

OKLAHOMA INSURANCE DEPARTMENT

**ANNUAL FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 and 2013**

OKLAHOMA INSURANCE DEPARTMENT

FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2014 and 2013

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OKLAHOMA INSURANCE DEPARTMENT

FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

State of Oklahoma
Oklahoma Insurance Department

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oklahoma Insurance Department (the "Department") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department as of June 30, 2014 and 2013, and the respective changes in financial position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Oklahoma that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2014 and 2013, the changes in its financial position, in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The other supplementary information, as listed in the Table of contents, is presented for purposes of additional analysis and is not required part of the basic financial statements. This information is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 20, 2014

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, 2014, 2013, and 2012.

Financial Highlights

2014

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

2013

- During 2013, the Department earned revenues of \$289 million, which included net revenues of \$252 million of premium and other taxes, net of refunds. This is an increase of approximately \$46 million in total revenues from the prior year.
- Approximately 64% of expenditures during fiscal year 2013 related to direct regulatory and enforcement activities.
- The net position of the Department increased \$2.4 million, resulting in a net position of \$32.9 million at June 30, 2013.

2012

- During 2012, the Department earned revenues of \$243 million, which included net revenues of \$223 million of premium and other taxes, net of refunds. This is an increase of approximately \$9 million in total revenues from the prior year.
- Approximately 65% of expenditures during fiscal year 2012 related to direct regulatory and enforcement activities.
- The net position of the Department decreased \$7.4 million, resulting in a net position of \$30.5 million at June 30, 2012.

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

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

Fund Financial Statements

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

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

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

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

Government-Wide Financial Analysis

The Department's net position is reported as follows:

Oklahoma Insurance Department's Net Position

	<u>2014</u>	Restated <u>2013</u>	<u>2012</u>
Current assets	\$ 95,679,938	\$ 89,780,715	\$ 77,940,112
Capital assets, net	<u>248,061</u>	<u>311,653</u>	<u>210,939</u>
Total assets	<u>95,927,999</u>	<u>90,092,368</u>	<u>78,151,051</u>
 Current liabilities	 <u>58,891,236</u>	 <u>57,252,883</u>	 <u>47,693,778</u>
 Net position:			
Invested in capital assets, net of related debt	248,061	311,653	210,939
Restricted for statutorily required transfers	25,086,648	26,930,232	24,026,880
Unrestricted	<u>11,702,054</u>	<u>5,597,600</u>	<u>6,219,454</u>
 Total net position	 <u>\$ 37,036,763</u>	 <u>\$ 32,839,485</u>	 <u>\$ 30,457,273</u>

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

Government-Wide Financial Analysis, Continued

Oklahoma Insurance Department's Changes in Net Position			
	<u>2014</u>	Restated <u>2013</u>	<u>2012</u>
Program revenues:			
Charges for service	\$ 40,825,645	\$ 35,800,545	\$ 18,896,538
Sales and service	126,674	100,842	170,512
Federal operating grant revenue	<u>949,953</u>	<u>1,286,190</u>	<u>1,248,042</u>
Total program revenues	41,902,272	37,187,577	20,315,092
General revenues:			
Premium and other taxes, net of refunds	<u>255,615,301</u>	<u>252,049,212</u>	<u>222,716,252</u>
Total revenues	297,517,573	289,236,789	243,031,344
Total expenses	<u>12,835,183</u>	<u>13,398,482</u>	<u>11,898,909</u>
Excess of revenues before transfers	<u>284,682,390</u>	<u>275,838,307</u>	<u>231,132,435</u>
Transfers in/out:			
Appropriations	1,871,937	1,871,937	1,871,937
General fund of the State of Oklahoma	(151,935,431)	(151,761,057)	(128,840,508)
Specific accounts of the State of Oklahoma and net transfers to agency funds	<u>(130,421,618)</u>	<u>(123,566,975)</u>	<u>(111,639,265)</u>
Total transfers in/out	<u>(280,485,112)</u>	<u>(273,456,095)</u>	<u>(238,607,836)</u>
Changes in net position	4,197,278	2,382,212	(7,475,401)
Net position, beginning of year	<u>32,839,485</u>	<u>30,457,273</u>	<u>37,932,674</u>
Net position, end of year	<u>\$ 37,036,763</u>	<u>\$ 32,839,485</u>	<u>\$ 30,457,273</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, 2014, 2013, and 2012.

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 2014, 2013, and 2012 with the exception of appointment fees which have transitioned from biennial to annual collections. The Department experienced a 1.4% increase in premium and other taxes for fiscal year 2014 and a 13% increase in premium and other taxes for fiscal year 2013. 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 \$3,566,089 for fiscal year 2014. There was an overall increase of tax revenue of \$29,332,960 and an increase of \$19,829,878 for fiscal years 2013, and 2012, 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 2014, 2013, and 2012 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, 2014 were approximately \$1,638,000 more than the prior year. Total department liabilities at June 30, 2013 were \$9,559,000 more than the prior year and total department liabilities at June 30, 2012 were \$1,875,000 less than the previous year.

At June 30, 2014, the Department had unrestricted net position of \$11,702,054. At June 30, 2013 and 2012, the Department had unrestricted net position of \$5,597,600, and \$6,219,454, respectively.

Budget-to-Actual Expenditures

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

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

Budget-to-Actual Expenditures, Continued

	Year Ended June 30, 2013				
	Original Budget	Revision	Revised Final Budget	Actual Budget Basis	Favorable (Unfavorable) Variance
Budgeted revenues:					
State appropriations	\$ 1,871,937	-	1,871,937	1,871,937	-
Licenses, permits, and fees	11,966,690	-	11,966,690	9,738,805	(2,227,885)
Federal funds	<u>1,661,373</u>	<u>-</u>	<u>1,661,373</u>	<u>1,286,190</u>	<u>(375,183)</u>
Total budgeted revenues	<u>\$ 15,500,000</u>	<u>-</u>	<u>15,500,000</u>	<u>12,896,932</u>	<u>(2,603,068)</u>
Budgeted expenditures:					
Personnel and professional services	\$ 12,002,945	-	12,002,945	11,033,486	969,459
Travel and expense reimbursement	407,980	-	407,980	211,312	196,668
Contractual services	243,695	-	243,695	148,566	95,129
Supplies and materials	429,910	(358,500)	71,410	97,571	(26,161)
Equipment	236,400	392,000	628,400	251,786	376,614
Other	2,121,495	(33,500)	2,087,995	1,434,666	653,329
Payments to other state agencies	<u>57,575</u>	<u>-</u>	<u>57,575</u>	<u>42,665</u>	<u>14,910</u>
Total budgeted expenditures	<u>\$ 15,500,000</u>	<u>-</u>	<u>15,500,000</u>	<u>13,220,052</u>	<u>2,279,948</u>

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

Budget-to-Actual Expenditures, Continued

Year Ended June 30, 2012					
	Original Budget	Revision	Revised Final Budget	Actual Budget Basis	Favorable (Unfavorable) Variance
Budgeted revenues:					
State appropriations	\$ 1,871,937	-	1,871,937	1,871,937	-
Licenses, permits, and fees	11,178,814	-	11,178,814	6,406,194	(4,772,620)
Federal funds	<u>1,893,821</u>	<u>-</u>	<u>1,893,821</u>	<u>1,248,042</u>	<u>(645,779)</u>
Total budgeted revenues	<u>\$ 14,944,572</u>	<u>-</u>	<u>14,944,572</u>	<u>9,526,173</u>	<u>(5,418,399)</u>
Budgeted expenditures:					
Personnel and professional services	\$ 11,441,886	-	11,441,886	9,927,912	1,513,974
Travel and expense reimbursement	302,010	-	302,010	215,774	86,236
Contractual services	287,899	-	287,899	138,738	149,161
Supplies and materials	30,501	-	30,501	33,890	(3,389)
Equipment	477,740	-	477,740	273,864	203,876
Other	2,358,711	-	2,358,711	1,082,538	1,276,173
Payments to other state agencies	<u>45,825</u>	<u>-</u>	<u>45,825</u>	<u>24,605</u>	<u>21,220</u>
Total budgeted expenditures	<u>\$ 14,944,572</u>	<u>-</u>	<u>14,944,572</u>	<u>11,697,321</u>	<u>3,247,251</u>

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

Budget-to-Actual Expenditures, Continued

2014

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

In 2014, overall Department expenditures were \$2,654,162 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, equipment and other expenditures. The Department usually budgets to its limits but attempts to keep expenditures at a level close to or below the actual revenue for the year so as not to deplete its reserves.

2013

There were no variances between the final 2013 budgeted total revenues and expenditures and the original budget. The budget revisions were created to change the funding source for the Anti-Fraud division from the Commissioner's Revolving fund to the Anti-Fraud Fund.

In 2013, overall Department expenditures were \$2,279,948 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.

2012

There were no variances between the final 2012 budgeted total revenues and expenditures and the original budget.

In 2012, overall Department expenditures were \$3,247,251 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, equipment and other expenditures. The Department usually budgets to its limits but attempts to keep expenditures at a level close to or below the actual revenue for the year so as not to deplete its reserves.

Capital Assets

As of June 30, 2014, 2013, and 2012, the Department had total investments of \$1,715,869, \$1,652,979, and \$1,501,476, 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, 2014, 2013, and 2012, totaled \$248,061, \$311,653, and \$210,939, 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 2015 budget for the Department was approved by the Office of Management & Enterprise Services. The change in anticipated expenditures, which will have no effect on future operations, is reflected by funding sources as follows:

<u>Funding Source</u>	<u>2015 Budget Compared to 2014</u>	<u>2014 Budget Compared to 2013</u>
State-appropriated	\$ (102,957)	\$ -
Revolving funds	724,183	(280,810)
Other funds	<u>(121,226)</u>	<u>280,810</u>
 Total budget change	 <u>\$ 500,000</u>	 <u>\$ -</u>

For the year ending June 30, 2015, the change in funding is due to a legislated decrease of \$102,957 in the agency's appropriation which the agency had to fund from its revolving funds; a decrease of \$121,226 in grant funding for agency programs that will remain active through the use of revolving funds; and a \$500,000 overall budget increase to create a Pharmacy Benefit Management program as mandated by recent legislation.

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 POSITION

June 30, 2014 and 2013

	2014	Restated 2013
Assets		
Current assets:		
Cash, including short-term investments	\$ 65,278,276	\$ 58,555,424
Premium and other taxes receivable	30,390,827	31,189,429
Other receivables	10,835	35,862
Total current assets	<u>95,679,938</u>	<u>89,780,715</u>
Noncurrent assets:		
Capital assets, depreciable, net of accumulated depreciation	<u>248,061</u>	<u>311,653</u>
Total assets	<u>\$ 95,927,999</u>	<u>\$ 90,092,368</u>
Liabilities		
Amounts due to:		
General fund of the State of Oklahoma	\$ 23,053,176	\$ 23,349,148
Firefighters Retirement System	16,875,273	16,068,488
Police Retirement System	6,562,606	6,616,436
Law Enforcement Retirement System	2,343,788	2,363,013
State Attorney General	276,963	118,125
	<u>49,111,806</u>	<u>48,515,210</u>
Current liabilities:		
Accounts payable	323,352	357,546
Premium and other tax refunds payable	3,558,414	3,532,958
Unearned tax revenue	5,304,179	4,259,197
Compensated absences	593,485	587,972
Total liabilities	<u>58,891,236</u>	<u>57,252,883</u>
Net Position		
Invested in capital assets, net of related debt	248,061	311,653
Restricted for statutorily required transfers	25,086,648	26,930,232
Unrestricted	11,702,054	5,597,600
Total net position	<u>37,036,763</u>	<u>32,839,485</u>
Total liabilities and net position	<u>\$ 95,927,999</u>	<u>\$ 90,092,368</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, 2014

		REVENUE		
	Expenses	Sales and Charges for Service	Operating Grants and Contributions	Net (Expense) Revenue
Governmental activities:				
General government:				
Operations	\$ 11,857,621	40,952,319	-	29,094,698
Total general government	11,857,621	40,952,319	-	29,094,698
Grant programs	977,562	-	949,953	(27,609)
Total governmental activities	\$ 12,835,183	40,952,319	949,953	29,067,089
General revenues:				
Premium and other taxes				260,470,731
Less refunds				(4,855,430)
Total general revenues				255,615,301
Other uses:				
Transfers in/out:				
Appropriations				1,871,937
General fund of the State of Oklahoma				(151,935,431)
Specific accounts of the State of Oklahoma				(130,421,618)
Total other uses				(280,485,112)
Changes in net position				4,197,278
Net position, beginning of year, as restated				32,839,485
Net position, end of year				\$ 37,036,763

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, 2013

		REVENUE		Restated
		Sales and Charges for Service	Operating Grants and Contributions	Net (Expense) Revenue
	Expenses			
Governmental activities:				
General government:				
Operations	\$ 12,142,502	35,901,387	-	23,758,885
Total general government	12,142,502	35,901,387	-	23,758,885
Grant programs	1,255,980	-	1,286,190	30,210
Total governmental activities	\$ 13,398,482	35,901,387	1,286,190	23,789,095
General revenues:				
Premium and other taxes				256,231,647
Less refunds				(4,182,435)
Total general revenues				252,049,212
Other uses:				
Transfers in/out:				
Appropriations				1,871,937
General fund of the State of Oklahoma				(151,761,057)
Specific accounts of the State of Oklahoma				(123,566,975)
Total other uses				(273,456,095)
Changes in net position				2,382,212
Net position, beginning of year				30,457,273
Net position, end of year				\$ 32,839,485

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

OKLAHOMA INSURANCE DEPARTMENT

BALANCE SHEETS - GENERAL FUND

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Assets:		
Cash, including short-term investments	\$ 65,278,276	\$ 58,555,424
Premium and other taxes receivable	30,390,827	31,189,429
Other receivables	<u>10,835</u>	<u>35,862</u>
Total assets	<u>\$ 95,679,938</u>	<u>\$ 89,780,715</u>
Liabilities, Deferred Inflows and Fund Balances		
Liabilities:		
Amounts due to:		
General fund of the State of Oklahoma	\$ 23,053,176	\$ 23,349,148
Firefighters Retirement System	16,875,273	16,068,488
Police Retirement System	6,562,606	6,616,436
Law Enforcement Retirement System	2,343,788	2,363,013
Attorney General	<u>276,963</u>	<u>118,125</u>
	<u>49,111,806</u>	<u>48,515,210</u>
Accounts payable	323,352	357,546
Premium and other tax refunds payable	3,558,414	3,532,958
Unearned revenue	<u>5,304,179</u>	<u>4,259,197</u>
Total liabilities	<u>58,297,751</u>	<u>56,664,911</u>
Deferred inflows of resources:		
Deferred revenue	<u>19,018,918</u>	<u>21,278,540</u>
Fund balances:		
Restricted - statutorily required transfers	6,067,730	5,651,691
Assigned - encumbrances	1,776,657	1,960,014
Unassigned	<u>10,518,882</u>	<u>4,225,559</u>
Total fund balances	<u>18,363,269</u>	<u>11,837,264</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 95,679,938</u>	<u>\$ 89,780,715</u>

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

OKLAHOMA INSURANCE DEPARTMENT

BALANCE SHEETS - GENERAL FUND (CONTINUED)

June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
Reconciliation of Fund Balances to Net Position		
Total fund balances from above	\$ 18,363,269	\$ 11,837,264
Amounts reported in the statements of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the fund:		
Capital assets, net of accumulated depreciation of \$1,467,808 and \$1,341,026, at June 30, 2014 and 2013, respectively	248,061	311,653
Certain liabilities are not due and payable in the current period and therefore not reported in the fund:		
Accrued compensated absences	(593,485)	(587,972)
Deferred inflows of resources - deferred inflows that do not meet the earnings criteria and are therefore reported in the fund:		
Deferred revenue	<u>19,018,918</u>	<u>21,278,540</u>
Net position, per statements of net position	<u>\$ 37,036,763</u>	<u>\$ 32,839,485</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 For the Year Ended June 30, 2014 and 2013

	2014	2013
Revenues:		
Federal grant revenues	\$ 949,953	\$ 1,286,190
Program income	40,952,319	35,901,387
Premium and other taxes, net of refunds	257,874,924	251,080,413
Total revenues	299,777,196	288,267,990
Expenditures:		
Administrative overhead:		
Executive	913,247	979,362
Comptroller	756,612	762,574
Data processing	408,353	417,810
Legal	1,113,820	1,091,611
Communications	712,204	583,231
Marketing	-	119,956
Government Relations/Public Affairs	245,965	379,039
Field Operations	234,216	353,999
Administrative services	134,186	129,060
Total administrative overhead	4,518,603	4,816,642
Agent licensing/title	627,200	809,099
Consumer assistance/claims	916,424	843,365
Premium Tax / Financial Services	2,534,893	2,322,070
Life and health	912,325	1,096,974
Insure Oklahoma	90,092	94,554
Publications and outreach	1,149,154	1,294,021
Bail bonds	314,301	326,154
Real estate appraisal	449,585	477,051
Fraud	976,090	1,162,783
ISO Advocacy	277,412	112,348
State coverage initiatives program	-	(149)
Total expenditures	12,766,079	13,354,912
Excess of revenues over expenditures	287,011,117	274,913,078
Other funding sources/uses:		
State appropriations	1,871,937	1,871,937
General fund of the State of Oklahoma	(151,935,431)	(151,761,057)
Specific accounts of the State of Oklahoma	(130,421,618)	(123,566,975)
Total other funding sources/uses	(280,485,112)	(273,456,095)
Net change in fund balances	6,526,005	1,456,983
Fund balances, beginning of year	11,837,264	10,380,281
Fund balances, end of year	\$ 18,363,269	\$ 11,837,264

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, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
Net changes in fund balance - general fund	\$ 6,526,005	\$ 1,456,983
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures, while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:		
Depreciation expense	(135,742)	(137,600)
Capital asset purchases capitalized	<u>72,150</u>	<u>239,105</u>
	<u>(63,592)</u>	<u>101,505</u>
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:		
Loss on the disposal of capital assets	-	(791)
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:		
Changes in accrued compensated absences	(5,513)	(144,283)
Because some premium taxes will not be collected for several months after the Department's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental fund.		
	<u>(2,259,622)</u>	<u>968,798</u>
Changes in net position, per statements of activities	<u>\$ 4,197,278</u>	<u>\$ 2,382,212</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash, including short-term investments	<u>\$ 263,147</u>	<u>\$ 289,915</u>
Total assets	<u><u>\$ 263,147</u></u>	<u><u>\$ 289,915</u></u>
Liabilities		
Amounts due to other parties:		
Premium taxes paid under protest	<u>\$ 161,259</u>	<u>\$ 161,259</u>
Bail bondsmen funds forfeited	<u>101,888</u>	<u>128,656</u>
Total liabilities	<u><u>\$ 263,147</u></u>	<u><u>\$ 289,915</u></u>

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

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

Reporting Entity

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

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

The Department also regulates the investment practices of insurance companies, approves new policy forms and reinsurance agreements, processes complaints made by the public against insurers, 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, 2014 and 2013

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 position and the statements of activities) report information on all of the non-fiduciary activities of the government. Governmental activities are supported by taxes and intergovernmental revenues.

The statements of activities demonstrate the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with the Department's function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the Department's function, and 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. Revenues measurable but not available are reported as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The major revenue source susceptible to accrual is premium taxes.

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

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 current financial resources) measurement focus. Only current assets and current liabilities are included on their balance sheets. Their operations present sources and uses of available spendable resources during a given period of time.

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

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, 2014 and 2013

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

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

Computer equipment and software	3 years
Office equipment	5 years
Furniture	7 years

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

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 current liability in the statements of net position. Sick leave does not vest to the employee and, therefore, is not recorded as a liability.

Income Taxes

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

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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.

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

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

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

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

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

Basis of Presentation and Accounting (Cont'd)

Cash Accounts (Cont'd)

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

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

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

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

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 Position

Equity is classified as net position 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 position* – consists of net position with constraints placed on the use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- C. *Unrestricted net position* – all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the Department's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

- 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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

Basis of Presentation and Accounting (Cont'd)

Equity Classifications, Fund Financial Statements (Cont'd)

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

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

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, 2014 and 2013

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, 2014 and 2013, of approximately \$0 and \$0, 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, 2014 or 2013.

Department Clearing Account - The cash balances at June 30, 2014 and 2013, of approximately \$54,444,000 and \$45,102,000, 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.

Department Revolving Account - The cash balances at June 30, 2014 and 2013, of approximately \$8,744,000 and \$10,519,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2014 and 2013 were approximately \$1,133,000 and \$1,578,000, respectively.

Federal Grant Program Account - The cash balances at June 30, 2014 and 2013, of approximately \$19,000 and \$7,200, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2014 and 2013 were approximately \$247,000 and \$217,000, respectively.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2014 or 2013.

Real Estate Appraisers Revolving Account - The cash balances remaining at June 30, 2014 and 2013, of approximately \$560,000 and \$472,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2014 and 2013 were approximately \$300,000 and \$104,000, respectively.

Anti-Fraud Account - The cash balance at June 30, 2014 and 2013, of approximately \$1,510,000 and \$2,456,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2014 and 2013 were approximately \$96,000 and \$60,000, respectively.

Protest Escrow Account - The balance of premium taxes remaining in this account at June 30, 2014 and 2013, 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, 2014 and 2013, of approximately \$102,000 and \$129,000, 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, 2014 and 2013

3. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>July 1, 2013</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>June 30, 2014</u>
Capital assets:				
Computer equipment and software	\$820,861	66,940	(8,400)	\$ 879,401
Office equipment	199,427	3,918	(560)	202,785
Furniture	<u>632,391</u>	<u>1,292</u>	<u>-</u>	<u>633,683</u>
Total capital assets	<u>1,652,679</u>	<u>72,150</u>	<u>(8,960)</u>	<u>1,715,869</u>
Accumulated depreciation:				
Computer equipment and software	759,486	66,683	(8,400)	817,769
Office equipment	53,049	38,433	(560)	90,922
Furniture	<u>528,491</u>	<u>30,626</u>	<u>-</u>	<u>559,117</u>
Total accumulated depreciation	<u>1,341,026</u>	<u>135,742</u>	<u>(8,960)</u>	<u>1,467,808</u>
Net capital assets	<u>\$ 311,653</u>			<u>\$ 248,061</u>
	<u>July 1, 2012</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>June 30, 2013</u>
Capital assets:				
Computer equipment and software	\$ 811,515	51,015	(41,669)	\$ 820,861
Office equipment	18,785	180,642	-	199,427
Furniture	<u>671,177</u>	<u>7,448</u>	<u>(46,234)</u>	<u>632,391</u>
Total capital assets	<u>1,501,477</u>	<u>239,105</u>	<u>(87,903)</u>	<u>1,652,679</u>
Accumulated depreciation:				
Computer equipment and software	734,177	66,745	(41,436)	759,486
Office equipment	15,400	37,649	-	53,049
Furniture	<u>540,961</u>	<u>33,206</u>	<u>(45,676)</u>	<u>528,491</u>
Total accumulated depreciation	<u>1,290,538</u>	<u>137,600</u>	<u>(87,112)</u>	<u>1,341,026</u>
Net capital assets	<u>\$ 210,939</u>			<u>\$ 311,653</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

3. CAPITAL ASSETS (Cont'd)

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

	<u>2014</u>	<u>2013</u>
Administrative	\$ 50,692	\$ 50,637
Agents licensing/title	6,820	8,118
Consumer assistance/claims	11,606	10,595
Premium tax	29,044	28,208
Life and health	11,792	14,310
Publications and outreach	7,485	7,981
Bail bonds	4,025	3,990
Real estate appraisal	2,527	2,477
Fraud	10,745	10,320
Insure Oklahoma	<u>1,006</u>	<u>964</u>
Total depreciation expense	<u>\$ 135,742</u>	<u>\$ 137,600</u>

4. PREMIUM AND OTHER TAXES

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

	<u>2014</u>	Restated <u>2013</u>
Premium taxes	\$ 229,310,335	\$ 224,791,785
Surplus lines taxes	30,627,678	26,348,143
Fire marshal taxes	<u>2,376,303</u>	<u>2,188,365</u>
Total cash basis	262,314,316	253,328,293
Change in accrued taxes	<u>(1,843,585)</u>	<u>2,903,354</u>
Total accrual basis	<u>\$ 260,470,731</u>	<u>\$ 256,231,647</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 and are recorded on a cash basis. Premium taxes due June 15 that have not been paid as of June 30 are considered a receivable at June 30, as such amounts are measurable and available. In the governmental fund balance sheets, tax revenues of approximately \$24,323,000 and \$25,538,000 have been reported as a liability (unearned revenue) and as a deferred inflow of resources in accordance with GASB Statement No. 33, as amended by GASB Statement No. 65, as they have not been earned as of June 30, 2014 and 2013, respectively.

5. COMPENSATED ABSENCES

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

<u>July 1, 2013</u>	<u>Increase</u>	<u>Paid</u>	<u>June 30, 2014</u>
\$ 587,972	411,397	(405,884)	593,485
<u>July 1, 2012</u>	<u>Increase</u>	<u>Paid</u>	<u>June 30, 2013</u>
\$ 443,689	414,844	(270,561)	587,972

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

6. LEASES

The Department leases operating facilities and equipment on an annual basis. Rent of approximately \$627,000 and \$649,000 was paid under lease agreements for the years ended June 30, 2014 and 2013, respectively. The lease agreements vary in length from 1 to 5 years. Future minimum rental payments under the equipment lease agreements are as follows:

2015	\$ 38,234
2016	17,612
2017	<u>3,139</u>
	<u>\$ 58,985</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

6. LEASES (Cont'd)

The operating lease commitment for the Department's office building rental for the year ended June 30, 2015 is \$336,000.

7. INTERFUND TRANSFERS

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

	<u>2014</u>	<u>2013</u>
Transfers in:		
Appropriations from the general fund of the State of Oklahoma	\$ 1,871,937	\$ 1,871,937
Transfers out:		
General fund of the State of Oklahoma	(151,935,431)	(151,761,057)
Firefighters Retirement System	(79,545,329)	(76,310,728)
Police Retirement System	(31,329,401)	(31,412,504)
Law Enforcement Retirement System	(11,185,500)	(11,215,180)
Attorney General	(361,388)	(628,563)
Special Cash Fund of the State		
Treasury (HB 2301, Sec 135)	(8,000,000)	-
Treasury (SB 1975, Sec 148)	<u>-</u>	<u>(4,000,000)</u>
Net transfers	<u>\$ (280,485,112)</u>	<u>\$ (273,456,095)</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

8. RETIREMENT PLAN

Description

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

Funding Policy

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

Fiscal Year 2014	
State Employees	Department
All salary	All salary
3.5%	16.5%

Fiscal Year 2013	
State Employees	Department
All salary	All salary
3.5%	16.5%

The Department's contribution to the Retirement Plan for the year ended June 30, 2014 was approximately \$1,014,000 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, 2013 and 2012 were \$1,033,000 and \$948,000, respectively, and were equal to its required contributions for each year.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

9. OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN

Deferred Compensation Plan

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

The supervisory authority for the management and operation of the Plan is the Board of Trustees of the Oklahoma Public Employees Retirement System (the "Board").

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

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently \$17,500.

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

Participants age 50 or older may make additional contributions of up to \$5,500 annually subject to certain limits.

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.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

Deferred Compensation Plan (Cont'd)

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, 2014 and 2013. The Department believes that it has no liabilities in respect to the Plan.

Employee contributions to the plan for the year ended June 30, 2014 were approximately \$172,000.

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, 2014 were approximately \$30,000.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

10. RISK MANAGEMENT

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

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

The Division is also charged with the responsibility to immediately notify the attorney general of any claims against the State presented to the Division. The Division purchases insurance policies through third-party insurance carriers that ultimately inherit the risk of loss. The Division annually assesses each State agency, including the Department, their pro rata share of the premiums purchased. The Department has no obligations to any claims submitted against the Department.

11. CONTINGENCIES

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

12. ADOPTION OF NEW ACCOUNTING STANDARDS / RECLASSIFICATIONS

During the current period, the Department implemented the provisions of Governmental Accounting Standards Board (GASB) Statement Number 65 – *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The implementation resulted in a change in the reporting of deferred revenues in the fund level financial statements. Amounts consisting of cash received in advance for taxes due or overpayments that the Department is holding are now reported as “unearned revenues”. The portion of deferred revenues related to the estimate of the final amounts that will be due associated with the 1st and 2nd quarter estimates has been reported as a “deferred inflow-deferred revenues” as the amounts are measurable, but not available.

Certain prior amounts have been reclassified to conform to the current year presentation resulting from the adoption of the new standard.

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014 and 2013

13. PRIOR PERIOD ADJUSTMENT

The fiscal year 2013 *Statement of Net Position* and the *Statement of Activities* have been restated in order to correct an error made during the process of converting the fund level financial statements to the government wide level statements. An incorrect amount was used in one of the conversion journal entries which resulted in *Premium and other taxes* revenues reported in the *Statement of Activities* for fiscal year 2013 being overstated by \$1,517,086 and *Deferred revenue* reported in the fiscal year 2013 *Statement of Net Position* being understated by the same amount. The fiscal year 2013 fund level financial statements – *Balance Sheets – General Fund* and the *Statements of Revenues, Expenditures, and Changes in Fund Balances – General Fund* - were not affected by the error.

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, 2014

	Original Budget	Revision	Revised Final Budget	Actual Budget Basis	Favorable (Unfavorable) Variance
Budgeted revenues:					
State appropriations	\$ 1,871,937	-	1,871,937	1,871,937	-
Licenses, permits, and fees	12,061,063	55,000	12,116,063	9,063,451	(3,052,612)
Federal funds	<u>1,567,000</u>	<u>445,000</u>	<u>2,012,000</u>	<u>949,953</u>	<u>(1,062,047)</u>
Total budgeted revenues	<u>15,500,000</u>	<u>500,000</u>	<u>16,000,000</u>	<u>11,885,341</u>	<u>(4,114,659)</u>
Budgeted expenditures:					
Personnel and professional services	12,517,978	404,673	12,922,651	10,988,598	1,934,053
Travel and expense reimbursement	398,454	4,223	402,677	268,880	133,797
Contractual services	278,299	-	278,299	149,924	128,375
Supplies and materials	46,911	-	46,911	76,062	(29,151)
Equipment	389,400	-	389,400	96,268	293,132
Other	1,811,383	91,104	1,902,487	1,222,201	680,286
Payments to other state agencies	<u>57,575</u>	<u>-</u>	<u>57,575</u>	<u>43,905</u>	<u>13,670</u>
Total budgeted expenditures	<u>15,500,000</u>	<u>500,000</u>	<u>16,000,000</u>	<u>12,845,838</u>	<u>3,154,162</u>
Excess of budgeted revenues over (under) budgeted expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>(960,497)</u>	<u>(960,497)</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, 2013

	Original Budget	Revision	Revised Final Budget	Actual Budget Basis	Favorable (Unfavorable) Variance
Budgeted revenues:					
State appropriations	\$ 1,871,937	-	1,871,937	1,871,937	-
Licenses, permits, and fees	11,966,690	-	11,966,690	9,738,805	(2,227,885)
Federal funds	<u>1,661,373</u>	<u>-</u>	<u>1,661,373</u>	<u>1,286,190</u>	<u>(375,183)</u>
Total budgeted revenues	<u>15,500,000</u>	<u>-</u>	<u>15,500,000</u>	<u>12,896,932</u>	<u>(2,603,068)</u>
Budgeted expenditures:					
Personnel and professional services	12,002,945	-	12,002,945	11,033,486	969,459
Travel and expense reimbursement	407,980	-	407,980	211,312	196,668
Contractual services	243,695	-	243,695	148,566	95,129
Supplies and materials	429,910	(358,500)	71,410	97,571	(26,161)
Equipment	236,400	392,000	628,400	251,786	376,614
Other	2,121,495	(33,500)	2,087,995	1,434,666	653,329
Payments to other state agencies	<u>57,575</u>	<u>-</u>	<u>57,575</u>	<u>42,665</u>	<u>14,910</u>
Total budgeted expenditures	<u>15,500,000</u>	<u>-</u>	<u>15,500,000</u>	<u>13,220,052</u>	<u>2,279,948</u>
Excess of budgeted revenues over (under) budgeted expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>(323,120)</u>	<u>(323,120)</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Excess of budgeted revenues (under) over budgeted expenditures	\$ (960,497)	\$ (323,120)
Other revenues:		
Taxes	262,314,316	253,328,294
Less refunds	<u>(4,829,974)</u>	<u>(2,619,144)</u>
Net taxes	<u>257,484,342</u>	<u>250,709,150</u>
Licenses, permits, and fees	31,246,864	21,934,677
Less refunds	(102,405)	(71,524)
Fines, forfeitures, and penalties	557,275	4,087,585
Sales and services	126,674	100,842
Other grants and reimbursements	<u>127,487</u>	<u>136,278</u>
Total other revenues	<u>289,440,237</u>	<u>276,897,008</u>
Excess of budgeted and other revenues over budgeted expenditures	<u>288,479,740</u>	<u>276,573,888</u>
Other uses:		
Transfers in/out:		
General fund	(152,231,403)	(148,317,557)
Specific accounts	<u>(129,529,051)</u>	<u>(119,530,033)</u>
Total other uses	<u>(281,760,454)</u>	<u>(267,847,590)</u>
Revenues (less than) greater than expenditures and other uses	<u>6,719,286</u>	<u>8,726,298</u>
Changes in accrual not reflected in the actual budgeted revenues and expenditures:		
Premium taxes	416,038	1,934,554
Premium tax refunds	(25,456)	(1,563,291)
General fund of the State of Oklahoma transfers	295,972	(3,443,500)
Specific accounts of the State of Oklahoma transfers	(892,568)	(4,036,939)
Other grants and reimbursements	(25,027)	16,724
Personnel and professional services	<u>37,760</u>	<u>(176,863)</u>
	<u>(193,281)</u>	<u>(7,269,315)</u>
Excess of revenues over (under) expenditures and other uses	6,526,005	1,456,983
Fund balances, beginning of year	<u>11,837,264</u>	<u>10,380,281</u>
Fund balances, end of year	<u>\$ 18,363,269</u>	<u>\$ 11,837,264</u>

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

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO THE RECONCILIATIONS

June 30, 2014 and 2013

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

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

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

See independent auditor's report.

OKLAHOMA INSURANCE DEPARTMENT

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

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

To the State of Oklahoma
Oklahoma Insurance Department

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the remaining fund information of the Oklahoma Insurance Department (the "Department") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 20, 2014. 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Alledge & Associates, P.C.

Edmond, Oklahoma
October 20, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133

State of Oklahoma
Oklahoma Insurance Department

Report on Compliance for Each Major Federal Program

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, 2014. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated October 20, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Aledge & Associates, P.C.

Edmond, Oklahoma
October 20, 2014

OKLAHOMA INSURANCE DEPARTMENT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2014

<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	90MP0082-04-00	\$ 145,638
Senior Medicare Patrol/Senior Medicare Patrol Integration Program Expansion Project	93.048	90SP0094-01-00	<u>79,750</u>
Special Programs for the Aging Subtotal			<u>225,388</u>
Centers for Medicare and Medicaid Services (CMS)			
Research, Demonstrations and Evaluations -			
State Health Insurance Assistance Program	93.779	1N0CMS020203-21-00	520,424
Consumer Assistance	93.519	CAPCA120064-01-02	<u>93,795</u>
CMS Programs Subtotal			<u>614,219</u>
Administration for Community Living			
State Health Insurance Assistance Program	93.324	90SA0007-01-00	91,149
Medicare Improvements for Patients and Providers Act	93.071	IX0CMS331275-01-00	<u>46,806</u>
Community Living Programs Subtotal			<u>137,955</u>
Total Federal Expenditures			<u>\$ 977,562</u>

OKLAHOMA INSURANCE DEPARTMENT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards includes the federal grant activity of the Department and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUB-RECIPIENTS

During 2014, the Department contracted with both state and non-state entities as sub-recipients of grant funds. Approximately \$300,000 was transferred to the sub-recipients.

OKLAHOMA INSURANCE DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ 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:

Unmodified

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:

CFDA Number(s)

Name of Federal Program or Cluster

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, 2014**

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

No prior year findings to report.

OKLAHOMA INSURANCE DEPARTMENT
OTHER SUPPLEMENTARY INFORMATION

OKLAHOMA INSURANCE DEPARTMENT

Schedule IOTHER SUPPLEMENTARY INFORMATION - SCHEDULE OF RECEIPTS, TRANSFERS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE
June 30, 2014

	General Operating Account	Department Clearing Account	Department Revolving Account	Private Grant Account	Federal Grant Program Account	Special Payroll Account	Anti Fraud Account	Real Estate Appraisers Revolving Account	Total (Cash Basis)
Receipts:									
State appropriations	\$ 1,871,937	-	-	-	-	-	-	-	1,871,937
Premium and other taxes	-	262,314,316	-	-	-	-	-	-	262,314,316
Less refunds	-	(4,829,974)	-	-	-	-	-	-	(4,829,974)
Net taxes	-	257,484,342	-	-	-	-	-	-	257,484,342
Licenses, permits, and fees	-	40,310,315	-	-	-	-	-	-	40,310,315
Less refunds	-	(102,405)	-	-	-	-	-	-	(102,405)
Fines, forfeitures, and penalties	-	557,275	-	-	-	-	-	-	557,275
Sales and services	-	126,674	-	-	-	-	-	-	126,674
Other grants and reimbursements	-	127,487	-	-	-	-	-	-	127,487
Federal funds	-	-	-	-	949,953	-	-	-	949,953
Total receipts	1,871,937	298,503,688	-	-	949,953	-	-	-	301,325,578
Transfers:									
Ins Commission Funds	(1,871,937)	-	(6,286,282)	-	(474,060)	-	(756,574)	(178,103)	(9,566,956)
Revolving 200	-	(14,771,083)	14,771,083	-	-	-	-	-	-
Revolving 225	-	(581,335)	-	-	-	-	-	581,335	-
Revolving 230	-	(47,887)	-	-	-	-	47,887	-	-
Gen Fund of State	-	(152,231,403)	-	-	-	-	-	-	(152,231,403)
Special Accts—State	-	(121,529,051)	(8,000,000)	-	-	-	-	-	(129,529,051)
Total transfers	(1,871,937)	(289,160,759)	484,801	-	(474,060)	-	(708,687)	403,232	(291,327,410)
Disbursements	-	-	2,258,773	-	464,542	-	237,465	314,536	3,275,316
Receipts (less than) greater than disbursements	-	9,342,929	(1,773,972)	-	11,351	-	(946,152)	88,696	6,722,852
Cash balance, beginning of year	-	45,101,977	10,518,565	-	7,206	-	2,456,151	471,525	58,555,424
Cash balance, end of year	\$ -	54,444,906	8,744,593	-	18,557	-	1,509,999	560,221	65,278,276

See independent auditor's report.

OKLAHOMA INSURANCE DEPARTMENT

Schedule II**OTHER SUPPLEMENTARY INFORMATION - SCHEDULE OF RECEIPTS, TRANSFERS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCE - FIDUCIARY AGENCY FUND****June 30, 2014**

	<u>Fiduciary</u>		
	<u>Protest Escrow Account</u>	<u>Bail Bondsmen Account</u>	<u>Total (Cash Basis)</u>
Receipts:			
State appropriations	\$ -	-	-
Premium and other taxes	-	-	-
Less refunds	-	-	-
Net taxes	-	-	-
Licenses, permits, and fees	-	-	-
Less refunds	-	-	-
Fines, forfeitures, and penalties	-	-	-
Sales and services	-	-	-
Other grants and reimbursements	-	6,989	6,989
Federal funds	-	-	-
Total receipts	-	6,989	6,989
Transfers:			
Ins Commission Funds	-	-	-
Revolving 200	-	-	-
Revolving 225	-	-	-
Revolving 230	-	-	-
Gen Fund of State	-	-	-
Special Accts—State	-	-	-
Total transfers	-	-	-
Disbursements	-	33,757	33,757
Receipts (less than) greater than disbursements	-	(26,768)	(26,768)
Cash balance, beginning of year	161,259	128,656	289,915
Cash balance, end of year	\$ 161,259	101,888	263,147

See independent auditor's report.