

**OKLAHOMA INSURANCE DEPARTMENT**  
**ANNUAL FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE FISCAL YEARS ENDED**  
**JUNE 30, 2012 and 2011**

# OKLAHOMA INSURANCE DEPARTMENT

## FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2012 and 2011

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**OKLAHOMA INSURANCE DEPARTMENT**

**FINANCIAL STATEMENTS**

**For the Fiscal Years Ended June 30, 2012 and 2011**

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## INDEPENDENT AUDITOR'S REPORT

State of Oklahoma  
Oklahoma Insurance Department

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oklahoma Insurance Department (the "Department") as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. The Department is part of the reporting entity of the State of Oklahoma. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Oklahoma that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2012 and 2011, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information for the Department as of June 30, 2012 and 2011, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

  
Edmond, Oklahoma  
October 3, 2012

**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, 2012, 2011, and 2010.

**Financial Highlights**

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 assets of the Department decreased \$7.4 million, resulting in net assets of \$30.5 million at June 30, 2012.

2011

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

2010

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

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

### **Overview of the Financial Statements**

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

### **Government-Wide Financial Statements**

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

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

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

### **Fund Financial Statements**

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

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

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

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

**Government-Wide Financial Analysis**

The Department's net assets are reported as follows:

**Oklahoma Insurance Department's Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 77,940,112	\$ 83,492,493	\$ 77,424,643
Capital assets, net	<u>210,939</u>	<u>258,487</u>	<u>344,897</u>
Total assets	<u>78,151,051</u>	<u>83,750,980</u>	<u>77,769,540</u>
 Current liabilities	 <u>47,693,778</u>	 <u>45,818,306</u>	 <u>47,139,280</u>
 Net assets:			
Restricted for statutorily required transfers	24,026,880	16,867,063	12,256,597
Invested in capital assets, net of related debt	210,939	258,487	344,897
Unrestricted	<u>6,219,454</u>	<u>20,807,124</u>	<u>18,028,766</u>
 Total net assets	 <u>\$ 30,457,273</u>	 <u>\$ 37,932,674</u>	 <u>\$ 30,630,260</u>

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

**Government-Wide Financial Analysis, Continued**

**Oklahoma Insurance Department's Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Program revenues:			
Charges for service	\$ 18,896,538	\$ 30,443,859	\$ 28,118,025
Sales and service	170,512	168,432	171,727
Federal operating grant revenue	<u>1,248,042</u>	<u>846,758</u>	<u>925,435</u>
Total program revenues	20,315,092	31,459,049	29,215,187
General revenues:			
Premium and other taxes, net of refunds	<u>222,716,252</u>	<u>202,886,374</u>	<u>174,362,340</u>
Total revenues	243,031,344	234,345,423	203,577,527
Total expenses	<u>11,898,909</u>	<u>11,332,081</u>	<u>11,422,122</u>
Excess of revenues before transfers	<u>231,132,435</u>	<u>223,013,342</u>	<u>192,155,405</u>
Transfers in/out:			
Appropriations	1,871,937	2,012,836	2,215,435
General fund of the State of Oklahoma	(128,840,508)	(121,055,455)	(109,513,064)
Specific accounts of the State of Oklahoma and net transfers to agency funds	<u>(111,639,265)</u>	<u>(96,668,309)</u>	<u>(84,813,299)</u>
Total transfers in/out	<u>(238,607,836)</u>	<u>(215,710,928)</u>	<u>(192,110,928)</u>
Changes in net assets	(7,475,401)	7,302,414	44,477
Net assets, beginning of year	<u>37,932,674</u>	<u>30,630,260</u>	<u>30,585,783</u>
Net assets, end of year	<u>\$ 30,457,273</u>	<u>\$ 37,932,674</u>	<u>\$ 30,630,260</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, 2012, 2011, and 2010.

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 2012, 2011, and 2010. The Department experienced a 10% increase in premium and other taxes for fiscal year 2012 and a 16% increase in premium and other taxes for fiscal year 2011. 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 \$19,829,878 for fiscal year 2012. There was an overall increase of tax revenue of \$28,524,034 and decrease \$7,889,695 for fiscal years 2011, and 2010, 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 2012, 2011, and 2010 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, 2012 were approximately \$1,875,000 more than the prior year. Total department liabilities at June 30, 2011 were \$1,321,000 less than the previous year and total department liabilities at June 30, 2010 were \$20,270,000 greater than the prior year.

At June 30, 2012, the Department had unrestricted net assets of \$6,219,454. At June 30, 2011 and 2010, the Department had unrestricted net assets of \$20,807,124, and \$18,028,766, respectively.

**Budget-to-Actual Expenditures**

	Year Ended June 30, 2012				
	Original Budget	Revision	Revised Final Budget	Actual Budget Basis	Favorable (Unfavorable) Variance
<b>Budgeted revenues:</b>					
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)
Private funds	-	-	-	-	-
Federal funds	<u>1,893,821</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>
<b>Budgeted expenditures:</b>					
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>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**

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

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

**Budget-to-Actual Expenditures, Continued**

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

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

**Budget-to-Actual Expenditures, Continued**

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.

2011

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

In 2011, overall Department expenditures were \$4,528,664 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, equipment and other expenditures. The Department usually budgets to its limits but attempts to keep expenditures at a level close to or below the actual revenue for the year so as not to deplete its reserves.

2010

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

In 2010, overall Department expenditures were \$2,494,459 less than the amounts budgeted. The most significant variances were in personnel costs, travel and expense reimbursement, equipment and other expenditures. The Department usually budgets to its limits but attempts to keep expenditures at a level close to or below the actual revenue for the year so as not to deplete its reserves.

**Capital Assets**

As of June 30, 2012, 2011, and 2010, the Department had invested approximately \$1,501,000, \$1,468,000, and \$1,443,000, respectively, in capital assets, including computer equipment and software, office equipment, and furniture. Net of accumulated depreciation, the Department's net capital assets at June 30, 2012, 2011, and 2010, totaled approximately \$210,000, \$258,000, and \$345,000, respectively.

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

**Description of Currently Known Facts, Decisions, or Conditions that are Expected to Have a Significant Effect on the Financial Position or Results of Operations**

The fiscal year 2013 budget for the Department was approved by the Office of Management & Enterprise Services. Overall, the total budgeted expenditure change is an increase of \$500,000 from fiscal years 2012 and 2011. The change in anticipated expenditures, reflected by funding source, is as follows:

<u>Funding Source</u>	<u>2013 Budget Compared to 2012</u>	<u>2012 Budget Compared to 2011</u>
State-appropriated	\$ -	\$ (140,899)
Revolving funds	100,474	316,026
Other funds	<u>(232,448)</u>	<u>(1,175,127)</u>
 Total budget change	 <u>\$ (131,974)</u>	 <u>\$ (1,000,000)</u>

For the year ending June 30, 2012, the decrease of approximately \$232,000 in other funds is primarily due to the expiration of the MIPPA Expansion and Consumer Assistance (Ombudsman) federal grant funding opportunities.

**Grant Funds:**

The Limited Competition for Affordable Care Act Consumer Assistance Programs Grant award of \$127,967 was granted in June of 2012. This federal grant will allow states to establish, expand, or provide support for the establishment of independent offices of health insurance consumer assistance or ombudsman programs.

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

**Contacting the Department's Financial Management**

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

**OKLAHOMA INSURANCE DEPARTMENT**

**STATEMENTS OF NET ASSETS**

**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets:		
Cash, including short-term investments	\$ 49,870,714	\$ 64,146,926
Premium and other taxes receivable	28,050,260	19,299,694
Other receivables	<u>19,138</u>	<u>45,873</u>
Total current assets	<u>77,940,112</u>	<u>83,492,493</u>
Noncurrent assets:		
Capital assets, depreciable, net of accumulated depreciation	<u>210,939</u>	<u>258,487</u>
Total assets	<u>\$ 78,151,051</u>	<u>\$ 83,750,980</u>
<b>Liabilities</b>		
Amounts due to:		
General fund of the State of Oklahoma	\$ 19,905,648	\$ 19,558,396
Firefighters Retirement System	13,406,825	13,419,535
Police Retirement System	5,520,457	5,525,691
Law Enforcement Retirement System	1,971,592	1,973,461
State Attorney General	<u>230,250</u>	<u>141,375</u>
	<u>41,034,772</u>	<u>40,618,458</u>
Current liabilities:		
Accounts payable	222,270	89,806
Premium and other tax refunds payable	1,969,667	2,288,417
Deferred revenue	4,023,380	2,432,631
Compensated absences	<u>443,689</u>	<u>388,994</u>
Total liabilities	<u>47,693,778</u>	<u>45,818,306</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	210,939	258,487
Restricted for statutorily required transfers	24,026,880	16,867,063
Unrestricted	<u>6,219,454</u>	<u>20,807,124</u>
Total net assets	<u>30,457,273</u>	<u>37,932,674</u>
Total liabilities and net assets	<u>\$ 78,151,051</u>	<u>\$ 83,750,980</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, 2012**

		<u>REVENUE</u>		
	<u>Expenses</u>	<u>Sales and Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Governmental activities:				
General government:				
Operations	\$ (10,627,132)	19,067,050	-	8,439,918
Total general government	<u>(10,627,132)</u>	<u>19,067,050</u>	<u>-</u>	<u>8,439,918</u>
Grant programs	<u>(1,271,777)</u>	<u>-</u>	<u>1,248,042</u>	<u>(23,735)</u>
Total governmental activities	<u>\$ (11,898,909)</u>	<u>19,067,050</u>	<u>1,248,042</u>	<u>8,416,183</u>
General revenues:				
Premium and other taxes				224,848,129
Less refunds				<u>(2,131,877)</u>
Total general revenues				<u>222,716,252</u>
Other uses:				
Transfers in/out:				
Appropriations				1,871,937
General fund of the State of Oklahoma				(128,840,508)
Specific accounts of the State of Oklahoma				<u>(111,639,265)</u>
Total other uses				<u>(238,607,836)</u>
Changes in net assets				(7,475,401)
Net assets, beginning of year				<u>37,932,674</u>
Net assets, end of year				<u>\$ 30,457,273</u>

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

OKLAHOMA INSURANCE DEPARTMENT

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011

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

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

**OKLAHOMA INSURANCE DEPARTMENT**

**BALANCE SHEETS - GENERAL FUND**

**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Assets:		
Cash, including short-term investments	\$ 49,870,714	\$ 64,146,926
Premium and other taxes receivable	28,050,260	19,299,694
Other receivables	<u>19,138</u>	<u>45,873</u>
 Total assets	 <u>\$ 77,940,112</u>	 <u>\$ 83,492,493</u>
 <b>Liabilities and Fund Balances</b>		
Liabilities:		
Amounts due to:		
General fund of the State of Oklahoma	\$ 19,905,648	\$ 19,558,396
Firefighters Retirement System	13,406,825	13,419,535
Police Retirement System	5,520,457	5,525,691
Law Enforcement Retirement System	1,971,592	1,973,461
Attorney General	<u>230,250</u>	<u>141,375</u>
	<u>41,034,772</u>	<u>40,618,458</u>
 Accounts payable	 222,270	 89,806
Premium and other tax refunds payable	1,969,667	2,288,417
Deferred revenue	<u>24,333,122</u>	<u>17,051,538</u>
Total liabilities	<u>67,559,831</u>	<u>60,048,219</u>
 Fund balances:		
Restricted - statutorily required transfers	3,717,138	2,248,156
Assigned - encumbrances	1,060,647	704,268
Unassigned	<u>5,602,496</u>	<u>20,491,850</u>
Total fund balances	<u>10,380,281</u>	<u>23,444,274</u>
 Total liabilities and fund balances	 <u>\$ 77,940,112</u>	 <u>\$ 83,492,493</u>

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

OKLAHOMA INSURANCE DEPARTMENT

BALANCE SHEETS - GENERAL FUND (CONTINUED)

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Fund Balances to Net Assets</b>		
Total fund balances from above	\$ 10,380,281	\$ 23,444,274
Amounts reported in the statements of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the fund:		
Capital assets, net of accumulated depreciation of \$1,290,538 and \$1,209,980, at June 30, 2012 and 2011, respectively	210,939	258,487
Certain liabilities are not due and payable in the current period and therefore not reported in the fund:		
Accrued compensated absences	(443,689)	(388,994)
Deferred revenue	<u>20,309,742</u>	<u>14,618,907</u>
Net assets, per statements of net assets	<u>\$ 30,457,273</u>	<u>\$ 37,932,674</u>

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

**OKLAHOMA INSURANCE DEPARTMENT**

**STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES-GENERAL FUND  
June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Revenues:		
Federal grant revenues	\$ 1,248,042	\$ 846,758
Program income	19,067,050	30,612,291
Premium and other taxes, net of refunds	217,025,417	198,053,274
Total revenues	<u>237,340,509</u>	<u>229,512,323</u>
Expenditures:		
Administrative overhead:		
Executive	983,906	824,068
Comptroller	623,669	732,111
Data processing	453,882	556,063
Legal	1,051,716	1,129,440
Communications	410,846	581,620
Marketing	81,662	-
Government Relations/Public Affairs	169,228	-
Field Operations	150,292	-
Administrative services	192,370	239,445
Total administrative overhead	<u>4,117,571</u>	<u>4,062,747</u>
Agent licensing/title	644,122	789,368
Consumer assistance/claims	890,889	917,656
Premium tax	2,065,824	1,676,877
Life and health	1,169,634	1,226,835
Insure Oklahoma	75,699	77,256
Insure Tulsa	11,407	5,420
Publications and outreach	1,349,741	897,585
Bail bonds	298,360	356,993
Real estate appraisal	440,103	484,266
Fraud	733,383	898,003
State coverage initiatives program	(67)	(2,690)
Total expenditures	<u>11,796,666</u>	<u>11,390,316</u>
Excess of revenues over expenditures	<u>225,543,843</u>	<u>218,122,007</u>
Other funding sources/uses:		
State appropriations	1,871,937	2,012,836
General fund of the State of Oklahoma	(128,840,508)	(121,055,455)
Specific accounts of the State of Oklahoma	(111,639,265)	(96,668,309)
Total other funding sources/uses	<u>(238,607,836)</u>	<u>(215,710,928)</u>
Net change in fund balances	(13,063,993)	2,411,079
Fund balances, beginning of year	<u>23,444,274</u>	<u>21,033,195</u>
Fund balances, end of year	<u>\$ 10,380,281</u>	<u>\$ 23,444,274</u>

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

**OKLAHOMA INSURANCE DEPARTMENT**

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

**For the Year Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Net changes in fund balance - general fund	\$ (13,063,993)	\$ 2,411,079
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures, while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:</p>		
Depreciation expense	(154,493)	(170,467)
Capital asset purchases capitalized	<u>107,736</u>	<u>84,443</u>
	<u>(46,757)</u>	<u>(86,024)</u>
<p>In the statements of activities, the loss on the disposal of capital assets is recognized. The fund financial statements recognize no impact from these dispositions:</p>		
Loss on the disposal of capital assets	(791)	(386)
<p>Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
Changes in accrued compensated absences	(54,695)	144,645
<p>Because some premium taxes will not be collected for several months after the Department's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental fund.</p>		
	<u>5,690,835</u>	<u>4,833,100</u>
Changes in net assets, per statements of activities	<u>\$ (7,475,401)</u>	<u>\$ 7,302,414</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets:		
Cash, including short-term investments	\$ 285,220	\$ 272,295
Total assets	<u>\$ 285,220</u>	<u>\$ 272,295</u>
<b>Liabilities</b>		
Amounts due to other parties:		
Premium taxes paid under protest	\$ 161,259	\$ 161,259
Bail bondsmen funds forfeited	<u>123,961</u>	<u>111,036</u>
Total liabilities	<u>\$ 285,220</u>	<u>\$ 272,295</u>

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

# OKLAHOMA INSURANCE DEPARTMENT

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Organization

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

#### Reporting Entity

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

- The approval of the organization of domestic insurance companies and the approval of applications by foreign insurance companies to do business in the state;
- Licensing of all insurers authorized to do business in the state, along with the collections of licensing fees and premium taxes;
- Audit and examination of the affairs of insurers at least once every 3 years;
- Licensing, supervision, and regulation of all insurance agents and adjusters; and
- Administration of the licensing, supervision, and regulation of bail bondsmen, the collection of bond forfeitures, and the supervision of bond deposits.

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

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

# OKLAHOMA INSURANCE DEPARTMENT

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

#### Basis of Presentation and Accounting

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

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

The statements of activities demonstrate the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with the Department's function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the Department's function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The major revenue source susceptible to accrual is premium taxes.

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

# OKLAHOMA INSURANCE DEPARTMENT

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

#### Basis of Presentation and Accounting (Cont'd)

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

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

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

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

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

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

#### Securities

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

**OKLAHOMA INSURANCE DEPARTMENT**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

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

**Basis of Presentation and Accounting (Cont'd)**

**Capital Assets**

Capital assets are recorded as expenditures in the governmental fund statements of revenues, expenditures, and changes in fund balances but are capitalized in the statements of net assets. Capital assets are stated at actual or estimated historical cost in the statements of net assets.

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

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

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

**Compensated Absences**

Employees earn annual vacation leave based upon their start date and years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The general fund records expenditures when employees are paid for leave. GASB Interpretation 6 indicates that liabilities for compensated absences are normally expected to be liquidated with expendable available financial resources and should be recognized as governmental fund liabilities to the extent that they have matured each period. The Department does not have financial resources to fund accrued annual leave at year-end; therefore, accrued annual leave is reported as a liability in the statements of net assets. Sick leave does not vest to the employee and, therefore, is not recorded as a liability.

**Income Taxes**

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

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

##### Basis of Presentation and Accounting (Cont'd)

##### Cash Accounts

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

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

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

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

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

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

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

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

#### 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 monies received from the federal government for the operation of a senior citizens' counseling program under the Health Information, Counseling, and Assistant Grant Program supervised by the Federal Department of Health and Human Services. The expenditures for this account are restricted to the uses directed by the grant program. This account also contains monies received from the federal government for the operation of a senior citizens' medical counseling program under the Oklahoma Fraud Awareness Consortium supervised by the Department of Health and Human Services Administration on Aging and monies received from Centers for Medicare and Medicaid Services and Administration on Aging for Medicare beneficiary outreach and assistance program grant under Medicare Improvements for Patients and Providers Act.

**Special Payroll Account** - This account is used to pay the Department's monthly payroll. Transfers are made from the General Operating Account, the Agency 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.

**Insure Tulsa Account** - This account contains monies received from the George Kaiser Family Foundation. Funding is to support the Oklahoma Insurance Department's implementation of the employer's strategy portion of the Insure Tulsa business plan. Expenditures for this account are restricted to the uses directed by the grant program.

**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 Agency 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.

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

##### Basis of Presentation and Accounting (Cont'd)

##### Agency Fund Accounts

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

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

##### Equity Classifications, Government-wide Statement of Net Assets

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

- A. *Invested in capital assets, net of related debt* – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- B. *Restricted net assets* – consists of net assets with constraints placed on the use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- C. *Unrestricted net assets* – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

##### Basis of Presentation and Accounting (Cont'd)

##### Equity Classifications, Fund Financial Statements (Cont'd)

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

- A. *Non-spendable* – consists of balances that are either not in spendable form or legally or contractually required to be maintained intact. Balances most likely to be classified as nonspendable include inventory, prepaids, and interfund advances.
- B. *Restricted* – consists of balances that have constraints placed on the net asset use that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. The Department's resources constrained for statutorily required pension system and State General Fund transfers are reported as restricted at year-end.
- C. *Committed* – consists of assets that can only be used for specific purposes as a result of constraints imposed by formal action of the individual government's highest level of decision-making authority. Committed amounts cannot be uncommitted except by removing the constraints through the same type of formal action.
- D. *Assigned* – consists of amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of resources for a specific purpose that are not made by the government's highest level of decision-making authority are reported in this classification. The Department's outstanding encumbrances at year-end are reported as assigned.
- E. *Unassigned* – consists of the residual resources that have not been restricted, committed or assigned to a specific purpose.

# OKLAHOMA INSURANCE DEPARTMENT

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

### 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, 2012 and 2011

#### 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, 2012 and 2011, 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, 2012 or 2011.

**Agency Clearing Account** - The cash balances at June 30, 2012 and 2011, of approximately \$40,154,000 and \$51,770,000, respectively, represent cash maintained by the Department to be transferred to other state agencies to cover returned tax payment checks and tax refunds that are carried forward to the next fiscal year.

**Agency Revolving Account** - The cash balances at June 30, 2012 and 2011, of approximately \$9,284,000 and \$11,995,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2012 and 2011 were approximately \$802,000 and \$486,000, respectively.

**Federal Grant Program Account** - The cash balances at June 30, 2012 and 2011, of approximately \$0 and \$1,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2012 and 2011 were approximately \$253,000 and \$209,000, respectively.

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

#### 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, 2012 or 2011.

**Insure Tulsa Account** - The cash balances at June 30, 2012 and 2011, of approximately \$0 and \$0, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2012 and 2011 were approximately \$0 and \$0, respectively.

**Real Estate Appraisers Revolving Account** - The cash balances remaining at June 30, 2012 and 2011, of approximately \$433,000 and \$381,000, respectively, represent the excess of cash receipts over disbursements that is carried forward to the next fiscal year. The outstanding encumbrances at June 30, 2012 and 2011 were approximately \$5,000 and \$9,000, respectively.

**Protest Escrow Account** - The balance of premium taxes remaining in this account at June 30, 2012 and 2011, 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, 2012 and 2011, of approximately \$124,000 and \$111,000, 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, 2012 and 2011

3. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>June 30, 2011</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>June 30, 2012</u>
Capital assets:				
Computer equipment and software	\$ 755,695	83,481	(27,661)	\$ 811,515
Office equipment	30,023	582	(11,820)	18,785
Furniture	<u>682,749</u>	<u>23,673</u>	<u>(35,245)</u>	<u>671,177</u>
Total capital assets	<u>1,468,467</u>	<u>107,736</u>	<u>(74,726)</u>	<u>1,501,477</u>
Accumulated depreciation:				
Computer equipment and software	641,610	119,769	(27,202)	734,177
Office equipment	25,699	1,521	(11,820)	15,400
Furniture	<u>542,671</u>	<u>33,203</u>	<u>(34,913)</u>	<u>540,961</u>
Total accumulated depreciation	<u>1,209,980</u>	<u>154,493</u>	<u>(73,935)</u>	<u>1,290,538</u>
Net capital assets	<u>\$ 258,487</u>			<u>\$ 210,939</u>
	<u>July 1, 2010</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>June 30, 2011</u>
Capital assets:				
Computer equipment and software	\$ 707,879	58,271	(10,455)	\$ 755,695
Office equipment	30,775	553	(1,305)	30,023
Furniture	<u>703,888</u>	<u>25,619</u>	<u>(46,758)</u>	<u>682,749</u>
Total capital assets	<u>1,442,542</u>	<u>84,443</u>	<u>(58,518)</u>	<u>1,468,467</u>
Accumulated depreciation:				
Computer equipment and software	513,081	138,984	(10,455)	641,610
Office equipment	25,599	1,405	(1,305)	25,699
Furniture	<u>558,965</u>	<u>30,078</u>	<u>(46,372)</u>	<u>542,671</u>
Total accumulated depreciation	<u>1,097,645</u>	<u>170,467</u>	<u>(58,132)</u>	<u>1,209,980</u>
Net capital assets	<u>\$ 344,897</u>			<u>\$ 258,487</u>

**OKLAHOMA INSURANCE DEPARTMENT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**3. CAPITAL ASSETS (Cont'd)**

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

	<u>2012</u>	<u>2011</u>
Administrative	\$ 53,706	\$ 62,220
Agents licensing/title	8,667	11,933
Consumer assistance/claims	13,189	15,342
Premium tax	31,484	27,275
Life and health	18,540	22,161
Publications and outreach	10,243	6,819
Bail bonds	4,174	5,114
Real estate appraisal	2,979	3,408
Fraud	10,292	14,490
Insure Oklahoma	<u>1,219</u>	<u>1,705</u>
Total depreciation expense	<u>\$ 154,493</u>	<u>\$ 170,467</u>

**4. PREMIUM AND OTHER TAXES**

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

	<u>2012</u>	<u>2011</u>
Premium taxes	\$ 194,583,283	\$ 180,004,918
Surplus lines taxes	21,111,299	19,431,758
Fire marshal taxes	<u>1,993,730</u>	<u>1,815,199</u>
Total cash basis	217,688,312	201,251,875
Change in accrued taxes	<u>7,159,817</u>	<u>4,610,465</u>
Total accrual basis	<u>\$ 224,848,129</u>	<u>\$ 205,862,340</u>

**OKLAHOMA INSURANCE DEPARTMENT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**4. PREMIUM AND OTHER TAXES (Cont'd)**

Premium taxes are required to be remitted quarterly by insurance companies. Such quarterly payments are estimated based upon the premium taxes paid in the prior year. The due dates for premium taxes are April 15, June 15, September 15, and December 15. Upon the filing of the annual statement due March 1, any amount due in excess of the estimated quarterly payments is then required to be paid. If the estimated quarterly payments exceed the premium tax liability, a refund check is issued by the Department. Surplus lines taxes are also required to be remitted quarterly. Fire marshal taxes are required to be remitted annually. Surplus lines and fire marshal taxes are not measurable and available. Premium taxes due June 15 that have not been paid as of June 30 are considered a receivable at June 30, as such amounts are measurable and available. In the governmental fund balance sheets, tax revenues of approximately \$24,333,000 and \$17,052,000 have been deferred in accordance with GASB Statement No. 33, as they have not been earned as of June 30, 2012 and 2011, respectively.

**5. COMPENSATED ABSENCES**

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

<u>July 1, 2011</u>	<u>Increase</u>	<u>Paid</u>	<u>June 30, 2012</u>
\$ 388,994	383,721	(329,026)	443,689
<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<u>July 1, 2010</u>	<u>Increase</u>	<u>Paid</u>	<u>June 30, 2011</u>
\$ 533,639	395,137	(539,782)	388,994
<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

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

**6. LEASES**

The Department leases operating facilities and equipment on an annual basis. Rent of approximately \$535,000 and \$608,000 was paid under lease agreements for the years ended June 30, 2012 and 2011, respectively. The lease agreements vary in length from 1 to 5 years. Future minimum rental payments under the equipment lease agreements are as follows:

2013	\$ 47,189
2014	35,679
2015	8,590
2016	8,160
2017	-
	<u>                    </u>
	\$ 99,618
	<u>                    </u>

**OKLAHOMA INSURANCE DEPARTMENT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**6. LEASES (Cont'd)**

The operating lease commitment for the Department's office building rental for the year ended June 30, 2013 is \$475,000.

**7. INTERFUND TRANSFERS**

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

	<u>2012</u>	<u>2011</u>
Transfers in:		
Appropriations from the general fund of the State of Oklahoma	\$ 1,871,937	\$ 2,012,836
Transfers out:		
General fund of the State of Oklahoma	(128,840,508)	(121,055,455)
Firefighters Retirement System	(68,245,816)	(59,884,843)
Police Retirement System	(28,091,660)	(24,648,957)
Law Enforcement Retirement System	(10,029,164)	(8,799,646)
Attorney General	(272,625)	(334,863)
Special Cash Fund of the State Treasury (HB 2170, Sec 105)	<u>(5,000,000)</u>	<u>(3,000,000)</u>
Net transfers	<u>\$ (238,607,836)</u>	<u>\$ (215,710,928)</u>

**8. RETIREMENT PLAN**

**Description**

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

**OKLAHOMA INSURANCE DEPARTMENT**

**NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

**8. RETIREMENT PLAN (Cont'd)**

**Funding Policy**

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

Fiscal Year 2012	
State Employees	Department
All salary 3.5%	All salary 16.5%

  

Fiscal Year 2011	
State Employees	Department
All salary 3.5%	All salary 16.5%

The Department's contribution to the Retirement Plan for the year ended June 30, 2012 was approximately \$948,000 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, 2011 and 2010 were \$886,000 and \$922,000, respectively, and were equal to its required contributions for each year.

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

**Deferred Compensation Plan**

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

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

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

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

##### Deferred Compensation Plan (Cont'd)

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service, currently \$17,000.

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

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

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

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

Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan's audited financial statements for the years ended June 30, 2012 and 2011. The Department believes that it has no liabilities in respect to the Plan.

Employee contributions to the plan for the year ended June 30, 2012 were approximately \$141,000

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

**Deferred Savings Incentive Plan**

Effective January 1, 1998, the State established the Oklahoma State Employees Deferred Savings Incentive Plan (the "Savings Incentive Plan") as a money purchase pension plan pursuant to IRC Section 401(a). The Savings Incentive Plan and its related Trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant who is a State employee that is an active participant in the Oklahoma State Employees Deferred Compensation Plan is eligible for a contribution from the State of the amount determined by the State Legislature, currently the equivalent of \$25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Oklahoma State Employees Deferred Compensation Plan and is not voluntary.

Contributions made to qualified participants for the year ended June 30, 2012 were approximately \$26,000.

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.

**OKLAHOMA INSURANCE DEPARTMENT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**11. CONTINGENCIES**

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

**OKLAHOMA INSURANCE DEPARTMENT**  
**REQUIRED SUPPLEMENTARY INFORMATION**

OKLAHOMA INSURANCE DEPARTMENT

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

For the Year Ended June 30, 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)
Private funds	-	-	-	-	-
Federal funds	1,893,821	-	1,893,821	1,248,042	(645,779)
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>
Excess of budgeted revenues over (under) budgeted expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>(2,171,148)</u>	<u>(2,171,148)</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, 2011

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

See Independent Auditor's Report.

**OKLAHOMA INSURANCE DEPARTMENT**

**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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Excess of budgeted revenues (under) over budgeted expenditures	\$ (2,171,148)	\$ (505,963)
Other revenues:		
Taxes	217,688,312	201,251,875
Less refunds	<u>(2,450,628)</u>	<u>(8,000,417)</u>
Net taxes	<u>215,237,684</u>	<u>193,251,458</u>
Licenses, permits, and fees	12,120,636	21,227,722
Less refunds	(60,604)	(47,708)
Fines, forfeitures, and penalties	265,854	990,658
Sales and services	170,512	168,432
Other grants and reimbursements	<u>233,193</u>	<u>264,056</u>
Total other revenues	<u>227,967,275</u>	<u>215,854,618</u>
Excess of budgeted and other revenues over budgeted expenditures	<u>225,796,127</u>	<u>215,348,655</u>
Other uses:		
Transfers in/out:		
General fund	(128,493,256)	(119,366,152)
Specific accounts	<u>(111,570,204)</u>	<u>(94,358,085)</u>
Total other uses	<u>(240,063,460)</u>	<u>(213,724,237)</u>
Revenues (less than) greater than expenditures and other uses	<u>(14,267,333)</u>	<u>1,624,418</u>
Changes in accrual not reflected in the actual budgeted revenues and expenditures:		
Premium taxes	1,468,982	(222,635)
Premium tax refunds	318,751	5,024,451
General fund of the State of Oklahoma transfers	(347,252)	(1,689,303)
Specific accounts of the State of Oklahoma transfers	(69,061)	(2,310,224)
Other grants and reimbursements	(26,735)	780
Personnel and professional services	<u>(141,345)</u>	<u>(16,408)</u>
Excess of revenues over (under) expenditures and other uses	<u>1,203,340</u>	<u>786,661</u>
Excess of revenues over (under) expenditures and other uses	(13,063,993)	2,411,079
Fund balances, beginning of year	<u>23,444,274</u>	<u>21,033,195</u>
Fund balances, end of year	<u>\$ 10,380,281</u>	<u>\$ 23,444,274</u>

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

## **OKLAHOMA INSURANCE DEPARTMENT**

### **NOTES TO THE RECONCILIATIONS**

**June 30, 2012 and 2011**

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

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

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

See independent auditor's report.

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



**Arledge**  
& Associates, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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

State of Oklahoma  
Oklahoma Insurance Department

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of the Oklahoma Insurance Department (the "Department") as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 3, 2012. Our report includes an explanatory paragraph regarding Management's Discussion and Analysis and the budgetary comparison information, and a paragraph stating that the financial statements of the Department are intended to present the financial position and results of operations of only that portion of the State of Oklahoma attributable to the transactions of the Department. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

*Arledge & Associates, P.C.*

Edmond, Oklahoma  
October 7, 2012



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

State of Oklahoma  
Oklahoma Insurance Department

Compliance

We have audited the Oklahoma Insurance Department's (the "Department") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2012. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

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

purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Department, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 3, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

  
Edmond, Oklahoma  
October 3, 2012

OKLAHOMA INSURANCE DEPARTMENT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>Department of Health and Human Services</b>			
Special Programs for the Aging - Title IV and Title II - Discretionary Projects - Senior Medicare Patrol/Senior Medicare Patrol Integration Program	93.048	90MP0082/01, 90MP0082/02, 90AM2952/06, and 90MP0153/01	\$ 169,686
Senior Medicare Patrol/Senior Medicare Patrol Integration Program Expansion Project	93.048	90MP0071/01	<u>91,101</u>
Special Programs for the Aging Subtotal			<u>260,787</u>
Affordable Care Act (ACA) Consumer Assistance Program Grants	93.519	4CAPCA110005-01-02	<u>191,674</u>
<b>Centers for Medicare and Medicaid Services (CMS)</b>			
Research, Demonstrations and Evaluations - State Health Insurance Assistance Program	93.779	1N0CMS020203-19-00 and 1N0CMS020203-20-00	621,262
Medicare Improvements for Patients and Providers Act	93.779	IX0CMS030412/01	22,426
Medicare Improvements for Patients and Providers Act Expansion Project	93.779	IX0CMS330785-01-00	<u>175,628</u>
CMS Programs Subtotal			<u>819,316</u>
Total Federal Expenditures			<u>\$ 1,271,777</u>

## OKLAHOMA INSURANCE DEPARTMENT

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2012

#### 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 2012, the Department contracted with both state and non-state entities as subrecipients. Approximately \$316,000 was transferred to the subrecipients.

OKLAHOMA INSURANCE DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

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

Noncompliance material to financial statements noted?      yes   X   no

Federal Awards

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?   X   yes      no

**OKLAHOMA INSURANCE DEPARTMENT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**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, 2012**

No prior year findings to report.

**OKLAHOMA INSURANCE DEPARTMENT**  
**OTHER SUPPLEMENTARY INFORMATION**

OKLAHOMA INSURANCE DEPARTMENT

Schedule I

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE OF RECEIPTS, TRANSFERS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE  
June 30, 2012

	General Operating Account	Agency Clearing Account	Agency Revolving Account	Private Grant Account	Federal Grant Program Account	Special Payroll Account	Insure Tulsa Account	Real Estate Appraisers Revolving Account	Total (Cash Basis)	Fiduciary	
										Protest Escrow Account	Bail Bondsmen Account
Receipts:											
State appropriations	\$ 1,871,937	-	-	-	-	-	-	-	1,871,937	-	-
Premium and other taxes	-	217,688,312	-	-	-	-	-	-	217,688,312	-	-
Less refunds	-	(2,450,628)	-	-	-	-	-	-	(2,450,628)	-	-
Net taxes	-	215,237,684	-	-	-	-	-	-	215,237,684	-	-
Licenses, permits, and fees	-	18,526,830	-	-	-	-	-	-	18,526,830	-	-
Less refunds	-	(60,604)	-	-	-	-	-	-	(60,604)	-	-
Fines, forfeitures, and penalties	-	265,854	-	-	-	-	-	-	265,854	-	-
Sales and services	-	170,512	-	-	-	-	-	-	170,512	-	-
Other grants and reimbursements	-	233,193	-	-	1,248,042	-	-	-	233,193	-	40,070
Federal funds	-	-	-	-	1,248,042	-	-	-	1,248,042	-	-
Total receipts	1,871,937	234,373,469	-	-	1,248,042	-	-	-	237,493,448	-	40,070
Transfers:											
Ins Commission Funds	(1,871,937)	-	(6,357,361)	-	(534,797)	-	-	(172,283)	(8,936,378)	-	-
Revolving 200	-	(10,389,398)	10,389,398	-	-	-	-	-	-	-	-
Revolving 225	-	(536,476)	-	-	-	-	-	536,476	-	-	-
Gen Fund of State	-	(128,493,256)	-	-	-	-	-	-	(128,493,256)	-	-
Special Accts—State	-	(106,570,204)	(5,000,000)	-	-	-	-	-	(111,570,204)	-	-
Total transfers	(1,871,937)	(245,989,334)	(967,963)	-	(534,797)	-	-	364,193	(248,999,838)	-	-
Disbursements	-	-	1,743,603	-	714,107	-	-	312,112	2,769,822	-	27,145
Receipts (less than) greater than disbursements	-	(11,615,865)	(2,711,566)	-	(862)	-	-	52,081	(14,276,212)	-	12,925
Cash balance, beginning of year	-	51,769,629	11,995,312	-	862	-	-	381,123	64,146,926	161,259	111,036
Cash balance, end of year	\$ -	40,153,764	9,283,746	-	-	-	-	433,204	49,870,714	161,259	123,961

See independent auditor's report.