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OKLAHOMA INSURANCE DEPARTMENT
ANNUAL FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2011 and 2010

OKLAHOMA INSURANCE DEPARTMENT

FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2011 and 2010

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OKLAHOMA INSURANCE DEPARTMENT

FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

State of Oklahoma
Oklahoma Insurance Department

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, 2011 and 2010, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. The Department is part of the reporting entity of the State of Oklahoma. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the 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, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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 for the Department as of June 30, 2011 and 2010, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The other supplementary information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Audge & Associates, P.C.
Edmond, Oklahoma
September 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2011, 2010, and 2009.

Financial Highlights

2011

- During 2011, the Department earned revenues of \$234 million, which included net revenues of \$203 million of premium and other taxes, net of refunds. This is an increase of approximately \$30 million in total revenues from the prior year.
- Approximately 64% of expenditures during fiscal year 2011 related to direct regulatory and enforcement activities.
- The net assets of the Department increased \$7.3 million, resulting in net assets of \$37.9 million at June 30, 2011.

2010

- During 2010, the Department earned revenues of \$204 million, which included net revenues of \$174 million of premium and other taxes, net of refunds. This is a decrease of approximately \$5 million in total revenues from the prior year.
- Approximately 64% of expenditures during fiscal year 2010 related to direct regulatory and enforcement activities.
- The net assets of the Department increased \$44,000, resulting in net assets of \$30.6 million at June 30, 2010.

2009

- During 2009, the Department earned revenues of \$209 million, which included net revenues of \$182 million of premium and other taxes, net of refunds. This is an increase of approximately \$31 million in total revenues from the prior year.
- Approximately 70% of expenditures during fiscal year 2009 related to direct regulatory and enforcement activities.
- The net assets of the Department increased \$11.7 million, resulting in net assets of \$30.5 million at June 30, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd) **(Unaudited)**

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: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

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

The statements of activities present information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)
(Unaudited)

Government-Wide Financial Analysis

The Department's net assets are reported as follows:

Oklahoma Insurance Department's Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 83,492,493	\$ 77,424,643	\$ 57,312,193
Capital assets, net	<u>258,487</u>	<u>344,897</u>	<u>142,509</u>
Total assets	<u>83,750,980</u>	<u>77,769,540</u>	<u>57,454,702</u>
 Current liabilities	 <u>45,818,306</u>	 <u>47,139,280</u>	 <u>26,868,919</u>
 Net assets:			
Restricted for statutorily required transfers	16,867,063	12,256,597	14,813,950
Invested in capital assets, net of related debt	258,487	344,897	142,509
Unrestricted	<u>20,807,124</u>	<u>18,028,766</u>	<u>15,629,324</u>
 Total net assets	 <u>\$ 37,932,674</u>	 <u>\$ 30,630,260</u>	 <u>\$ 30,585,783</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)
(Unaudited)

Government-Wide Financial Analysis, Continued

Oklahoma Insurance Department's Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Program revenues:			
Charges for service	\$ 30,443,859	\$ 28,118,025	\$ 26,001,833
Sales and service	168,432	171,727	182,521
Federal operating grant revenue	846,758	925,435	1,045,217
Total program revenues	<u>31,459,049</u>	<u>29,215,187</u>	<u>27,229,571</u>
General revenues:			
Premium and other taxes, net of refunds	<u>202,886,374</u>	<u>174,362,340</u>	<u>182,252,035</u>
Total revenues	234,345,423	203,577,527	209,481,606
Total expenses	<u>11,332,081</u>	<u>11,422,122</u>	<u>10,664,180</u>
Excess of revenues before transfers	<u>223,013,342</u>	<u>192,155,405</u>	<u>198,817,426</u>
Transfers in/out:			
Appropriations	2,012,836	2,215,435	2,512,903
Transfers to agency funds	-	-	(52,250)
General fund of the State of Oklahoma	(121,055,455)	(109,513,064)	(100,637,875)
Specific accounts of the State of Oklahoma and net transfers to agency funds	<u>(96,668,309)</u>	<u>(84,813,299)</u>	<u>(88,928,882)</u>
Total transfers in/out	<u>(215,710,928)</u>	<u>(192,110,928)</u>	<u>(187,106,104)</u>
Changes in net assets	7,302,414	44,477	11,711,322
Net assets, beginning of year	<u>30,630,260</u>	<u>30,585,783</u>	<u>18,874,461</u>
Net assets, end of year	<u>\$ 37,932,674</u>	<u>\$ 30,630,260</u>	<u>\$ 30,585,783</u>

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, 2011, 2010, and 2009.

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 2011, 2010, and 2009. The Department experienced a 16% increase in premium and other taxes for fiscal year 2011 and a 4% decrease in premium and other taxes for fiscal year 2010. The increase in revenue is a result of an increase 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 increase in tax revenue available for distribution of \$28,524,034 for fiscal year 2011. There was an overall decrease of tax revenue of \$7,889,695, and increase \$24,718,743 for fiscal years 2010, and 2009, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)
(Unaudited)

Government-Wide Financial Analysis, Continued

Program revenues are all specifically identified for Department distribution. The change in total transfers out for fiscal years 2011, 2010, and 2009 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, 2011 were approximately \$1,321,000 less than the prior year. Total department liabilities at June 30, 2010 were \$20,270,000 greater than the previous year and total department liabilities at June 30, 2009 were \$19,633,000 lower than the prior year.

At June 30, 2011, the Department had unrestricted net assets of \$20,807,124. At June 30, 2010 and 2009, the Department had unrestricted net assets of \$18,028,766, and \$15,629,324, respectively.

Budget-to-Actual Expenditures

	Year Ended June 30, 2011				
	Original Budget	Revision	Revised Final Budget	Actual Budget Basis	Favorable (Unfavorable) Variance
Budgeted revenues:					
State appropriations	\$ 2,012,836	-	2,012,836	2,012,836	-
Licenses, permits, and fees	10,862,788	-	10,862,788	8,050,351	(2,812,437)
Private funds	-	-	-	-	-
Federal funds	1,653,534	1,415,414	3,068,948	846,758	(2,222,190)
Total budgeted revenues	\$ 14,529,158	1,415,414	15,944,572	10,909,945	(5,034,627)
Budgeted expenditures:					
Personnel and professional services	\$ 11,978,805	1,103,414	13,082,219	9,971,980	3,110,239
Travel and expense reimbursement	298,802	28,000	326,802	180,002	146,800
Contractual services	242,264	42,000	284,264	112,899	171,365
Supplies and materials	29,750	-	29,750	16,796	12,954
Equipment	603,700	86,000	689,700	118,261	571,439
Other	1,338,487	156,000	1,494,487	984,100	510,387
Payments to other state agencies	37,350	-	37,350	31,870	5,480
Total budgeted expenditures	\$ 14,529,158	1,415,414	15,944,572	11,415,908	4,528,664

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)
(Unaudited)

Budget-to-Actual Expenditures, Continued

	Year Ended June 30, 2010				
	Original		Revised	Actual	Favorable
	Budget	Revision	Final Budget	Budget Basis	(Unfavorable) Variance
Budgeted revenues:					
State appropriations	\$ 2,339,826	(172,441)	2,167,385	2,167,383	(2)
Licenses, permits, and fees	10,045,859	457,441	10,503,300	7,180,946	(3,322,354)
Private funds	50,964	200,000	250,964	110,000	(140,964)
Federal funds	<u>1,240,251</u>	<u>-</u>	<u>1,240,251</u>	<u>925,435</u>	<u>(314,816)</u>
 Total budgeted revenues	 <u>\$ 13,676,900</u>	 <u>485,000</u>	 <u>14,161,900</u>	 <u>10,383,764</u>	 <u>(3,778,136)</u>
 Budgeted expenditures:					
Personnel and professional services	\$ 11,020,119	396,540	11,416,659	9,744,111	1,672,548
Travel and expense reimbursement	314,989	5,589	320,578	177,644	142,934
Contractual services	193,815	4,100	197,915	162,949	34,966
Supplies and materials	30,850	-	30,850	28,152	2,698
Equipment	651,675	5,000	656,675	328,006	328,669
Other	1,420,402	73,771	1,494,173	1,194,337	299,836
Payments to other state agencies	<u>45,050</u>	<u>-</u>	<u>45,050</u>	<u>32,242</u>	<u>12,808</u>
 Total budgeted expenditures	 <u>\$ 13,676,900</u>	 <u>485,000</u>	 <u>14,161,900</u>	 <u>11,667,441</u>	 <u>2,494,459</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)
(Unaudited)

Budget-to-Actual Expenditures, Continued

	Year Ended June 30, 2009				
	Original Budget	Revision	Revised Final Budget	Actual Budget Basis	Favorable (Unfavorable) Variance
Budgeted revenues:					
State appropriations	\$ 2,515,943	(3,040)	2,512,903	2,512,903	-
Licenses, permits, and fees	8,908,315	2,070	8,910,385	7,703,469	(1,206,916)
Private Funds	142,541	-	142,541	46,667	(95,874)
Federal funds	<u>1,032,312</u>	<u>-</u>	<u>1,032,312</u>	<u>1,045,217</u>	<u>12,905</u>
Total budgeted revenues	<u>\$ 12,599,111</u>	<u>(970)</u>	<u>12,598,141</u>	<u>11,308,256</u>	<u>(1,289,885)</u>
Budgeted expenditures:					
Personnel and professional services	\$ 10,061,823	37,874	10,099,697	9,007,047	1,092,650
Travel and expense reimbursement	352,085	10,014	362,099	177,353	184,746
Contractual services	304,200	(24,444)	279,756	121,801	157,955
Supplies and materials	29,920	-	29,920	20,949	8,971
Equipment	630,560	(7,500)	623,060	214,881	408,179
Other	1,180,293	(16,914)	1,163,379	1,187,180	(23,801)
Payments to other state agencies	<u>40,230</u>	<u>-</u>	<u>40,230</u>	<u>34,990</u>	<u>5,240</u>
Total budgeted expenditures	<u>\$ 12,599,111</u>	<u>(970)</u>	<u>12,598,141</u>	<u>10,764,201</u>	<u>1,833,940</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)
(Unaudited)

Budget-to-Actual Expenditures, Continued

2011

The final 2011 budgeted total revenues and expenditures varied from the original budget by \$1,415,414 due to the creation of two new budget departments to account for additional grant programs.

In 2011, overall Department expenditures were \$4,528,664 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.

2010

The final 2010 budgeted total revenues and expenditures varied from the original budget by \$485,000 due to the creation of three new budget departments to account for additional grant programs.

In 2010, overall Department expenditures were \$2,494,459 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.

2009

The final 2009 budgeted total revenues and expenditures varied from the original budget by (\$970), which is the result of a reduction in the amount of appropriation from the General Revenue to the agency and realignment of budget to a new budget center.

In 2009, overall Department expenditures were \$1,833,940 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, contractual and equipment.

Capital Assets

As of June 30, 2011, 2010, and 2009, the Department had invested approximately \$1,468,000, \$1,443,000, and \$1,136,000, 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, 2011, 2010, and 2009, totaled approximately \$258,000, \$345,000, and \$143,000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd)
(Unaudited)

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 2012 budget for the Department was approved by the Office of State Finance. Overall, the total budgeted expenditure change is a decrease of \$1 million from fiscal year 2011 and an increase of \$0.78 million from fiscal year 2010. The change in anticipated expenditures, reflected by funding source, is as follows:

<u>Funding Source</u>	<u>2012 Budget Compared to 2011</u>	<u>2011 Budget Compared to 2010</u>
State-appropriated	\$ (140,899)	\$ (154,547)
Revolving funds	316,026	105,000
Other funds	<u>(1,175,127)</u>	<u>1,400,000</u>
 Total budget change	 <u>\$ (1,000,000)</u>	 <u>\$ 1,350,453</u>

For the year ending June 30, 2011, the decrease of approximately \$1.1 million in other funds is primarily due to the agency returning the Premium Rate Review federal grant funds.

Grant Funds:

The Department requested to withdraw from the Premium Rate Review grant of \$1,000,000, awarded in 2010 from the Department of Health and Human Services. The grant was provided to establish a process for the review of health insurance premiums. The unexpended portion of the grant, \$980,000, was returned in May 2011. The Ombudsman Grant Program award of \$415,414, granted in October of 2010, was given a no cost extension to October of 2012. This federal grant will allow states to establish, expand, or provide support for the establishment of independent offices of health insurance consumer assistance or ombudsman programs.

The Department does not anticipate any other significant changes in its grant and non-grant operations, nor are there any items pending which would have a significant effect on the financial position of the Department.

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

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash, including short-term investments	\$ 64,146,926	\$ 62,566,503
Premium and other taxes receivable	19,299,694	14,813,047
Other receivables	<u>45,873</u>	<u>45,093</u>
Total current assets	<u>83,492,493</u>	<u>77,424,643</u>
Noncurrent assets:		
Capital assets, depreciable, net of accumulated depreciation	<u>258,487</u>	<u>344,897</u>
Total assets	<u>\$ 83,750,980</u>	<u>\$ 77,769,540</u>
Liabilities		
Amounts due to:		
General fund of the State of Oklahoma	\$ 19,558,396	\$ 17,869,093
Firefighters Retirement System	13,419,535	11,933,415
Police Retirement System	5,525,691	4,913,759
Law Enforcement Retirement System	1,973,461	1,754,914
State Attorney General	<u>141,375</u>	<u>147,750</u>
	<u>40,618,458</u>	<u>36,618,931</u>
Current liabilities:		
Accounts payable	89,806	117,391
Premium and other tax refunds payable	2,288,417	7,312,869
Deferred revenue	2,432,631	2,556,450
Compensated absences	<u>388,994</u>	<u>533,639</u>
Total liabilities	<u>45,818,306</u>	<u>47,139,280</u>
Net Assets		
Invested in capital assets, net of related debt	258,487	344,897
Restricted for statutorily required transfers	16,867,063	12,256,597
Unrestricted	<u>20,807,124</u>	<u>18,028,766</u>
Total net assets	<u>37,932,674</u>	<u>30,630,260</u>
Total liabilities and net assets	<u>\$ 83,750,980</u>	<u>\$ 77,769,540</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

	<u>REVENUE</u>			
<u>Expenses</u>	<u>Sales and Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>	
Governmental activities:				
General government:				
Operations	\$ (10,459,466)	30,612,291	-	20,152,825
Total general government	<u>(10,459,466)</u>	<u>30,612,291</u>	-	<u>20,152,825</u>
Grant programs	<u>(872,615)</u>	-	<u>846,758</u>	<u>(25,857)</u>
Total governmental activities	<u>\$ (11,332,081)</u>	<u>30,612,291</u>	<u>846,758</u>	<u>20,126,968</u>
General revenues:				
Premium and other taxes				205,862,340
Less refunds				<u>(2,975,966)</u>
Total general revenues				<u>202,886,374</u>
Other uses:				
Transfers in/out:				
Appropriations				2,012,836
Transfers to agency funds				-
General fund of the State of Oklahoma				(121,055,455)
Specific accounts of the State of Oklahoma				<u>(96,668,309)</u>
Total other uses				<u>(215,710,928)</u>
Changes in net assets				7,302,414
Net assets, beginning of year				<u>30,630,260</u>
Net assets, end of year				<u>\$ 37,932,674</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010**

		<u>REVENUE</u>		
	<u>Expenses</u>	<u>Sales and Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Governmental activities:				
General government:				
Operations	\$ (10,508,975)	28,289,752	-	17,780,777
Total general government	<u>(10,508,975)</u>	<u>28,289,752</u>	<u>-</u>	<u>17,780,777</u>
Grant programs	<u>(913,147)</u>	<u>-</u>	<u>925,435</u>	<u>12,288</u>
Total governmental activities	<u>\$ (11,422,122)</u>	<u>28,289,752</u>	<u>925,435</u>	<u>17,793,065</u>
General revenues:				
Premium and other taxes				181,907,806
Less refunds				<u>(7,545,466)</u>
Total general revenues				<u>174,362,340</u>
Other uses:				
Transfers in/out:				
Appropriations				2,215,435
Transfers to agency funds				-
General fund of the State of Oklahoma				(109,513,064)
Specific accounts of the State of Oklahoma				<u>(84,813,299)</u>
Total other uses				<u>(192,110,928)</u>
Changes in net assets				44,477
Net assets, beginning of year				<u>30,585,783</u>
Net assets, end of year				<u>\$ 30,630,260</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

BALANCE SHEETS - GENERAL FUND

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Assets:		
Cash, including short-term investments	\$ 64,146,926	\$ 62,566,503
Premium and other taxes receivable	19,299,694	14,813,047
Other receivables	<u>45,873</u>	<u>45,093</u>
Total assets	<u>\$ 83,492,493</u>	<u>\$ 77,424,643</u>
Liabilities and Fund Balances		
Liabilities:		
Amounts due to:		
General fund of the State of Oklahoma	\$ 19,558,396	\$ 17,869,093
Firefighters Retirement System	13,419,535	11,933,415
Police Retirement System	5,525,691	4,913,759
Law Enforcement Retirement System	1,973,461	1,754,914
Attorney General	<u>141,375</u>	<u>147,750</u>
	<u>40,618,458</u>	<u>36,618,931</u>
Accounts payable	89,806	117,391
Premium and other tax refunds payable	2,288,417	7,312,869
Deferred revenue	<u>17,051,538</u>	<u>12,342,257</u>
Total liabilities	<u>60,048,219</u>	<u>56,391,448</u>
Fund balances:		
Restricted - statutorily required transfers	2,248,156	2,470,790
Assigned - encumbrances	704,268	417,446
Unassigned	<u>20,491,850</u>	<u>18,144,959</u>
Total fund balances	<u>23,444,274</u>	<u>21,033,195</u>
Total liabilities and fund balances	<u>\$ 83,492,493</u>	<u>\$ 77,424,643</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

BALANCE SHEETS - GENERAL FUND (CONTINUED)

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Fund Balances to Net Assets		
Total fund balances from above	\$ 23,444,274	\$ 21,033,195
Amounts reported in the statements of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the fund:		
Capital assets, net of accumulated depreciation of \$1,209,980 and \$1,097,646, at June 30, 2011 and 2010, respectively	258,487	344,897
Certain liabilities are not due and payable in the current period and therefore not reported in the fund:		
Accrued compensated absences	(388,994)	(533,639)
Deferred revenue	<u>14,618,907</u>	<u>9,785,807</u>
Net assets, per statements of net assets	<u>\$ 37,932,674</u>	<u>\$ 30,630,260</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

**STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-GENERAL FUND
June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Revenues:		
Federal grant revenues	\$ 846,758	\$ 925,435
Program income	30,612,291	28,289,752
Premium and other taxes, net of refunds	<u>198,053,274</u>	<u>176,409,676</u>
Total revenues	<u>229,512,323</u>	<u>205,624,863</u>
Expenditures:		
Administrative overhead:		
Executive	824,068	870,259
Comptroller	732,111	859,676
Data processing	556,063	682,617
Legal	1,129,440	1,085,298
Communications	581,620	463,299
Administrative services	<u>239,445</u>	<u>249,405</u>
Total administrative overhead	<u>4,062,747</u>	<u>4,210,554</u>
Agent licensing/title	789,368	806,724
Consumer assistance/claims	917,656	893,173
Premium tax	1,676,877	1,442,638
Life and health	1,226,835	1,117,015
Insure Oklahoma	77,256	132,223
Insure Tulsa	5,420	96,498
Publications and outreach	897,585	992,997
Bail bonds	356,993	513,049
Real estate appraisal	484,266	436,485
Fraud	898,003	950,272
State coverage initiatives program	<u>(2,690)</u>	<u>17,640</u>
Total expenditures	<u>11,390,316</u>	<u>11,609,268</u>
Excess of revenues over expenditures	<u>218,122,007</u>	<u>194,015,595</u>
Other funding sources/uses:		
State appropriations	2,012,836	2,167,383
Regulatory/enforcement appropriations	-	48,052
General fund of the State of Oklahoma	(121,055,455)	(109,513,064)
Specific accounts of the State of Oklahoma	<u>(96,668,309)</u>	<u>(84,813,299)</u>
Total other funding sources/uses	<u>(215,710,928)</u>	<u>(192,110,928)</u>
Net change in fund balances	2,411,079	1,904,667
Fund balances, beginning of year	<u>21,033,195</u>	<u>19,128,528</u>
Fund balances, end of year	<u>\$ 23,444,274</u>	<u>\$ 21,033,195</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

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

For the Year Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Net changes in fund balance - general fund	\$ 2,411,079	\$ 1,904,667
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures, while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:</p>		
Depreciation expense	(170,467)	(173,119)
Capital asset purchases capitalized	<u>84,443</u>	<u>376,756</u>
	<u>(86,024)</u>	<u>203,637</u>
<p>In the statements of activities, the loss on the disposal of capital assets is recognized. The fund financial statements recognize no impact from these dispositions:</p>		
Loss on the disposal of capital assets	(386)	(1,249)
<p>Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
Changes in accrued compensated absences	144,645	(15,241)
<p>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.</p>		
	<u>4,833,100</u>	<u>(2,047,337)</u>
Changes in net assets, per statements of activities	<u>\$ 7,302,414</u>	<u>\$ 44,477</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES-AGENCY FUND

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash, including short-term investments	\$ 272,295	\$ 297,490
 Total assets	 <u>\$ 272,295</u>	 <u>\$ 297,490</u>
 Liabilities		
Amounts due to other parties:		
Premium taxes paid under protest	\$ 161,259	\$ 161,259
Bail bondsmen funds forfeited	<u>111,036</u>	<u>136,231</u>
 Total liabilities	 <u>\$ 272,295</u>	 <u>\$ 297,490</u>

See independent auditor's report and accompanying notes to the basic financial statements.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

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 3 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, licenses 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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 assets and the statements of activities) report information on all of the nonfiduciary activities of the government. Governmental activities are supported by taxes and intergovernmental revenues.

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 2) 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. 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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Presentation and Accounting (Cont'd)

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

Governmental Fund Type - Governmental funds are accounted for using a spending (or financial flow) measurement focus. Only current assets and current liabilities are included on their balance sheets. Their operations present sources and uses of available spendable resources during a given period of time.

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.

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 are required by law to be deposited with the Office of the State Treasurer ("State Treasurer"). 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 and transferred to the State Treasurer, 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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Presentation and Accounting (Cont'd)

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 assets. Capital assets are stated at actual or estimated historical cost in the statements of net assets.

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

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.

Compensated Absences

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

Income Taxes

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

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Presentation and Accounting (Cont'd)

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.

Agency 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 Agency 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 Agency Clearing Account and Protest Escrow Account on a monthly basis to the Firefighters, Police, and Law Enforcement Retirement systems.

Agency Revolving Account - This account operates on a continuing basis. The revenues consist of monies received by the Department and transferred from the Agency 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.

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

Private Grant Account - This account administers monies received from private donors; for example, from the Robert Wood Johnson Foundation. The expenditures for this account are restricted to the uses directed by the grant program.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Presentation and Accounting (Cont'd)

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 Assets

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

- A. *Invested in capital assets, net of related debt* – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- B. *Restricted net assets* – consists of net assets with constraints placed on the use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- C. *Unrestricted net assets* – all other net assets 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 assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Presentation and Accounting (Cont'd)

Equity Classifications, Fund Financial Statements (Cont'd)

Governmental fund equity is classified as fund balance. Beginning with fiscal year 2011, the Department implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- A. *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.
- B. *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.
- C. *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.
- D. *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.
- E. *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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Presentation and Accounting (Cont'd)

Equity Classifications, Fund Financial Statements (Cont'd)

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.

The Department's implementation of Statement 54 did not affect the classification or amounts of the June 30, 2010 fund balance. The previously referred to "*Reserved for Encumbrances*" is now classified as "*Assigned - Encumbrances*" and "*Reserved for Statutorily Required Transfers*" is now classified as "*Restricted - Statutorily Required Transfers*".

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.

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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

2. CASH BALANCES (Cont'd)

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.

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

General Operating Account - The cash balances remaining at June 30, 2011 and 2010, of approximately \$0 and \$64,000, respectively, represent the excess of cash receipts over disbursements and can be carried forward to the next fiscal year. There were no outstanding encumbrances at June 30, 2011 or 2010.

Agency Clearing Account - The cash balances at June 30, 2011 and 2010, of approximately \$51,770,000 and \$51,015,000, respectively, represent 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.

Agency Revolving Account - The cash balances at June 30, 2011 and 2010, of approximately \$11,995,000 and \$11,133,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2011 and 2010 were approximately \$486,000 and \$341,000, respectively.

Private Grant Account - There were no cash balances outstanding in the Private Grant Account as of June 30, 2011 or 2010. The outstanding encumbrances at June 30, 2011 and 2010 were approximately \$0 and \$15,000, respectively.

Federal Grant Program Account - The cash balances at June 30, 2011 and 2010, of approximately \$1,000 and \$5,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2011 and 2010 were approximately \$209,000 and \$18,000, respectively.

OKLAHOMA INSURANCE DEPARTMENT

**NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011 and 2010**

2. CASH BALANCES (Cont'd)

Special Payroll Account - There were no cash balances or outstanding encumbrances in the Special Payroll Account as of June 30, 2011 or 2010.

Insure Tulsa Account – The cash balances at June 30, 2011 and 2010, of approximately \$0 and \$5,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2011 and 2010 were approximately \$0 and \$5,000, respectively.

Real Estate Appraisers Revolving Account - The cash balances remaining at June 30, 2011 and 2010, of approximately \$381,000 and \$344,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2011 and 2010 were approximately \$9,000 and \$38,000, respectively.

Protest Escrow Account - The balance of premium taxes remaining in this account at June 30, 2011 and 2010, of 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, 2011 and 2010, of approximately \$111,000 and \$136,000, 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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

3. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>June 30, 2010</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>June 30, 2011</u>
Capital assets:				
Computer equipment and software	\$ 707,879	58,271	(10,455)	755,695
Office equipment	30,775	553	(1,305)	30,023
Furniture	703,888	25,619	(46,758)	682,749
Total capital assets	<u>1,442,542</u>	<u>84,443</u>	<u>(58,518)</u>	<u>1,468,467</u>
Accumulated depreciation:				
Computer equipment and software	513,081	138,984	(10,455)	641,610
Office equipment	25,599	1,405	(1,305)	25,699
Furniture	558,965	30,078	(46,372)	542,671
Total accumulated depreciation	<u>1,097,645</u>	<u>170,467</u>	<u>(58,132)</u>	<u>1,209,980</u>
Net capital assets	<u>\$ 344,897</u>			<u>258,487</u>

	<u>July 1, 2009</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>June 30, 2010</u>
Capital assets:				
Computer equipment and software	\$ 522,860	217,556	(32,537)	707,879
Office equipment	36,233	6,470	(11,928)	30,775
Furniture	576,616	152,730	(25,458)	703,888
Total capital assets	<u>1,135,709</u>	<u>376,756</u>	<u>(69,923)</u>	<u>1,442,542</u>
Accumulated depreciation:				
Computer equipment and software	400,816	144,802	(32,537)	513,081
Office equipment	35,628	1,899	(11,928)	25,599
Furniture	556,756	26,418	(24,209)	558,965
Total accumulated depreciation	<u>993,200</u>	<u>173,119</u>	<u>(68,674)</u>	<u>1,097,645</u>
Net capital assets	<u>\$ 142,509</u>			<u>344,897</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

3. CAPITAL ASSETS (Cont'd)

Depreciation charged to the functions as of June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Administrative	\$ 62,220	\$ 62,323
Agents licensing/title	11,933	12,118
Consumer assistance/claims	15,342	15,581
Premium tax	27,275	24,237
Life and health	22,161	20,774
Publications and outreach	6,819	6,925
Bail bonds	5,114	8,656
Real estate appraisal	3,408	3,462
Fraud	14,490	15,581
Insure Oklahoma	1,705	1,731
Insure Tulsa	<u>-</u>	<u>1,731</u>
Total depreciation expense	<u>\$ 170,467</u>	<u>\$ 173,119</u>

4. PREMIUM AND OTHER TAXES

Revenues from premium and other taxes consisted of the following for the fiscal years ended June 30:

	<u>2011</u>	<u>2010</u>
Premium taxes	\$ 180,004,918	\$ 165,127,333
Surplus lines taxes	19,431,758	17,614,059
Fire marshal taxes	<u>1,815,199</u>	<u>1,723,765</u>
Total cash basis	201,251,875	184,465,157
Change in accrued taxes	<u>4,610,465</u>	<u>(2,557,351)</u>
Total accrual basis	<u>\$ 205,862,340</u>	<u>\$ 181,907,806</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

4. PREMIUM AND OTHER TAXES (Cont'd)

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. 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. In the governmental fund balance sheets, tax revenues of approximately \$17,052,000 and \$12,342,000 have been deferred in accordance with GASB Statement No. 33, as they have not been earned as of June 30, 2011 and 2010, respectively.

5. COMPENSATED ABSENCES

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

<u>July 1, 2010</u>	<u>Increase</u>	<u>Paid</u>	<u>June 30, 2011</u>
\$ <u>533,639</u>	<u>395,137</u>	<u>(539,782)</u>	<u>388,994</u>
<u>July 1, 2009</u>	<u>Increase</u>	<u>Paid</u>	<u>June 30, 2010</u>
\$ <u>518,398</u>	<u>397,654</u>	<u>(382,413)</u>	<u>533,639</u>

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

6. LEASES

The Department leases operating facilities and equipment on an annual basis. Rent of approximately \$608,000 and \$607,000 was paid under lease agreements for the years ended June 30, 2011 and 2010, respectively. The lease agreements vary in length from 1 to 5 years. Future minimum rental payments under the equipment lease agreements are as follows:

2012	\$	36,073
2013		23,410
2014		12,797
2015		3,423
2016		<u>3,423</u>
	\$	<u>79,126</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

6. LEASES (Cont'd)

The operating lease commitment for the Department's office building rental for the year ended June 30, 2012 is \$291,997.

7. INTERFUND TRANSFERS

Interfund transfers for the years ended June 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Transfers in:		
Appropriations from the general fund of the State of Oklahoma	\$ 2,012,836	\$ 2,167,383
Appropriations from Regulatory/Enforcement actions	-	48,052
Transfers out:		
General fund of the State of Oklahoma	(121,055,455)	(109,513,064)
Firefighters Retirement System	(59,884,843)	(54,150,793)
Police Retirement System	(24,648,957)	(22,287,827)
Law Enforcement Retirement System	(8,799,646)	(7,956,367)
Attorney General	(334,863)	(418,312)
Special Cash Fund of the State Treasury (SB 1561, Sec 103)	<u>(3,000,000)</u>	<u>-</u>
Net transfers	<u>\$ (215,710,928)</u>	<u>\$ (192,110,928)</u>

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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

8. RETIREMENT PLAN (Cont'd)

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 2011	
<u>State Employees</u>	<u>Department</u>
All salary	All salary
3.5%	16.5%

Fiscal Year 2010	
<u>State Employees</u>	<u>Department</u>
All salary	All salary
3.5%	15.5%

The Department's contribution to the Retirement Plan for the year ended June 30, 2011 was approximately \$886,000 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, 2010 and 2009 were \$922,000 and \$816,000, respectively, and were equal to its required contributions for each year.

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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011 and 2010

9. OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN (Cont'd)

Deferred Compensation Plan (Cont'd)

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently \$16,500.

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.

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, 2011 and 2010. The Department believes that it has no liabilities in respect to the Plan.

Employee contributions to the plan for the year ended June 30, 2011 were approximately \$147,000.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011 and 2010

9. OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN (Cont'd)

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 year ended June 30, 2011 were approximately \$31,000.

10. RISK MANAGEMENT

The Risk Management Division of the Department of Central Services (the "Division") is empowered by the authority of Title 74 O.S. Supp. 1993, Section 85.34 Et seq. The Division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for 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.

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 assets or changes in net assets of the Department.

OKLAHOMA INSURANCE DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION

OKLAHOMA INSURANCE DEPARTMENT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET TO ACTUAL (NON-GAAP BUDGET BASIS) - GENERAL FUND**

For the Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Revision</u>	<u>Revised Final Budget</u>	<u>Actual Budget Basis</u>	Favorable (Unfavorable) <u>Variance</u>
Budgeted revenues:					
State appropriations	\$ 2,012,836	-	2,012,836	2,012,836	-
Licenses, permits, and fees	10,862,788	-	10,862,788	8,050,351	(2,812,437)
Private funds	-	-	-	-	-
Federal funds	<u>1,653,534</u>	<u>1,415,414</u>	<u>3,068,948</u>	<u>846,758</u>	<u>(2,222,190)</u>
Total budgeted revenues	<u>14,529,158</u>	<u>1,415,414</u>	<u>15,944,572</u>	<u>10,909,945</u>	<u>(5,034,627)</u>
Budgeted expenditures:					
Personnel and professional services	11,978,805	1,103,414	13,082,219	9,971,980	3,110,239
Travel and expense reimbursement	298,802	28,000	326,802	180,002	146,800
Contractual services	242,264	42,000	284,264	112,899	171,365
Supplies and materials	29,750	-	29,750	16,796	12,954
Equipment	603,700	86,000	689,700	118,261	571,439
Other	1,338,487	156,000	1,494,487	984,100	510,387
Payments to other state agencies	<u>37,350</u>	<u>-</u>	<u>37,350</u>	<u>31,870</u>	<u>5,480</u>
Total budgeted expenditures	<u>14,529,158</u>	<u>1,415,414</u>	<u>15,944,572</u>	<u>11,415,908</u>	<u>4,528,664</u>
 Excess of budgeted revenues over (under) budgeted expenditures	 <u>\$ -</u>	 <u>-</u>	 <u>-</u>	 <u>(505,963)</u>	 <u>(505,963)</u>

See Independent Auditor's Report.

OKLAHOMA INSURANCE DEPARTMENT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET TO ACTUAL (NON-GAAP BUDGET BASIS) - GENERAL FUND**

For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Revision</u>	<u>Revised Final Budget</u>	<u>Actual Budget Basis</u>	Favorable (Unfavorable) <u>Variance</u>
Budgeted revenues:					
State appropriations	\$ 2,339,826	(172,441)	2,167,385	2,167,383	(2)
Licenses, permits, and fees	10,045,859	457,441	10,503,300	7,180,946	(3,322,354)
Private funds	50,964	200,000	250,964	110,000	(140,964)
Federal funds	<u>1,240,251</u>	<u>-</u>	<u>1,240,251</u>	<u>925,435</u>	<u>(314,816)</u>
Total budgeted revenues	<u>13,676,900</u>	<u>485,000</u>	<u>14,161,900</u>	<u>10,383,764</u>	<u>(3,778,136)</u>
Budgeted expenditures:					
Personnel and professional services	11,020,119	396,540	11,416,659	9,744,111	1,672,548
Travel and expense reimbursement	314,989	5,589	320,578	177,644	142,934
Contractual services	193,815	4,100	197,915	162,949	34,966
Supplies and materials	30,850	-	30,850	28,152	2,698
Equipment	651,675	5,000	656,675	328,006	328,669
Other	1,420,402	73,771	1,494,173	1,194,337	299,836
Payments to other state agencies	<u>45,050</u>	<u>-</u>	<u>45,050</u>	<u>32,242</u>	<u>12,808</u>
Total budgeted expenditures	<u>13,676,900</u>	<u>485,000</u>	<u>14,161,900</u>	<u>11,667,441</u>	<u>2,494,459</u>
Excess of budgeted revenues over (under) budgeted expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>(1,283,677)</u>	<u>(1,283,677)</u>

See Independent Auditor's Report.

OKLAHOMA INSURANCE DEPARTMENT

**RECONCILIATIONS OF NON-GAAP BUDGET BASIS TO GAAP - SCHEDULES OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES- GENERAL FUND
For the Years ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Excess of budgeted revenues (under) over budgeted expenditures	\$ (505,963)	\$ (1,283,677)
Other revenues:		
Taxes	201,251,875	184,465,157
Less refunds	<u>(8,000,417)</u>	<u>(6,446,661)</u>
Net taxes	<u>193,251,458</u>	<u>178,018,496</u>
Licenses, permits, and fees	21,227,722	20,285,980
Less refunds	(47,708)	(454,383)
Fines, forfeitures, and penalties	990,658	646,252
Sales and services	168,432	171,727
Regulatory/enforcement appropriation	-	48,052
Other grants and reimbursements	<u>264,056</u>	<u>395,396</u>
Total other revenues	<u>215,854,618</u>	<u>199,111,520</u>
Excess of budgeted and other revenues over budgeted expenditures	<u>215,348,655</u>	<u>197,827,843</u>
Other uses:		
Transfers in/out:		
General fund	(119,366,152)	(91,643,971)
Specific accounts	<u>(94,358,085)</u>	<u>(84,450,409)</u>
Total other uses	<u>(213,724,237)</u>	<u>(176,094,380)</u>
Revenues (less than) greater than expenditures and other uses	<u>1,624,418</u>	<u>21,733,463</u>
Changes in accrual not reflected in the actual budgeted revenues and expenditures:		
Premium taxes	(222,635)	(510,015)
Premium tax refunds	5,024,451	(1,098,805)
General fund of the State of Oklahoma transfers	(1,689,303)	(17,869,093)
Specific accounts of the State of Oklahoma transfers	(2,310,224)	(362,890)
Other grants and reimbursements	780	(4,166)
Personnel and professional services	<u>(16,408)</u>	<u>16,173</u>
Excess of revenues over (under) expenditures and other uses	<u>786,661</u>	<u>(19,828,796)</u>
Excess of revenues over (under) expenditures and other uses	2,411,079	1,904,667
Fund balances, beginning of year	<u>21,033,195</u>	<u>19,128,528</u>
Fund balances, end of year	<u>\$ 23,444,274</u>	<u>\$ 21,033,195</u>

See independent auditor's report and accompanying note to the reconciliations.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO THE RECONCILIATIONS

June 30, 2011 and 2010

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 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,
- Agency Clearing Account,
- Agency Revolving Account,
- Private Grant Account,
- Federal Grant Program Account,
- Special Payroll Account,
- Insure Tulsa Account, and
- Real Estate Appraisers Revolving Account.

All revisions to the budget must be approved by the Oklahoma Office of State Finance.

See independent auditor's report.

OKLAHOMA INSURANCE DEPARTMENT

**REPORTS AND SCHEDULES REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133**

**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**

State of Oklahoma
Oklahoma Insurance Department

We have audited the accompanying 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, 2011, which collectively comprise the Department's basic financial statements and have issued our report thereon dated September 21, 2011. Our report includes an explanatory paragraph regarding Management's Discussion and Analysis and the budgetary comparison information, and a 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. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of 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.

This report is intended solely for the information and use of management, others within the Department, the State of Oklahoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Edmond, Oklahoma
September 21, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

State of Oklahoma
Oklahoma Insurance Department

Compliance

We have audited the Oklahoma Insurance Department's (the "Department") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2011. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of 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 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. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133, 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Department, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, others within the Department, the State of Oklahoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Edmond, Oklahoma
September 21, 2011

OKLAHOMA INSURANCE DEPARTMENT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Department of Health and Human Services			
Special Programs for the Aging - Title IV and Title II - Discretionary Projects -			
Senior Medicare Patrol/Senior Medicare Patrol Integration Program	93.048	90MP0082/01 and 90AM2952/06	\$ 168,067
Senior Medicare Patrol/Senior Medicare Patrol Integration Program Expansion Project	93.048	90MP0071/01	<u>32,403</u>
Special Programs for the Aging Subtotal			<u>200,470</u>
 Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	 93.511	 1IPRPR100033-01-00	 <u>19,980</u>
 Affordable Care Act (ACA) Consumer Assistance Program Grants	 93.519	 1CAPCA110005-01-00 and 4CAPCA110005-01-02	 <u>40,965</u>
 Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations -			
State Health Insurance Assistance Program	93.779	1N0CMS020203-18-02 and 1N0CMS020203-19-00	548,852
Medicare Improvements for Patients and Providers Act	93.779	IX0CMS030412/01	44,510
Medicare Improvements for Patients and Providers Act Expansion Project	93.779	IX0CMS330785-01-00	<u>17,838</u>
CMS Programs Subtotal			<u>611,200</u>
Total Federal Expenditures			<u>\$ 872,615</u>

OKLAHOMA INSURANCE DEPARTMENT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified
not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified
not considered to be material weakness(es)? yes X none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.779	Department of Health and Human Services- State Health Insurance Assistance Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

OKLAHOMA INSURANCE DEPARTMENT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

OKLAHOMA INSURANCE DEPARTMENT
OTHER SUPPLEMENTARY INFORMATION

OKLAHOMA INSURANCE DEPARTMENT

Schedule I

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE OF RECEIPTS, TRANSFERS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE
June 30, 2011

	General Operating Account	Agency Clearing Account	Agency Revolving Account	Private Grant Account	Federal Grant Program Account	Special Payroll Account	Insure Tulsa Account	Real Estate Appraisers Revolving Account	Total (Cash Basis)	Protest Escrow Account	Fiduciary Bail Bondsmen Account
Receipts:											
State appropriations	\$ 2,012,836	-	-	-	-	-	-	-	2,012,836	-	-
Premium and other taxes	-	201,251,875	-	-	-	-	-	-	201,251,875	-	-
Less refunds	-	(8,000,419)	-	-	-	-	-	-	(8,000,419)	-	-
Net taxes	-	193,251,456	-	-	-	-	-	-	193,251,456	-	-
Licenses, permits, and fees	-	29,278,073	-	-	-	-	-	-	29,278,073	-	-
Less refunds	-	(47,708)	-	-	-	-	-	-	(47,708)	-	(25,195)
Fines, forfeitures, and penalties	-	990,658	-	-	-	-	-	-	990,658	-	-
Sales and services	-	168,432	-	-	-	-	-	-	168,432	-	-
Other grants and reimbursements	-	264,056	-	-	-	-	-	-	264,056	-	-
Federal funds	-	-	-	-	846,758	-	-	-	846,758	-	-
Total receipts	2,012,836	223,904,967	-	-	846,758	-	-	-	226,764,561	-	(25,195)
Transfers:											
Ins Commission Funds	(2,076,622)	-	(6,379,698)	-	(373,876)	9,013,690	-	(183,494)	-	-	-
Revolving 200	-	(11,867,579)	11,867,579	-	-	-	-	-	-	-	-
Revolving 225	-	(558,861)	-	-	-	-	-	558,861	-	-	-
Gen Fund of State	-	(119,366,152)	-	-	-	-	-	-	(119,366,152)	-	-
Special Accis—State	-	(91,358,085)	(3,000,000)	-	-	-	-	-	(94,358,085)	-	-
Total transfers	(2,076,622)	(223,150,677)	2,487,881	-	(373,876)	9,013,690	-	375,367	(213,724,237)	-	-
Disbursements	-	-	1,625,656	-	477,370	9,013,690	5,420	337,765	11,459,901	-	-
Receipts (less than) greater than disbursements	(63,786)	754,290	862,225	-	(4,488)	-	(5,420)	37,602	1,580,423	-	(25,195)
Cash balance, beginning of year	63,786	51,015,339	11,133,087	-	5,350	-	5,420	343,521	62,566,503	161,259	136,231
Cash balance, end of year	\$ -	51,769,629	11,995,312	-	862	-	-	381,123	64,146,926	161,259	111,036

See independent auditor's report.