

Audited Financial Statements

**OKLAHOMA MUNICIPAL
ASSURANCE GROUP**

June 30, 2014

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

The Board of Trustees
Oklahoma Municipal Assurance Group
Edmond, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Oklahoma Municipal Assurance Group as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Municipal Assurance Group as of June 30, 2014 and 2013, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the supplementary information included in schedule 1 - liability insurance coverage schedule of ten-year claims development information and schedule 2 - property insurance coverage schedule of ten-year claims development information be presented to supplement the basic financial statements. Such information, although not 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, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 3 and 4 - statement of net position information by insurance coverage and schedules 5 and 6 - statement of revenues, expenses, and changes in net position information by insurance coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 14, 2014

Management's Discussion and Analysis Oklahoma Municipal Assurance Group

This section of the Oklahoma Municipal Assurance Group ("OMAG") annual financial report presents our discussion and analysis of OMAG's financial performance during the fiscal years ended June 30, 2014 and 2013. Please review it in conjunction with OMAG's financial statements, which immediately follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, including the notes to financial statements, and other supplementary information. The financial statements provide both long-term and short-term information about OMAG's overall financial status. They also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

OMAG's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental entities, for enterprise funds on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of capital assets is recognized in the statement of revenues, expenses, and changes in net position over their estimated useful lives. All assets and liabilities associated with the operation of OMAG are included in the statement of financial position.

Statement of Net Position - The statement of net position reports OMAG's assets, deferred outflows, liabilities, and deferred inflows. Net position, the difference between OMAG's assets plus deferred outflows and liabilities plus deferred outflows, is one way to measure the financial health or position of OMAG (there are no deferred outflows or inflows in OMAG's financial statements in 2014 and 2013). The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within twelve months of the statement date.

Statement of Revenues, Expenses, and Changes in Net Position - This statement reflects OMAG's revenues and expenses during the year. The major source of operating revenue is premium, investment income and administrative services income and the major sources of operating expenses are claims incurred, and costs of reinsurance. The change in net position for an enterprise fund is similar to net profit or loss for an insurance company.

Statement of Cash Flows - This statement is presented on the direct method of reporting which reflects cash flows from operating, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

Management's Discussion and Analysis--Continued
Oklahoma Municipal Assurance Group

FINANCIAL ANALYSIS

Statement of Financial Position Information

OMAG's total assets at June 30, 2014 were \$110,077,473, an increase of 5.8% from June 30, 2013. OMAG's total assets at June 30, 2013 were \$104,007,879, an increase of 1.8% from June 30, 2012. As of June 30, 2014, total liabilities decreased 8.0% to \$38,954,166, and total net position increased 15.4% to \$71,123,307. As of June 30, 2013, total liabilities increased 3.0% to \$42,361,891, and total net position increased 0.9% to \$61,645,988.

Statement of Net Position Information

	2014	2013	2012	Change from 2013 to 2014	Percent change from 2013 to 2014
Current assets	\$ 39,206,826	\$ 98,925,657	\$ 90,801,543	\$ (59,718,831)	-60.4%
Noncurrent investments	66,099,797	927,054	7,099,268	65,172,743	7030.1%
Capital assets	4,770,850	4,155,168	4,306,901	615,682	14.8%
TOTAL ASSETS	\$ 110,077,473	\$ 104,007,879	\$ 102,207,712	\$ 6,069,594	5.8%
Current liabilities	\$ 17,127,030	\$ 18,468,507	\$ 18,958,741	\$ (1,341,477)	-7.3%
Long-term liabilities	21,827,136	23,893,384	22,173,821	(2,066,248)	-8.6%
TOTAL LIABILITIES	38,954,166	42,361,891	41,132,562	(3,407,725)	-8.0%
Net position:					
Invested in capital assets	4,770,850	4,155,168	4,306,901	615,682	14.8%
Unrestricted	66,352,457	57,490,820	56,768,249	8,861,637	15.4%
TOTAL NET POSITION	71,123,307	61,645,988	61,075,150	9,477,319	15.4%
TOTAL LIABILITIES AND NET POSITION	\$ 110,077,473	\$ 104,007,879	\$ 102,207,712	\$ 6,069,594	5.8%

OMAG experienced increased participation in the property coverage of 2.9% in 2014 and 2.5% in 2013 to 375 insureds and 364 insureds, respectively. Participation in the liability coverage increased 1.0% in 2014 and 4% in 2013 to 479 insureds and 474 insureds, respectively.

Cash and investments comprise the largest portion of total assets totaling \$100,475,288 in 2014 and \$95,555,048 in 2013 and were approximately 91.3% of total assets in 2014 and 91.9% in 2013. During 2014 and 2013, the economy remained in a state of low growth and high unemployment, and the Federal government maintained interest rates at historically low levels in an attempt to spur economic growth. During 2014, the State of Oklahoma amended legislation that allowed OMAG to diversify its investment portfolio. As a result, OMAG reallocated a significant portion of its investment portfolio to municipal bonds, corporate bonds, and exchange traded funds. The increase in total assets of \$6,069,594 in 2014 and \$1,914,710 in 2013 was primarily in cash and investments provided by operating results.

Management's Discussion and Analysis--Continued
Oklahoma Municipal Assurance Group

FINANCIAL ANALYSIS--CONTINUED

Statement of Financial Position Information--Continued

Total liabilities decreased \$3,407,725 in 2014 and increased \$1,229,329 in 2013. In 2014, the decrease was primarily in reserves for claims losses and loss adjustment expenses which decreased \$4,195,023, with \$3,140,532 attributable to the liability coverage and \$1,054,491 to the property coverage. In 2013, the increase was primarily in reserves for claims losses and loss adjustment expenses which increased \$1,231,009, with \$625,505 attributable to the liability coverage and \$605,504 to the property coverage.

Total net position increased \$9,477,319 in 2014 and \$685,381 in 2013. In 2014, the increase was a result of increased operating revenues and underwriting results, increased returns on investments, and favorable claims development. In 2013, the increase was primarily result of increased operating revenues and underwriting results.

Statements of Revenues, Expenses, and Changes in Net Position Information

Operating revenues increased \$4,034,888, or 20.4%, in 2014 and \$2,251,363, or 12.8%, in 2013, and operating expenses decreased \$4,757,050 in 2014, or 24.9%, and increased \$966,171 in 2013, or 5.3%.

Statement of Revenues, Expenses, and Changes in Net Position Information

	2014	2013	2012	Change from 2013 to 2014	Percent change from 2013 to 2014
OPERATING REVENUES					
Premium and administrative services income	\$ 20,870,216	\$ 19,379,357	\$ 17,014,693	\$ 1,490,859	7.7%
Investment income	2,837,074	216,273	377,161	2,620,801	1211.8%
Commission and other income	112,131	188,903	141,316	(76,772)	-40.6%
TOTAL OPERATING REVENUES	23,819,421	19,784,533	17,533,170	4,034,888	20.4%
OPERATING EXPENSES					
Claims incurred, net	5,693,729	11,109,926	10,886,413	(5,416,197)	-48.8%
Cost of reinsurance	2,804,720	2,371,339	1,969,651	433,381	18.3%
Employee compensation and benefits	2,881,310	2,800,914	2,397,184	80,396	2.9%
Claims administration	1,237,480	1,215,857	1,303,361	21,623	1.8%
Other operating expenses	1,724,863	1,601,116	1,566,382	123,747	7.7%
TOTAL OPERATING EXPENSES	14,342,102	19,099,152	18,122,991	(4,757,050)	-24.9%
OPERATING INCOME (LOSS)	9,477,319	685,381	(589,821)	8,791,938	1282.8%
NET POSITION, BEGINNING OF YEAR	61,645,988	60,960,607	61,550,428	685,381	1.1%
NET POSITION, END OF YEAR	\$ 71,123,307	\$ 61,645,988	\$ 60,960,607	\$ 9,477,319	15.4%

Management's Discussion and Analysis--Continued
Oklahoma Municipal Assurance Group

FINANCIAL ANALYSIS—CONTINUED

Statements of Revenues, Expenses, and Changes in Net Position Information--Continued

In 2014, total operating revenues increased \$4,034,888, or 20.4%, when compared to the previous year. Liability and property premiums generated \$616,249 and \$1,520,267, respectively, of the overall increase, with investment income generating an increase of \$2,620,801. Workers' Compensation coverage accounted for a decrease of \$648,145. In 2013, total operating revenues increased \$2,251,363, or 12.8%, when compared to the previous year. Liability and property coverage generated \$990,093 and \$1,226,368, respectively, of the overall increase. Of the 2013 increase from liability, approximately \$700,000 resulted from increased premiums as a result of increased exposures, and the remainder resulted from decreased dividends. Of the 2013 increase from property, approximately \$800,000 resulted from increased premiums as a result of increased exposures and growth in the program, and the remainder resulted from decreased dividends.

In 2014, claims incurred decreased from the level of prior year as property claims decreased by \$3,442,116 and liability claims decreased by \$1,974,081. Cost of reinsurance increased \$433,381 in the property coverage as a result of OMAG's loss experience and increasing insured values. Employee compensation and benefits increased \$80,396 as a result of adding additional staff and increased benefit costs. In 2013, claims incurred were consistent with the level of the prior year as property claims increased by \$1,219,605 and liability claims decreased by \$1,035,836. Cost of reinsurance increased \$401,688 in the property coverage as a result of an increase in severity of claims in prior years. Other operating expenses increased \$34,734 as a result of adding additional staff and increased costs associated with moving to the new office location.

Statement of Cash Flow

The following summarizes OMAG's cash flows for the year ended June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
CASH PROVIDED BY (USED IN):			
Operating activities	\$ 3,577,913	\$ 1,884,538	\$ 1,882,435
Financing activities	(788,272)	(17,825)	(2,196,636)
Investing activities	<u>(27,974,119)</u>	<u>(34,701,896)</u>	<u>60,515,335</u>
NET INCREASE (DECREASE) IN			
CASH AND CASH EQUIVALENTS	(25,184,478)	(32,835,183)	60,201,134
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF YEAR	<u>46,634,580</u>	<u>79,469,763</u>	<u>19,268,629</u>
CASH AND CASH EQUIVALENTS			
AT END OF YEAR	<u>\$ 21,450,102</u>	<u>\$ 46,634,580</u>	<u>\$ 79,469,763</u>

Management's Discussion and Analysis--Continued
Oklahoma Municipal Assurance Group

FINANCIAL ANALYSIS—CONTINUED

Statement of Cash Flow--Continued

OMAG's overall liquidity decreased during the year ended June 30, 2014 with a net decrease to cash and cash equivalents of \$25,184,478. OMAG's overall liquidity decreased during the year ended June 30, 2013 with a net decrease to cash and cash equivalents of \$32,835,183. The cash provided by operating activities is primarily related to receipts of premium and administrative services income, offset by the payment of claims, reinsurance premiums, and administration expenses. Cash used in financing activities relates to the purchases of capital assets. Cash provided by or used in investing activities relates to net sales and purchases of investments.

ECONOMIC FACTORS

The insurance industry, like most other sectors, has been struggling to compensate for the depressed earnings on investments and the general lack of economic activity. OMAG's customer base is composed entirely of local governments. In an effort to alleviate some of the financial pressure on local governments, OMAG made significant reductions in premiums for liability and property coverage during 2012 but began easing reductions for 2013 and 2014. Tax revenues for the State of Oklahoma have shown increases over the prior year, prompting hopes that a return to normal business activity and tax revenues is on the horizon.

CONTACTING OMAG'S FINANCIAL MANAGEMENT

This financial report is designed to provide our membership, our reinsurance partners, and other interested parties with a general overview of OMAG's finances and to demonstrate OMAG's accountability for the contributions it receives. If you have questions about this report or need additional financial information, contact OMAG's finance department, 3650 S. Boulevard, Edmond, OK 73013-5581.

STATEMENTS OF NET POSITION

OKLAHOMA MUNICIPAL ASSURANCE GROUP

	June 30,	
	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,450,102	\$ 46,634,580
Investments	12,925,389	47,993,414
Premiums receivable, net	2,366,406	2,071,033
Reinsurance receivable	1,464,034	1,627,467
Accrued interest receivable	453,969	13,578
Other receivables	294	19,892
Deposits and prepaid expenses	<u>546,632</u>	<u>565,693</u>
TOTAL CURRENT ASSETS	39,206,826	98,925,657
NONCURRENT ASSETS		
Investments	66,099,797	927,054
Capital assets, net	<u>4,770,850</u>	<u>4,155,168</u>
TOTAL NONCURRENT ASSETS	70,870,647	5,082,222
TOTAL ASSETS	<u>\$ 110,077,473</u>	<u>\$ 104,007,879</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Reserves for claim losses and loss adjustment expenses, current portion	\$ 5,620,659	\$ 7,428,150
Deposit funding reserves, current portion	5,586,643	5,378,266
Accounts payable and accrued expenses	375,265	538,133
Advance premiums	484,543	317,551
Unearned premiums	<u>5,059,920</u>	<u>4,806,407</u>
TOTAL CURRENT LIABILITIES	17,127,030	18,468,507
NONCURRENT LIABILITIES		
Reserves for claim losses and loss adjustment expenses	16,319,195	18,706,727
Deposit funding reserves	<u>5,507,941</u>	<u>5,186,657</u>
TOTAL NONCURRENT LIABILITIES	21,827,136	23,893,384
TOTAL LIABILITIES	38,954,166	42,361,891
NET POSITION		
Invested in capital assets	4,770,850	4,155,168
Unrestricted	<u>66,352,457</u>	<u>57,490,820</u>
TOTAL NET POSITION	<u>71,123,307</u>	<u>61,645,988</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 110,077,473</u>	<u>\$ 104,007,879</u>

See accompanying notes to basic financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

OKLAHOMA MUNICIPAL ASSURANCE GROUP

	Year Ended June 30,	
	2014	2013
OPERATING REVENUES		
Premium and administrative services revenue	\$ 20,870,328	\$ 19,379,357
Investment income	2,836,962	216,273
Commissions and other revenue	112,131	188,903
TOTAL OPERATING REVENUES	<u>23,819,421</u>	<u>19,784,533</u>
OPERATING EXPENSES		
Claims incurred, net of recoveries	5,693,729	11,109,926
Cost of reinsurance	2,804,720	2,371,339
Employee compensation and benefits	2,881,310	2,800,914
Claims administration	1,237,480	1,215,857
Commissions and professional services	585,145	607,359
Insurance consultants	89,500	75,000
Other expenses	1,050,218	918,757
TOTAL OPERATING EXPENSES	<u>14,342,102</u>	<u>19,099,152</u>
OPERATING INCOME	9,477,319	685,381
NET POSITION AT BEGINNING OF YEAR	<u>61,645,988</u>	<u>60,960,607</u>
NET POSITION AT END OF YEAR	<u>\$ 71,123,307</u>	<u>\$ 61,645,988</u>

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA MUNICIPAL ASSURANCE GROUP

	Year Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums and administrative services received	\$ 20,995,348	\$ 18,291,289
Investment income received	266,084	272,578
Commissions and other operating cash received	131,729	210,554
Claims and benefits inclusive of net excess claim reimbursements of \$163,433 and \$110,955 for June 30, 2014 and 2013	(9,725,319)	(9,767,962)
Reinsurance paid	(2,802,782)	(2,363,044)
Compensation and benefits paid	(2,881,310)	(2,800,914)
Claims administration expenses paid	(1,344,665)	(1,126,736)
Professional services paid	(585,145)	(607,359)
Insurance consultants expenses paid	(89,500)	(75,000)
Other operating expenses paid	(916,188)	(705,864)
Deposit funding reserve contributions	9,379,061	9,075,846
Deposit funding reserve payments	<u>(8,849,400)</u>	<u>(8,518,850)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,577,913	1,884,538
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	<u>(788,272)</u>	<u>(17,825)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(788,272)	(17,825)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sales of investments	75,215,370	139,616
Purchase of investments	<u>(103,189,489)</u>	<u>(34,841,512)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(27,974,119)</u>	<u>(34,701,896)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,184,478)	(32,835,183)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>46,634,580</u>	<u>79,469,763</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 21,450,102</u>	<u>\$ 46,634,580</u>

STATEMENTS OF CASH FLOWS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

	Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 9,477,319	\$ 685,381
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	172,590	169,558
Realized and unrealized (gains) losses on investments	(2,130,599)	38,083
Changes in operating assets and liabilities:		
Premiums receivable	(295,373)	(392,587)
Reinsurance receivable	163,433	110,955
Deposits and prepaids	19,061	3,946
Other receivables	19,598	21,651
Reserves for claim losses and loss adjustments	(4,195,023)	1,231,009
Accounts payable and accrued expenses	(162,868)	(524,165)
Advanced premiums	166,992	(457,013)
Unearned premiums	253,513	422,502
Accrued interest receivable	(440,391)	18,222
Deposit funding reserves	529,661	556,996
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,577,913</u>	<u>\$ 1,884,538</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Net (increase) decrease in fair value of investments in deposit funding reserves	<u>\$ (226,212)</u>	<u>\$ 4,088</u>

See accompanying notes to basic financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE A--SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS

Organization: The Oklahoma Municipal Assurance Group (“OMAG”) became effective on June 1, 1977. The purpose of OMAG is to provide various types of insurance coverage to participating municipalities in the state of Oklahoma. As of June 30, 2014 and 2013, there were approximately 500 municipalities and agencies that were participating members within OMAG.

OMAG offers insurance coverage for municipal liability and municipal property. OMAG also provides administrative services for workers’ compensation insurance coverage.

OMAG is governed by a board of seven trustees elected by and from the members of OMAG. Trustee responsibilities include the management of OMAG’s programs and other services as contemplated by OMAG.

The title to all assets acquired by OMAG is vested in OMAG. In the event of termination of OMAG, such property shall belong to the then members of OMAG in equal shares. Each participating city pays for all costs, contributions, or other fees attributable to its respective participation in any coverage, policy, or service established under this agreement and is responsible for its obligation under any contract entered into with OMAG.

Basis of Accounting: For financial reporting purposes, OMAG is considered a special-purpose government entity engaged only in business-type activities. Accordingly, OMAG’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and such amounts could be significant.

Cash and Cash Equivalents: OMAG considers all demand deposit accounts, sweep accounts (including the federated short-term government fund) and investments with original maturities of 90 days or less, to be cash equivalents. Federated short-term government funds are commingled trust funds and are allocated on the basis of \$1.00 per share. This fund was composed of short-term U.S. government securities issued or guaranteed by the U.S. government, its agencies, or instrumentalities. Each shareholder in the fund shares the risk of loss on the fund in proportion to its respective investment.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE A--SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS--Continued

Cash and Cash Equivalents--Continued: Beginning in 2014, all uninvested cash balances held in investment accounts are swept to bank deposit sweep accounts. As June 30, 2014 and 2013, OMAG's cash and cash equivalents consisted of the following:

	2014	2013
Bank deposits	\$ 100,000	\$ 1,114,619
Federated short-term government funds	10,563,025	46,918,237
Bank deposit sweep (held in brokerage accounts)	12,086,069	-
Reconciling items	(1,298,992)	(1,398,276)
Total cash and cash equivalents	<u>\$ 21,450,102</u>	<u>\$ 46,634,580</u>

Investments: Investments consist of certain exchange traded funds, highly rated corporate and municipal bonds, government obligations, and mortgage-backed securities and are stated at fair value based on quoted prices with changes in fair value included as investment income in the statements of revenues, expenses, and changes in net position.

Investments are classified as current and noncurrent consistent with the contractual maturities of investments that mature within a year and greater than a year, respectively. Actual maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. As OMAG's investments are marketable securities, the securities can be liquidated and converted into cash based on management's determination.

Premiums Receivable: Premiums receivable consist of premiums billed to members for insurance coverages and incurred but unpaid deductible funds which are carried at the unpaid balance of the original amount billed. Premiums receivable are considered fully collectible by management, and as a result, no allowance is recorded at June 30, 2014 and 2013. Management determines the allowance for doubtful accounts by identifying troubled accounts, by using historical experience applied to an aging of accounts, and by considering the general economy and the industry as a whole. Premiums receivable are written off when deemed uncollectible. Recoveries of premiums receivable previously written off are credited to the allowance for doubtful accounts.

Reinsurance: In the ordinary course of business, OMAG has reinsured portions of its liability, property, and other insurance coverage to limit the amounts of potential losses on individual claims, although it does not discharge the primary responsibility of OMAG as direct insurance of the risks reinsured. Reinsurance is ceded on an excess of loss basis. OMAG does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance policy.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE A--SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS--Continued

Classification of Revenues: OMAG has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute OMAG's principal ongoing operations, such as member premiums. Nonoperating revenues consists of other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Revenue Recognition: The insurance coverages provided by OMAG have been determined to be short-duration contracts, and as such, the premiums are recognized as revenue over the period of the contract in proportion to the amount of coverage provided. Advanced premiums include amounts received in excess of amounts due and for which coverage has not yet been provided.

Administrative services income is recognized over the period of the contract on a pro rata basis.

Interest income on investments and changes in the fair value of investments are recognized in the statements of revenues, expenses, and changes in net position in the year in which they are earned.

Capital Assets: Capital assets are recorded at historical cost and are depreciated using the straight line method with the assets having a useful life of 5 to 40 years.

Deferred Policy Acquisition Costs: Acquisition costs, which consist primarily of commissions, are primarily related to the issuance of new and renewal insurance contracts. In accordance with GASB Statement No. 65, all acquisition costs of OMAG are expensed in the period incurred.

Claims Administration Costs and Claim Losses: Claims administration costs and other costs are recorded in the year in which they are incurred. Adjustments to reserves for claim losses and loss adjustment expense and policy and contract claims are charged or credited to expense in the year in which they are incurred. Unpaid loss and loss adjustment expenses are not discounted for expected investment rates of return.

Income Taxes: OMAG is a public entity organized under the laws of the state of Oklahoma and, as such, is considered to be an instrumentality of a political subdivision exempt from federal income taxes under Internal Revenue Code Section 115.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by OMAG that is applicable to a future reporting period. At June 30, 2014 and 2013, OMAG has no deferred inflows of resources.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE A--SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS--Continued

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the OMAG that is applicable to a future reporting period. At June 30, 2014 and 2013, OMAG has no deferred outflows of resources.

NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of bank failure, OMAG's deposits may not be returned to it. OMAG's deposit policy for custodial credit risk requires cash on deposit in financial institutions to be either fully insured by Federal Deposit Insurance or invested in commercial paper, repurchase agreements, U.S. Treasury Bills, certificates of deposits (within FDIC limits), money market funds and short-term collective trust funds to provide income, liquidity, and preservation of OMAG's principal value.

At June 30, 2014, cash deposits of OMAG totaled \$22,749,094 (exclusive of reconciling items of \$1,298,992). Of this amount \$10,563,069 was invested in short term U.S. government obligations and \$850,000 was covered by Federal Deposit Insurance. As of June 30, 2014, \$11,336,025 of uninvested cash was swept to money market accounts held by affiliated banks of the investment manager.

At June 30, 2013, cash deposits of OMAG totaled \$48,032,856 (exclusive of reconciling items of \$1,398,276). Of this amount \$46,918,237 was invested in short term U.S. government obligations, \$586,101 was covered by collateral held by the Federal Home Loan Bank, and \$250,000 was covered by Federal Deposit Insurance. As of June 30, 2013, \$278,518 was un-insured or under-collateralized. Additional collateral was obtained from Federal Home Loan Bank in September 2013 to adequately collateralize all cash deposits held.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS

Investments: The fair value of investments as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Federal agencies securities	\$ 703,253	\$ 45,994,334
Mortgage backed securities	9,352,627	927,054
U.S. treasury strips	-	1,999,080
Corporate bonds	6,736,130	-
Municipal bonds	50,684,170	-
Exchange traded funds	<u>11,549,006</u>	<u>-</u>
	<u>\$ 79,025,186</u>	<u>\$ 48,920,468</u>

The composition of investments and maturity schedule, stated at fair value at June 30, 2014, is summarized as follows:

	<u>Maturities (in Years)</u>				
	<u>Fair value</u>	<u><1</u>	<u>1-5</u>	<u>6-10</u>	<u>>10</u>
Federal agencies securities	\$ 703,253	\$ -	\$ -	\$ -	\$ 703,253
Mortgage backed securities	9,352,627	-	2,947,926	5,673,471	731,230
Corporate bonds	6,736,130	-	2,796,867	3,939,263	-
Municipal bonds	<u>50,684,170</u>	<u>1,376,383</u>	<u>20,242,104</u>	<u>18,942,129</u>	<u>10,123,554</u>
	<u>\$ 67,476,180</u>	<u>\$ 1,376,383</u>	<u>\$ 25,986,897</u>	<u>\$ 28,554,863</u>	<u>\$ 11,558,037</u>

Custodial Credit Risk - Investments: For an investment, custodial credit risk is the risk that OMAG will not be able to recover the value of its investments that are in the possession of its safekeeping custodians. All of OMAG's investments are held by its agent in OMAG's name. Accordingly, no investments are subject to custodial credit risk.

Credit Risk: For an investment, credit risk is the risk that the issuer or other counter-party to an investment will not fulfill its obligation, causing OMAG to experience a loss of principle. OMAG's Board approved investment policy limits investments to those securities allowed by Oklahoma statutes for municipalities created for the purpose of securing benefits and services relating to insurance for Oklahoma municipalities.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Credit Risk--Continued: Federal agency and mortgage backed securities may contain provisions that they are callable before maturity at the option of the issuer with call dates of less than one year. OMAG assumes all investments will be held to their stated maturity regardless of any call or prepayment provisions. The credit risk profile of OMAG's bond portfolio as listed by Moody's or Standards and Poor's at June 30, 2014 is as follows:

	AAA	AA	A	BBB	BB	Not Rated	Total
Federal agencies securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 703,253	\$ 703,253
Mortgage backed securities	-	9,352,627	-	-	-	-	9,352,627
Municipal bonds	162,885	21,479,947	20,904,125	515,119	7,622,094	-	50,684,170
Corporate bonds	-	-	135,333	887,222	5,713,575	-	6,736,130
	<u>\$ 162,885</u>	<u>\$ 30,832,574</u>	<u>\$ 21,039,458</u>	<u>\$ 1,402,341</u>	<u>\$ 13,335,669</u>	<u>\$ 703,253</u>	<u>\$ 67,476,180</u>

OMAG's bond portfolio, as of June 30, 2013, of \$48,920,568 is considered U.S. government and agency bonds with no credit rating provided by OMAG's Trust Company.

Concentration of Credit Risk: The Board approved policy places no limit on the amount OMAG may invest in any one issuer. More than five percent of OMAG's investments were in the following securities (U.S. government and its federal agency obligations, which are explicitly guaranteed by the U.S. government, are exempt from this schedule):

	2014	2013
SPDR S&P 500 Trust	9%	*
Federal Home Loan Bank	6%	*
Federal Home Loan Mortgage Corporation	5%	*

* Does not represent more than 5% of investments for the year presented.

Interest Rate Risk: OMAG does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Board approved investment policy sets forth a general strategy to manage interest rate risk by investing in short or long term securities depending on whether interest rates are rising or falling.

In addition to custodial, credit, and interest rate risk related to its bond portfolio, OMAG has market volatility risk associated with each investment. It is at least reasonably possible that changes in the value of investment securities will occur in the near term and in such amounts that could be material.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investment Income: The composition of investment income is summarized as follows as of June 30:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 706,475	\$ 254,356
Unrealized gains (losses)	2,210,475	(199,217)
Realized gains (losses)	<u>(79,876)</u>	<u>161,134</u>
	<u>\$ 2,837,074</u>	<u>\$ 216,273</u>

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year.

NOTE C--CAPITAL ASSETS

Capital assets consist of the following at June 30, 2014 and 2013:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Capital assets:				
Office building	\$ 3,507,893	\$ -	\$ -	\$ 3,507,893
Land	464,026	-	-	464,026
Software work in process	-	751,773	-	751,773
Furnishings and equipment	<u>591,953</u>	<u>36,499</u>	<u>(9,065)</u>	<u>619,387</u>
TOTAL CAPITAL ASSETS	4,563,872	788,272	(9,065)	5,343,079
Accumulated depreciation:				
Office building	135,201	87,695	-	222,896
Furnishings and equipment	<u>273,503</u>	<u>84,895</u>	<u>(9,065)</u>	<u>349,333</u>
TOTAL ACCUMULATED DEPRECIATION	<u>408,704</u>	<u>172,590</u>	<u>(9,065)</u>	<u>572,229</u>
Capital assets, net	<u>\$ 4,155,168</u>	<u>\$ 615,682</u>	<u>\$ -</u>	<u>\$ 4,770,850</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE C--CAPITAL ASSETS--Continued

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Capital assets:				
Office building	\$ 3,507,893	\$ -	\$ -	\$ 3,507,893
Land	464,026	-	-	464,026
Furnishings and equipment	<u>651,040</u>	<u>17,825</u>	<u>(76,912)</u>	<u>591,953</u>
TOTAL CAPITAL ASSETS	<u>4,622,959</u>	<u>17,825</u>	<u>(76,912)</u>	<u>4,563,872</u>
Accumulated depreciation:				
Office building	47,503	87,698	-	135,201
Furnishings and equipment	<u>268,555</u>	<u>81,860</u>	<u>(76,912)</u>	<u>273,503</u>
TOTAL ACCUMULATED DEPRECIATION	<u>316,058</u>	<u>169,558</u>	<u>(76,912)</u>	<u>408,704</u>
Capital assets, net	<u>\$ 4,306,901</u>	<u>\$ (151,733)</u>	<u>\$ -</u>	<u>\$ 4,155,168</u>

NOTE D--RESERVES FOR CLAIM LOSSES AND LOSS ADJUSTMENT EXPENSES

OMAG estimated losses and loss adjustment expenses are based on historical experience and payment and reporting patterns. These estimates are based on data available at the time of the estimate and are reviewed by OMAG's independent consulting actuary.

Reserves for claim losses and loss adjustment expenses include provisions for reported claims on a case basis and an estimate of claims incurred but not reported, limited by aggregate and individual loss levels as specified by OMAG's reinsurance contracts. These reinsurance credits, if any, represent contingent liabilities of OMAG if the reinsurer was unable to meet its obligation under the reinsurance agreement.

Actual claims incurred and an estimate of claims incurred but not reported are reflected in incurred claim losses in the statements of revenues, expenses, and changes in net position. The estimate of claims incurred but not reported is based on a composite of OMAG's experience and that of the general property and casualty insurance industry.

Management believes that the reserves for claim losses and loss adjustment expenses at June 30, 2014 and 2013 are adequate to cover the ultimate net cost of claim losses and loss adjustment expenses to date.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE D--RESERVES FOR CLAIM LOSSES AND LOSS ADJUSTMENT EXPENSES--Continued

Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical statistics that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Although these estimates are OMAG's best estimate of the ultimate value, the actual results may vary from these values and may do so in the near term.

OMAG established a reserve for both reported and unreported insured events, which include estimates of both future payments of claim losses and related allocated and unallocated loss adjustment expenses. The reserve for unallocated loss adjustment expenses included in reserves for claim losses and loss adjustment expenses was \$4,072,838 and \$3,990,358 at June 30, 2014 and 2013, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE D--RESERVES FOR CLAIM LOSSES AND LOSS ADJUSTMENT EXPENSES--Continued

The following represents changes in those liabilities for OMAG during 2014, 2013, and 2012:

	2014		2013		2012	
	Liability	Property	Liability	Property	Liability	Property
Reserves for claim losses and loss adjustment expenses, beginning of year	\$ 24,228,727	\$ 3,051,516	\$ 23,623,222	\$ 1,798,285	\$ 23,235,325	\$ 2,771,233
Less: reinsurance recoverables	-	(1,145,366)	(20,000)	(497,639)	(145,000)	(1,925,197)
Net balance, beginning of year	24,228,727	1,906,150	23,603,222	1,300,646	23,090,325	846,036
Incurred claim losses and loss adjustment expenses:						
Provision for insured events of the current year	7,907,194	2,446,391	8,475,988	3,277,693	9,318,451	2,900,762
Changes in provision for insured events of prior years	(4,212,381)	(447,475)	(1,339,059)	695,304	(1,145,686)	(147,370)
Total incurred claim losses and loss adjustment expenses	3,694,813	1,998,916	7,136,929	3,972,997	8,172,765	2,753,392
Payments:						
Claim payments and loss adjustment expenses attributable to insured events of the current year	(2,384,194)	(1,982,733)	(1,670,988)	(1,811,199)	(2,577,451)	(1,740,641)
Claim payments and loss adjustment expenses attributable to insured events of prior years	(4,451,151)	(1,070,674)	(4,840,436)	(1,556,294)	(5,082,417)	(558,141)
Total payments	(6,835,345)	(3,053,407)	(6,511,424)	(3,367,493)	(7,659,868)	(2,298,782)
Net reserve for claim losses and loss adjustment expenses, end of year	21,088,195	851,659	24,228,727	1,906,150	23,603,222	1,300,646
Plus reinsurance recoverables	-	1,831,662	-	1,145,366	20,000	497,639
Reserve for claim losses and loss adjustment expenses, end of year	\$ 21,088,195	\$ 2,683,321	\$ 24,228,727	\$ 3,051,516	\$ 23,623,222	\$ 1,798,285

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE D--RESERVES FOR CLAIM LOSSES AND LOSS ADJUSTMENT EXPENSES--Continued

As a result of changes in estimates of insured events in prior years, the provision for liability claim losses and loss adjustment expenses decreased by approximately \$4,212,000 in 2014, \$1,339,000 in 2013, and \$1,146,000 in 2012 due to favorable development on case basis reserves and less-than-anticipated incurred but not reported losses and loss adjustment expenses.

As a result of changes in estimates of insured events in prior years, the provision for property claim losses and loss adjustment expenses decreased by approximately \$447,000 in 2014 due to favorable development on case basis reserves and less-than-anticipated incurred but not reported losses and loss adjustment expenses. The provision for property claim losses and loss adjustment expenses increased by approximately \$695,000 in 2013 due to unfavorable development on case basis reserves and more-than-anticipated incurred but not reported losses and loss adjustment expenses. The provision for property claim losses and loss adjustment expenses decreased by approximately \$147,000 in 2012 due to favorable development on case basis reserves and less-than-anticipated incurred but not reported losses and loss adjustment expenses.

OMAG estimates current and noncurrent reserve for claim losses and loss adjustment expenses based on historical paid losses and loss adjustment expenses.

NOTE E--REINSURANCE

OMAG's liability insurance agreements are also reinsured for excess losses. A summary of the significant components of the reinsurance contracts for the years ended June 30, 2014 and 2013 is as follows:

Responsibility for individual losses			Aggregate deductible and plan limits	Cost of reinsurance
Group	Reinsurer	Insured		
June 30, 2014			\$300,000 self-insured retentions; plan limit of \$1,000,000 for personal injury and errors and omissions.	\$595,000 for policy year ended October 31, 2013; \$595,000 for policy year ended October 31, 2014.
Up to \$300,000	\$300,000 to \$1,000,000	Excess over \$1,000,000		

Responsibility for individual losses			Aggregate deductible and plan limits	Cost of reinsurance
Group	Reinsurer	Insured		
June 30, 2013			\$300,000 self-insured retentions; plan limit of \$1,000,000 for personal injury and errors and omissions.	\$595,000 for policy year ended October 31, 2012; \$595,000 for policy year ended October 31, 2013.
Up to \$300,000	\$300,000 to \$1,000,000	Excess over \$1,000,000		

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE E--REINSURANCE

OMAG's property insurance agreements are also reinsured for excess losses. OMAG is reinsured for property losses in excess of \$150,000, except for wind and hail losses (\$500,000 beginning July 1, 2014 and \$400,000 prior to July 1, 2014), with limits ranging from \$150,000 to \$100,000,000 per member per occurrence with maximum all risk per occurrence ranging up to \$1,000,000,000, depending on the property reinsured, at a cost of approximately \$2,210,000 and \$1,776,000 for the years ended June 30, 2014 and 2013, respectively.

OMAG's reinsurance arrangements minimize OMAG's losses arising from large risks or from hazards of an unusual nature. Although the ceding of insurance does not discharge OMAG from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes the related liability, and it is the practice of insurers for accounting purposes to treat insured risks, to the extent of the coverage ceded, as though they were risks for which the original insurer is not liable. Failure of the reinsurer to honor its obligation could result in losses to OMAG. OMAG evaluates the financial condition of its reinsurer to minimize its exposure to significant losses. Management believes that the reinsurers presently used are financially sound and will be able to meet their contractual obligations.

NOTE F--WORKERS' COMPENSATION INSURANCE

OMAG acts in an agency capacity with respect to workers' compensation coverage provided to participating municipalities. Municipalities remit contributions to OMAG, which are based on the estimated ultimate costs of settling workers' compensation claims, limited to specific retention levels of each participating municipality. OMAG collects premiums for excess stop-loss coverage from the municipalities and remits them directly to the excess stop-loss carrier. If benefits paid exceed funded contributions, the excess stop-loss carrier provides coverage. To the extent that funded contributions are in excess of benefits paid, amounts are refundable to the respective municipality or used to reduce future contributions.

Such amounts, including allocations for interest earnings, are reflected as deposit funding reserves in the accompanying statements of net position (see Note G). As such, OMAG retains no insurance risk on the workers' compensation coverage and has not reflected contributions collected and benefits paid in the accompanying statements of revenues, expenses, and changes in net position; however, charges for administrative costs and other expenses associated with workers' compensation are included in the accompanying statements of revenues, expenses, and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

NOTE G--DEPOSIT FUNDING RESERVES

The following summarizes the deposit funding reserves for municipalities with workers' compensation coverage (see note F) for the years ended June 30, 2014 and 2013, respectively:

	<u>2014</u>	<u>2013</u>
Deposit funding reserve, beginning of year	\$ 10,564,923	\$ 10,007,927
Contributions	9,055,299	9,070,089
Allocation of investment income and changes in fair value of investments	323,762	5,756
Claims paid, net of recoveries	(8,265,831)	(7,685,242)
Return to municipalities	<u>(583,569)</u>	<u>(833,607)</u>
Deposit funding reserve, end of year	<u>\$ 11,094,584</u>	<u>\$ 10,564,923</u>

OMAG estimates current and noncurrent deposit funding reserves based on the estimated deposit to be returned to the municipalities over the next 12 months or utilized for claims based on historical claims experience.

NOTE H--RETIREMENT PLAN

OMAG's employees participate in the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (the "Plan"). The Plan is a retirement program for cities, towns, and municipal agencies in Oklahoma. Substantially all employees, including part-time employees, are eligible for this defined contribution plan immediately upon employment. OMAG contributes 17% of total covered compensation to the Plan. Contributions made by OMAG are 100% vested after five years of service, except for part-time employees which vest immediately. The Plan Committee intends to continue to participate in the plan indefinitely; however, they do reserve the right to amend or terminate the plan if it becomes necessary. Contributions to the plan were approximately \$353,000 and \$358,000 for the years ended June 30, 2014 and 2013, respectively. There were no forfeitures utilized to offset contributions during the years ended June 30, 2014 and 2013, respectively.

Employer contributions are recognized in the period that the contributions are due. All contributions are made to the Plan, which is a separate entity from OMAG. Accordingly, the assets and liabilities of the Plan are not reflected in OMAG's financial statements.

Retirees of OMAG are eligible to receive health benefits from OMAG by paying their health premiums after retirement. Given the nature of the health plan and the overall immateriality of the benefits, no amounts are accrued in the financial statements.

SCHEDULE 1--REQUIRED SUPPLEMENTARY INFORMATION--CLAIMS DEVELOPMENT COVERAGE

LIABILITY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

The following table illustrates how the Group's earned premium revenues and investment income (net of reinsurance) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Group as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each of the fiscal year's earned premium revenues and investment revenues, net of costs for reinsurance.
- (2) This line shows each fiscal year's other administrative costs of the Group including overhead and claims expense not allocable to individual claims.
- (3) This line shows the Group's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each policy year.
- (6) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously reported.
- (7) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

See accompanying independent auditors' report.

SCHEDULE 1--REQUIRED SUPPLEMENTARY INFORMATION--CLAIMS DEVELOPMENT COVERAGE--Continued

LIABILITY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
(1) Premiums and investment revenue, as originally reported at end of policy year:										
Earned	\$ 14,426,150	\$ 11,785,922	\$ 10,941,698	\$ 11,593,862	\$ 12,997,838	\$ 14,899,992	\$ 16,620,966	\$ 15,262,592	\$ 13,096,066	\$ 12,494,476
Ceded	595,000	595,000	595,000	595,000	607,500	632,917	812,941	907,367	820,670	766,834
Net earned	13,831,150	11,190,922	10,346,698	10,998,862	12,390,338	14,267,075	15,808,025	14,355,225	12,275,396	11,727,642
(2) Unallocated expenses, as originally reported at end of policy year	2,951,585	2,904,139	2,881,400	2,537,290	2,420,364	2,440,134	2,548,632	2,218,300	2,275,033	2,288,537
(3) Estimated losses and expenses, end of policy year:										
Incurred	7,907,194	8,475,988	9,318,451	8,626,500	8,414,307	7,749,359	10,417,878	8,594,010	8,553,210	7,981,450
Ceded	-	-	-	-	20,000	-	450,000	-	-	-
Net incurred	7,907,194	8,475,988	9,318,451	8,626,500	8,394,307	7,749,359	9,967,878	8,594,010	8,553,210	7,981,450
(4) Net paid (cumulative) as of:										
End of policy year	2,384,194	1,670,988	2,577,451	1,883,500	1,628,307	1,750,334	2,631,879	1,385,010	1,788,210	1,233,855
One year later		3,188,435	3,907,862	3,070,803	3,587,843	2,700,340	3,719,938	2,632,856	3,310,541	2,684,321
Two years later			5,303,915	4,478,824	5,786,729	3,189,262	5,974,873	4,068,227	4,879,016	3,932,459
Three years later				5,765,664	6,758,797	3,958,902	6,686,882	4,894,497	6,451,981	4,869,762
Four years later					6,497,843	4,447,658	7,056,470	5,370,028	7,385,400	5,379,154
Five years later						4,646,566	7,153,950	5,696,327	7,605,781	5,484,748
Six years later							7,178,979	5,759,965	7,610,944	5,572,542
Seven years later								5,795,183	7,603,576	5,714,660
Eight years later									7,626,487	6,196,887
Nine years later										6,424,944
(5) Reestimated ceded losses and expenses	-	-	-	-	-	-	450,000	-	-	-
(6) Reestimated net incurred losses and expenses:										
End of policy year	7,907,194	8,475,988	9,318,451	8,626,500	8,394,307	7,749,359	9,967,878	8,594,010	8,553,210	7,981,450
One year later		7,483,435	9,107,861	8,403,803	9,363,843	5,429,340	9,908,938	8,056,856	8,321,541	7,631,321
Two years later			8,117,915	7,716,824	9,409,729	5,463,418	9,116,873	7,830,227	8,384,016	7,686,459
Three years later				6,946,664	8,752,797	5,354,902	8,728,726	6,836,497	8,372,981	6,905,762
Four years later					7,546,843	5,278,658	8,351,470	6,648,028	7,935,151	6,440,154
Five years later						5,101,566	8,175,950	6,488,327	7,775,781	6,072,351
Six years later							7,812,979	6,402,977	7,693,944	5,956,542
Seven years later								6,177,183	7,667,576	5,948,660
Eight years later									7,721,486	6,472,887
Nine years later										6,860,944
(7) (Decrease) increase in estimated net incurred losses and expenses from end of policy year	-	(992,553)	(1,200,536)	(1,679,836)	(847,464)	(2,647,793)	(2,154,899)	(2,416,827)	(831,724)	(1,120,506)

SCHEDULE 2--REQUIRED SUPPLEMENTARY INFORMATION--CLAIMS DEVELOPMENT COVERAGE

PROPERTY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

The following table illustrates how the Group's earned premium revenues and investment income (net of reinsurance) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Group as of the end of each of the last seven years. The rows of the table are defined as follows:

- (1) This line shows the total of each of the fiscal year's earned premium revenues, commissions, and investment revenues, net of costs for reinsurance.
- (2) This line shows each fiscal year's other administrative costs of the Group including overhead and claims expense not allocable to individual claims.
- (3) This line shows the Group's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each policy year.
- (6) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously reported.
- (7) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

See accompanying independent auditors' report.

SCHEDULE 2--REQUIRED SUPPLEMENTARY INFORMATION--CLAIMS DEVELOPMENT COVERAGE--Continued

PROPERTY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

	Years ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
(1) Premiums and investment revenue, as originally reported at end of policy year:										
Earned	\$ 8,233,062	\$ 6,194,183	\$ 4,994,237	\$ 4,648,266	\$ 4,978,367	\$ 5,354,560	\$ 5,948,739	\$ 6,036,217	\$ 5,736,981	\$ 4,875,233
Ceded	<u>2,209,720</u>	<u>1,776,339</u>	<u>1,374,651</u>	<u>1,095,471</u>	<u>869,489</u>	<u>730,879</u>	<u>658,184</u>	<u>679,445</u>	<u>781,626</u>	<u>1,043,249</u>
Net earned	6,023,342	4,417,844	3,619,586	3,552,795	4,108,878	4,623,681	5,290,555	5,356,772	4,955,355	3,831,984
(2) Unallocated expenses, as originally reported at end of policy year	1,163,015	979,408	1,005,903	771,302	799,490	848,541	858,852	871,790	920,709	962,443
(3) Estimated losses and expenses, end of policy year:										
Incurred	2,675,550	3,767,693	3,166,747	4,468,532	2,720,016	1,672,215	3,208,669	1,932,276	1,731,762	829,813
Ceded	<u>229,159</u>	<u>490,000</u>	<u>265,985</u>	<u>2,348,915</u>	<u>963,987</u>	<u>222,268</u>	<u>556,193</u>	<u>610,398</u>	<u>317,370</u>	<u>-</u>
Net incurred	2,446,391	3,277,693	2,900,762	2,119,617	1,756,029	1,449,947	2,652,476	1,321,878	1,414,392	829,813
(4) Net paid (cumulative) as of:										
End of policy year	1,982,733	1,811,199	1,740,641	1,234,047	964,534	904,428	1,456,798	845,567	770,500	393,879
One year later		2,897,134	3,479,944	2,203,094	1,914,771	1,433,310	2,304,209	1,298,275	1,368,667	989,370
Two years later			3,760,883	3,248,904	1,645,296	1,522,456	2,837,827	1,269,576	1,390,684	981,345
Three years later				2,624,452	1,435,377	1,545,705	2,778,924	1,242,673	1,355,859	981,401
Four years later					1,658,360	1,637,041	2,672,430	1,296,486	1,353,860	980,401
Five years later						1,637,041	2,672,430	1,297,127	1,353,860	980,401
Six years later							2,670,595	1,297,127	1,351,861	980,401
Seven years later								1,291,639	1,351,861	980,401
Eight years later									1,357,347	980,401
Nine years later										1,022,527
(5) Reestimated ceded losses and expenses	(229,159)	(2,785,117)	(532,025)	(2,855,851)	(2,420,830)	(554,233)	(434,045)	(828,804)	(241,144)	(80,940)
(6) Reestimated net incurred losses and expenses:										
End of policy year	2,446,391	3,277,693	2,900,762	2,119,617	1,756,029	1,449,947	2,652,476	1,321,878	1,414,392	829,813
One year later		2,928,827	3,947,019	2,314,304	1,904,819	1,558,348	2,614,983	1,321,233	1,441,573	981,326
Two years later			3,836,212	2,191,807	1,622,695	1,527,620	2,986,998	1,269,576	1,409,830	981,469
Three years later				1,974,787	1,394,104	1,568,908	2,744,178	1,241,455	1,358,184	981,401
Four years later					1,622,651	1,569,043	2,672,430	1,296,486	1,353,860	980,401
Five years later						1,543,436	2,672,430	1,297,127	1,353,860	980,401
Six years later							2,670,595	1,297,127	1,351,860	980,401
Seven years later								1,291,639	1,351,860	980,401
Eight years later									1,357,347	980,401
Nine years later										1,022,527
(7) (Decrease) increase in estimated net incurred losses and expenses from end of policy year	-	(348,866)	935,450	(144,830)	(133,378)	93,489	18,119	(30,239)	(57,045)	192,714

SCHEDULE 3 -- SUPPLEMENTARY INFORMATION
STATEMENT OF NET POSITION - INFORMATION BY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

	Liability	Property	Workers' Compensation	Operating	Eliminations	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ (248,214)	\$ (267,967)	\$ (763,723)	\$ 22,730,006	\$ -	\$ 21,450,102
Investments	-	-	-	12,925,389	-	12,925,389
Premiums receivable, net	1,400,123	948,440	17,843	-	-	2,366,406
Reinsurance receivable	-	1,059,956	404,078	-	-	1,464,034
Accrued interest receivable	-	-	-	453,969	-	453,969
Other receivables	-	-	-	294	-	294
Deposits and prepaid expenses	502,083	-	25,925	46,436	(27,812)	546,632
TOTAL CURRENT ASSETS	1,653,992	1,740,429	(315,877)	36,156,094	(27,812)	39,206,826
NONCURRENT ASSETS						
Investments	-	-	-	66,099,797	-	66,099,797
Capital assets, net	-	-	-	4,770,850	-	4,770,850
Interplan receivable	67,685,411	19,774,974	11,971,056	-	(99,431,441)	-
TOTAL NONCURRENT ASSETS	67,685,411	19,774,974	11,971,056	70,870,647	(99,431,441)	70,870,647
TOTAL ASSETS	\$ 69,339,403	\$ 21,515,403	\$ 11,655,179	\$ 107,026,741	\$ (99,459,253)	\$ 110,077,473
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Reserves for claim losses and loss adjustment expenses	\$ 4,769,000	\$ 851,659	\$ -	\$ -	\$ -	\$ 5,620,659
Deposit funding reserves, current portion	-	-	5,586,643	-	-	5,586,643
Accounts payable and accrued expenses	75,860	36,776	79,297	183,332	-	375,265
Advance premiums	344,584	139,959	-	-	-	484,543
Unearned premiums	2,915,369	2,172,363	-	-	(27,812)	5,059,920
TOTAL CURRENT LIABILITIES	8,104,813	3,200,757	5,665,940	183,332	(27,812)	17,127,030
NONCURRENT LIABILITIES						
Reserves for claim losses and loss adjustment expenses	16,319,195	-	-	-	-	16,319,195
Deposit funding reserves	-	-	5,507,941	-	-	5,507,941
Interplan payable	-	-	-	99,431,441	(99,431,441)	-
TOTAL NONCURRENT LIABILITIES	16,319,195	-	5,507,941	99,431,441	(99,431,441)	21,827,136
TOTAL LIABILITIES	24,424,008	3,200,757	11,173,881	99,614,773	(99,459,253)	38,954,166
NET POSITION						
Invested in capital assets	-	-	-	4,770,850	-	4,770,850
Unrestricted	44,915,395	18,314,646	481,298	2,641,118	-	66,352,457
TOTAL NET POSITION	44,915,395	18,314,646	481,298	7,411,968	-	71,123,307
TOTAL LIABILITIES AND NET POSITION	\$ 69,339,403	\$ 21,515,403	\$ 11,655,179	\$ 107,026,741	\$ (99,459,253)	\$ 110,077,473

See accompanying independent auditors' report.

SCHEDULE 4 -- SUPPLEMENTARY INFORMATION
STATEMENT OF NET POSITION - INFORMATION BY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2013

	Liability	Property	Workers' Compensation	Operating	Eliminations	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 2,027,637	\$ 2,233,512	\$ 1,503,164	\$ 40,870,267	\$ -	\$ 46,634,580
Investments	-	-	-	47,993,414	-	47,993,414
Premiums receivable, net	1,209,851	842,143	19,039	-	-	2,071,033
Reinsurance receivable	-	1,167,271	460,196	-	-	1,627,467
Accrued interest receivable	-	-	-	13,578	-	13,578
Other receivables	-	-	-	19,892	-	19,892
Deposits and prepaid expenses	502,083	-	25,925	66,785	(29,100)	565,693
TOTAL CURRENT ASSETS	3,739,571	4,242,926	2,008,324	88,963,936	(29,100)	98,925,657
NONCURRENT ASSETS						
Investments	-	-	-	927,054	-	927,054
Capital assets, net	-	-	-	4,155,168	-	4,155,168
Interplan receivable	61,427,942	15,234,395	9,563,383	-	(86,225,720)	-
TOTAL NONCURRENT ASSETS	61,427,942	15,234,395	9,563,383	5,082,222	(86,225,720)	5,082,222
TOTAL ASSETS	\$ 65,167,513	\$ 19,477,321	\$ 11,571,707	\$ 94,046,158	\$ (86,254,820)	\$ 104,007,879
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Reserves for claim losses and loss adjustment expenses	\$ 5,522,000	\$ 1,906,150	\$ -	\$ -	\$ -	\$ 7,428,150
Deposit funding reserves, current portion	-	-	5,378,266	-	-	5,378,266
Accounts payable and accrued expenses	143,512	29,509	151,290	213,822	-	538,133
Advance premiums	175,970	141,581	-	-	-	317,551
Unearned premiums	2,888,661	1,946,846	-	-	(29,100)	4,806,407
TOTAL CURRENT LIABILITIES	8,730,143	4,024,086	5,529,556	213,822	(29,100)	18,468,507
NONCURRENT LIABILITIES						
Reserves for claim losses and loss adjustment expenses	18,706,727	-	-	-	-	18,706,727
Deposit funding reserves	-	-	5,186,657	-	-	5,186,657
Interplan payable	-	-	-	86,225,720	(86,225,720)	-
TOTAL NONCURRENT LIABILITIES	18,706,727	-	5,186,657	86,225,720	(86,225,720)	23,893,384
TOTAL LIABILITIES	27,436,870	4,024,086	10,716,213	86,439,542	(86,254,820)	42,361,891
NET POSITION						
Invested in capital assets	-	-	-	4,155,168	-	4,155,168
Unrestricted	37,730,643	15,453,235	855,494	3,451,448	-	57,490,820
TOTAL NET POSITION	37,730,643	15,453,235	855,494	7,606,616	-	61,645,988
TOTAL LIABILITIES AND NET POSITION	\$ 65,167,513	\$ 19,477,321	\$ 11,571,707	\$ 94,046,158	\$ (86,254,820)	\$ 104,007,879

See accompanying independent auditors' report.

SCHEDULE 5 -- SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - INFORMATION BY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2014

	<u>Liability</u>	<u>Property</u>	<u>Workers' Compensation</u>	<u>Operating</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES						
Premium and administrative services revenue	\$ 12,291,878	\$ 7,657,303	\$ 997,408	\$ -	\$ (76,261)	\$ 20,870,328
Investment income	2,116,772	525,051	-	195,139	-	2,836,962
Management fee	-	-	-	3,475,000	(3,475,000)	-
Commissions and other revenue	<u>17,500</u>	<u>50,708</u>	<u>-</u>	<u>43,923</u>	<u>-</u>	<u>112,131</u>
TOTAL OPERATING REVENUES	<u>14,426,150</u>	<u>8,233,062</u>	<u>997,408</u>	<u>3,714,062</u>	<u>(3,551,261)</u>	<u>23,819,421</u>
OPERATING EXPENSES						
Claims incurred, net of recoveries	3,694,813	1,998,916	-	-	-	5,693,729
Cost of reinsurance	595,000	2,209,720	-	-	-	2,804,720
Employee compensation and benefits	-	-	-	2,881,310	-	2,881,310
Trust administration	1,800,000	900,000	775,000	-	(3,475,000)	-
Claims administration	577,883	90,855	568,742	-	-	1,237,480
Commissions and professional services	290,187	171,945	-	123,013	-	585,145
Insurance consultants	89,500	-	-	-	-	89,500
Other expenses	<u>194,015</u>	<u>215</u>	<u>27,862</u>	<u>904,387</u>	<u>(76,261)</u>	<u>1,050,218</u>
TOTAL OPERATING EXPENSES	<u>7,241,398</u>	<u>5,371,651</u>	<u>1,371,604</u>	<u>3,908,710</u>	<u>(3,551,261)</u>	<u>14,342,102</u>
OPERATING INCOME (LOSS)	7,184,752	2,861,411	(374,196)	(194,648)	-	9,477,319
NET POSITION AT BEGINNING OF YEAR	<u>37,730,643</u>	<u>15,453,235</u>	<u>855,494</u>	<u>7,606,616</u>	<u>-</u>	<u>61,645,988</u>
NET POSITION AT END OF YEAR	<u>\$ 44,915,395</u>	<u>\$ 18,314,646</u>	<u>\$ 481,298</u>	<u>\$ 7,411,968</u>	<u>\$ -</u>	<u>\$ 71,123,307</u>

See accompanying independent auditors' report.

SCHEDULE 6 -- SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - INFORMATION BY INSURANCE COVERAGE

OKLAHOMA MUNICIPAL ASSURANCE GROUP

June 30, 2013

	<u>Liability</u>	<u>Property</u>	<u>Workers' Compensation</u>	<u>Operating</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES						
Premium and administrative services revenue	\$ 11,675,629	\$ 6,137,036	\$ 1,645,441	\$ -	\$ (78,749)	\$ 19,379,357
Investment income	110,293	27,377	11,700	66,903	-	216,273
Management fee	-	-	-	3,225,000	(3,225,000)	-
Commissions and other revenue	-	29,770	-	159,133	-	188,903
TOTAL OPERATING REVENUES	<u>11,785,922</u>	<u>6,194,183</u>	<u>1,657,141</u>	<u>3,451,036</u>	<u>(3,303,749)</u>	<u>19,784,533</u>
OPERATING EXPENSES						
Claims incurred, net of recoveries	7,136,929	3,972,997	-	-	-	11,109,926
Cost of reinsurance	595,000	1,776,339	-	-	-	2,371,339
Employee compensation and benefits	-	-	-	2,800,914	-	2,800,914
Trust administration	1,750,000	700,000	775,000	-	(3,225,000)	-
Claims administration	629,401	70,455	516,001	-	-	1,215,857
Commissions and professional services	308,728	141,641	-	156,990	-	607,359
Insurance consultants	75,000	-	-	-	-	75,000
Other expenses	141,010	67,312	17,020	772,164	(78,749)	918,757
TOTAL OPERATING EXPENSES	<u>10,636,068</u>	<u>6,728,744</u>	<u>1,308,021</u>	<u>3,730,068</u>	<u>(3,303,749)</u>	<u>19,099,152</u>
OPERATING INCOME (LOSS)	1,149,854	(534,561)	349,120	(279,032)	-	685,381
NET POSITION AT BEGINNING OF YEAR	<u>36,580,789</u>	<u>15,987,796</u>	<u>506,374</u>	<u>7,885,648</u>	<u>-</u>	<u>60,960,607</u>
NET POSITION AT END OF YEAR	<u>\$ 37,730,643</u>	<u>\$ 15,453,235</u>	<u>\$ 855,494</u>	<u>\$ 7,606,616</u>	<u>\$ -</u>	<u>\$ 61,645,988</u>

See accompanying independent auditors' report.