | (142,402,499) |
| Total Transfers | (1,441,871) | (328,225,150) | 8,467,707 | - | (355,860) | - | - | 375,814 | (321,179,360) |
| Disbursements | - | - | 1,675,923 | - | 798,808 | - | 8,378 | 317,745 | 2,800,854 |
| Receipts (less than) greater than disbursements | 104,571 | (5,887,369) | 6,791,784 | - | (2,526) | - | (8,378) | 58,069 | 1,056,151 |
| Cash balance, beginning of year | - | 59,197,411 | 5,561,608 | - | 2,526 | - | 662,034 | 603,867 | 66,027,446 |
| Cash balance, end of year | \$ 104,571 | \$ 53,310,042 | \$ 12,353,392 | \$ - | \$ - | \$ - | \$ 653,656 | \$ 661,936 | \$ 67,083,597 |

Oklahoma Insurance Department

Other Supplementary Information – Schedule of Receipts, Transfers, Disbursements and Changes in Cash
Balance – Fiduciary Agency Fund
June 30, 2016

| | Fiduciary | | |
|--|------------------------------|-----------------------------|-----------------------|
| | Protest Escrow Account | Bail Bondsmen Account | Total (Cash Basis) |
| Receipts | | | |
| State Appropriations | \$ - | \$ - | \$ - |
| Premium and other taxes | - | - | - |
| Less funds | - | - | - |
| Net taxes | - | - | - |
| Licenses, permits and fees | - | - | - |
| Less refunds | - | - | - |
| Fines, forfeitures and penalties | - | - | - |
| Sales and services | - | - | - |
| Other grants and reimbursements | - | 40,000 | 40,000 |
| Federal funds | - | - | - |
| Total receipts | - | 40,000 | 40,000 |
| Transfers | | | |
| Ins Commission Funds | - | - | - |
| Revolving 200 | - | - | - |
| Revolving 225 | - | - | - |
| Revolving 230 | - | - | - |
| Gen Fund of State | - | - | - |
| Special Accts - State | - | - | - |
| Total Transfers | - | - | - |
| Disbursements | 161,260 | 137,618 | 298,878 |
| Receipts (less than) greater than disbursements | (161,260) | (97,618) | (258,878) |
| Cash balance, beginning of year | 161,260 | 118,151 | 279,411 |
| Cash balance, end of year | \$ - | \$ 20,533 | \$ 20,533 |