

# Oklahoma Municipal Assurance Group

Financial Report  
June 30, 2015

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RSM US LLP

## Independent Auditor's Report

The Board of Trustees  
Oklahoma Municipal Assurance Group  
Edmond, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma Municipal Assurance, which comprise the statement of net position as of June 30, 2015; the related statements of revenues, expenses, and changes in net position and cash flows for the year 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.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2015, and the changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The financial statements of Oklahoma Municipal Assurance Group, as of and for the year ended June 30, 2014, were audited by other auditors whose report dated November 14, 2014, expressed an unmodified opinion on those statements.

**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 as of and for the year ended June 30, 2015, taken as a whole. The supplementary information included in schedule 3—statement of net position information by insurance coverage and schedule 5—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. The supplementary information included in schedule 4—statement of net position information by insurance coverage and schedule 6—statement of revenues, expenses and changes in net position information by insurance coverage as of and for the year ended June 30, 2014, was audited by other auditors whose report, dated November 14, 2014, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

*RSM US LLP*

Oklahoma City, Oklahoma  
December 17, 2015

## Oklahoma Municipal Assurance Group

### Management's Discussion and Analysis

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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, 2015 and 2014. 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 net 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 2015 and 2014). 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.

#### Financial Analysis

##### Statement of Financial Position Information

OMAG's total assets at June 30, 2015 were \$117,586,731, an increase of 6.8 percent from June 30, 2014. OMAG's total assets at June 30, 2014 were \$110,077,473, an increase of 5.8 percent from June 30, 2013. As of June 30, 2015, total liabilities increased 11.8 percent to \$43,558,718 and total net position increased 4.1 percent to \$74,028,013. As of June 30, 2014, total liabilities decreased 8.7 percent to \$38,954,166 and total net position increased 15.3 percent to \$71,123,307.

## Oklahoma Municipal Assurance Group

### Management's Discussion and Analysis

#### Financial Analysis (Continued)

##### Statement of Net Position

<b>Assets</b>	2015	2014	2013	Change from 2014 to 2015	% Change from 2014 to 2015
Current assets	\$ 40,232,543	\$ 39,206,826	\$ 98,925,657	\$ 1,025,717	2.6%
Noncurrent investments	72,054,315	66,099,797	927,054	5,954,518	9.0%
Capital assets	5,299,873	4,770,850	4,155,168	529,023	11.1%
<b>Total assets</b>	<b>\$ 117,586,731</b>	<b>\$ 110,077,473</b>	<b>\$ 104,007,879</b>	<b>\$ 7,509,258</b>	<b>6.8%</b>
<b>Liabilities and Net Position</b>					
Liabilities					
Current liabilities	\$ 21,684,317	\$ 17,127,030	\$ 18,468,507	\$ 4,557,287	26.6%
Long-term liabilities	21,874,401	21,827,136	23,893,384	47,265	0.2%
<b>Total liabilities</b>	<b>43,558,718</b>	<b>38,954,166</b>	<b>42,361,891</b>	<b>4,604,552</b>	<b>11.8%</b>
Net Position					
Invested in capital assets	5,299,873	4,770,850	4,155,168	529,023	11.1%
Unrestricted	68,728,140	66,352,457	57,490,820	2,375,683	3.6%
<b>Total net position</b>	<b>74,028,013</b>	<b>71,123,307</b>	<b>61,645,988</b>	<b>2,904,706</b>	<b>4.1%</b>
<b>Total liabilities and net position</b>	<b>\$ 117,586,731</b>	<b>\$ 110,077,473</b>	<b>\$ 104,007,879</b>	<b>\$ 7,509,258</b>	<b>6.8%</b>

OMAG experienced increased participation in the property coverage of 6.9 percent in 2015 and 2.9 percent in 2014 to 401 insureds and 375 insureds, respectively. Participation in the liability coverage increased 2.3 percent in 2015 and 1.0 percent in 2014 to 490 insureds and 479 insureds, respectively.

Cash and investments comprise the largest portion of total assets totaling \$107,817,520 in 2015 and \$100,475,288 in 2014 and were approximately 91.6 percent of total assets in 2015 and 91.3 percent in 2014. During 2015 and 2014, 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 \$7,534,776 in 2015 and \$6,069,594 in 2014 was primarily in cash and investments provided by operating results.

Total liabilities increased \$4,604,552 in 2015 and decreased \$3,407,725 in 2014. In 2015, the increase was primarily in reserves for claims losses and loss adjustment expenses which increased \$2,450,150, with \$668,805 attributable to the liability coverage and \$831,345 to the property coverage and also due to the increase in deposit funding reserves of \$1,184,630. 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.

Total net position increased \$2,904,706 in 2015 and \$9,477,319 in 2014. In 2015, the increase was a result of increased operating revenues and underwriting results and increased returns on investments. In 2014, the increase was a result of increased operating revenues and underwriting results, increased returns on investments and favorable claims development.

## Oklahoma Municipal Assurance Group

### Management's Discussion and Analysis

#### Financial Analysis (Continued)

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

Operating revenues increased \$74,853 or 2.0 percent, in 2015, \$4,034,888, or 20.4 percent, in 2014 and \$2,251,363, or 12.8 percent, in 2013 and operating expenses increased \$7,047,466 or 49.1%, in 2015, decreased \$4,757,050 in 2014, or 24.9 percent and increased \$966,171 in 2013, or 5.3 percent.

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

	2015	2014	2013	Change from 2014 to 2015	% Change from 2014 to 2015
Operating Revenues					
Premium and administrative services income	\$ 21,105,344	\$ 20,870,216	\$ 19,379,357	\$ 235,128	1.1%
Investment income	3,131,792	2,837,074	216,273	294,718	10.4%
Commission and other income	57,138	112,131	188,903	(54,993)	-49.0%
<b>Total operating revenues</b>	<b>24,294,274</b>	<b>23,819,421</b>	<b>19,784,533</b>	<b>474,853</b>	<b>2.0%</b>
Operating Expenses					
Claims incurred, net	11,593,272	5,693,729	11,109,926	5,899,543	103.6%
Cost of reinsurance	3,892,918	2,804,720	2,371,339	1,088,198	38.8%
Employee compensation and benefits	2,682,170	2,881,310	2,800,914	(199,140)	-6.9%
Claims administration	1,272,455	1,237,480	1,215,857	34,975	2.8%
Other operating expenses	1,948,753	1,724,863	1,601,116	223,890	13.0%
<b>Total operating expenses</b>	<b>21,389,568</b>	<b>14,342,102</b>	<b>19,099,152</b>	<b>7,047,466</b>	<b>49.1%</b>
<b>Operating income (loss)</b>	<b>2,904,706</b>	<b>9,477,319</b>	<b>685,381</b>	<b>(6,572,613)</b>	<b>-69.4%</b>
Net Position, beginning of year	71,123,307	61,645,988	60,960,607	9,477,319	15.4%
Net Position, end of year	<b>\$ 74,028,013</b>	<b>\$ 71,123,307</b>	<b>\$ 61,645,988</b>	<b>\$ 9,477,319</b>	<b>13.3%</b>

In 2015, total operating revenues increased \$474,853 or 2.0 percent, when compared to the previous year. Property premiums and Workers comp premiums generated \$470,033 and \$401,767 of the increase respectively, with investment income generating an increase of \$294,718. Liability coverage accounted for a decrease of \$624,765. In 2014, total operating revenues increased \$4,034,888, or 20.4 percent, 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 2014, total operating revenues increased \$4,034,888, or 20.4 percent, 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 2015, claims incurred increased from the level of prior year as liability and property claims increased by \$5,356,860 and \$542,683 respectively. Cost of reinsurance increased \$1,088,198 as a result of OMAG's loss experience and increasing insured values. Employee compensation and benefits decreased \$199,140. 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.

## Oklahoma Municipal Assurance Group

### Management's Discussion and Analysis

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#### Financial Analysis (Continued)

##### Statement of Cash Flow

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

	2015	2014	2013
Cash Provided By (Used In)			
Operating activities	\$ 7,689,340	\$ 3,577,913	\$ 1,884,538
Financing activities	(916,080)	(788,272)	(17,825)
Investing activities	(14,348,511)	(27,974,119)	(34,701,896)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(7,575,251)</b>	<b>(25,184,478)</b>	<b>(32,835,183)</b>
Cash and Cash Equivalents, beginning of year	21,450,102	46,634,580	79,469,763
Cash and Cash Equivalents, end of year	<u>\$ 13,874,851</u>	<u>\$ 21,450,102</u>	<u>\$ 46,634,580</u>

OMAG's overall liquidity decreased during the year ended June 30, 2015 with a net decrease to cash and cash equivalents of \$7,575,251. 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. 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

Management considered many factors when developing the annual budget for the fiscal year ending June 30, 2016. The budget for the fiscal year ending June 30, 2016, was developed based upon the following key assumptions:

- Premium contributions are developed to cover the actual costs of the programs. Management believes that cities and towns value stability in premiums over time.
- The actual costs of the program include:
  - Claims as estimated by an independent actuary
  - Reinsurance
  - Claims handling and administrative costs
  - Value added services provided to cities and towns
- Investment income is projected to be approximately 2.5 percent of the market value of total investments. Interest income is used to pay the above costs and defrays contributions that would otherwise be paid by cities and towns.

#### 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.

Oklahoma Municipal Assurance Group

Statements of Net Position  
June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,874,851	\$ 21,450,102
Investments	21,888,354	12,925,389
Premiums receivable, net	2,106,497	2,366,406
Reinsurance receivable	1,181,596	1,464,034
Accrued interest receivable	647,212	453,969
Deposits and prepaid expenses	534,033	546,926
<b>Total current assets</b>	<b>40,232,543</b>	<b>39,206,826</b>
<b>Noncurrent Assets</b>		
Investments	72,054,315	66,099,797
Capital assets, net	5,299,873	4,770,850
<b>Total noncurrent assets</b>	<b>77,354,188</b>	<b>70,870,647</b>
<b>Total assets</b>	<b>\$ 117,586,731</b>	<b>\$ 110,077,473</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Reserves for claim losses and loss adjustment expenses, current portion	\$ 8,731,004	\$ 5,620,659
Deposit funding reserves, current portion	6,063,813	5,586,643
Accounts payable and accrued expenses	1,208,674	375,265
Advance premiums	537,790	484,543
Unearned premiums	5,143,036	5,059,920
<b>Total current liabilities</b>	<b>21,684,317</b>	<b>17,127,030</b>
<b>Noncurrent Liabilities</b>		
Reserves for claim losses and loss adjustment expenses	15,659,000	16,319,195
Deposit funding reserves	6,215,401	5,507,941
<b>Total noncurrent liabilities</b>	<b>21,874,401</b>	<b>21,827,136</b>
<b>Total liabilities</b>	<b>43,558,718</b>	<b>38,954,166</b>
<b>Net Position</b>		
Investment in capital assets	5,299,873	4,770,850
Unrestricted	68,728,140	66,352,457
<b>Total net position</b>	<b>74,028,013</b>	<b>71,123,307</b>
<b>Total liabilities and net position</b>	<b>\$ 117,586,731</b>	<b>110,077,473</b>

See Notes to Financial Statements.

**Oklahoma Municipal Assurance Group**

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Operating Revenues		
Premium and administrative services revenue	\$ 21,105,344	\$ 20,870,328
Investment income	3,131,792	2,836,962
Commissions and other revenue	57,138	112,131
<b>Total operating revenues</b>	<b>24,294,274</b>	<b>23,819,421</b>
Operating Expenses		
Claims incurred, net of recoveries	11,593,272	5,693,729
Cost of reinsurance	3,892,918	2,804,720
Employee compensation and benefits	2,682,170	2,881,310
Claims administration	1,272,455	1,237,480
Commissions and professional services	212,263	585,145
Insurance consultants	75,000	89,500
Other expenses	1,661,490	1,050,218
<b>Total operating expenses</b>	<b>21,389,568</b>	<b>14,342,102</b>
<b>Operating income</b>	<b>2,904,706</b>	<b>9,477,319</b>
Net Position at Beginning of Year	71,123,307	61,645,988
Net Position at End of Year	<b>\$ 74,028,013</b>	<b>\$ 71,123,307</b>

See Notes to Financial Statements.

## Oklahoma Municipal Assurance Group

### Statements of Cash Flows Years Ended June 30, 2015 and 2014

	2015	2014
<b>Cash Flows From Operating Activities</b>		
Premiums and administrative services received	\$ 22,376,074	\$ 20,995,348
Investment income received	2,369,577	266,084
Commissions and other operating cash received	57,017	131,729
Claims and benefits inclusive of net excess claim reimbursements of \$282,438 and \$163,433 for June 30, 2015 and 2014	(8,860,684)	(9,725,319)
Reinsurance paid	(3,905,027)	(2,802,782)
Compensation and benefits paid	(2,682,170)	(2,881,310)
Claims administration expenses paid	(1,339,678)	(1,344,665)
Professional services paid	(212,263)	(585,145)
Insurance consultants expenses paid	(75,000)	(89,500)
Other operating expenses paid	(1,223,136)	(916,188)
Deposit funding reserve contributions	10,121,087	9,379,061
Deposit funding reserve payments	(8,936,457)	(8,849,400)
<b>Net cash provided by operating activities</b>	<b>7,689,340</b>	<b>3,577,913</b>
<b>Cash Flows From Capital And Related Financing Activities</b>		
Purchases of capital assets	(916,080)	(788,272)
<b>Net cash used in capital and related financing activities</b>	<b>(916,080)</b>	<b>(788,272)</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from maturity and sales of investments	9,859,234	75,215,370
Purchase of investments	(24,207,745)	(103,189,489)
<b>Net cash used in investing activities</b>	<b>(14,348,511)</b>	<b>(27,974,119)</b>
<b>Net change in cash and cash equivalents</b>	<b>(7,575,251)</b>	<b>(25,184,478)</b>
Cash and Cash Equivalents, beginning of year	21,450,102	46,634,580
Cash and Cash Equivalents, end of year	<b>\$ 13,874,851</b>	<b>\$ 21,450,102</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 2,904,706	\$ 9,477,319
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	387,057	172,590
Realized and unrealized gains on investments	(568,972)	(2,130,599)
Changes in operating assets and liabilities:		
Premiums receivable	259,909	(295,373)
Reinsurance receivable	282,438	163,433
Deposits and prepaids and other receivables	12,893	38,659
Reserves for claim losses and loss adjustments	1,500,150	(4,195,023)
Accounts payable and accrued expenses	1,783,409	(162,868)
Advanced premiums	53,247	166,992
Unearned premiums	83,116	253,513
Accrued interest receivable	(193,243)	(440,391)
Deposit funding reserves	1,184,630	529,661
<b>Net cash provided by operating activities</b>	<b>\$ 7,689,340</b>	<b>\$ 3,577,913</b>
<b>Supplemental Disclosure of Noncash Investing Activities</b>		
Net increase in fair value of investments in deposit funding reserves	<b>\$ (70,533)</b>	<b>\$ (226,212)</b>

See Notes to Financial Statements.

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

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#### Note 1. 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, 2015 and 2014, 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. 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.

Beginning in 2014, all uninvested cash balances held in investment accounts are swept to bank deposit sweep accounts. As June 30, 2015 and 2014, OMAG's cash and cash equivalents consisted of the following:

	2015	2014
Bank deposits	\$ 100,000	\$ 100,000
Federated short-term government funds	13,717,089	10,563,025
Bank deposit sweep (held in brokerage accounts)	2,458,799	12,086,069
Reconciling items	(2,401,037)	(1,298,992)
Total cash and cash equivalents	<u>\$ 13,874,851</u>	<u>\$ 21,450,102</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.

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies and Operations (Continued)

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.

Realized gains and losses on the sale of securities, are determined using the specific identification method.

**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, 2015 and 2014. 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 recorded as a reduction to bad debt expense.

**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.

**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 consist of other revenue sources that do not meet the operating revenue criteria.

**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 over \$500 are recorded at historical cost and are depreciated using the straight line method with the assets having a useful life of five 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. The accuracy of these estimates cannot be determined prior to the ultimate settlement of each claim. Accordingly, the ultimate cost of settling these claims may vary significantly from the liabilities recorded at year end and may do so in the near term.

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

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#### Note 1. Significant Accounting Policies and Operations (Continued)

**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.

**Net position:** OMAG's net position are classified as follows.

**Investment in capital assets:** This represents OMAG's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets, if any.

**Unrestricted:** Unrestricted net position represent resources derived from member premiums. These resources are used for transactions relating to the operations of OMAG and may be used at the discretion of the Board of Trustees to meet current expenses.

**New accounting pronouncements not yet adopted:** The GASB has issued two new accounting pronouncements which will be effective in fiscal year ended June 30, 2016. A description of the new accounting pronouncements are described below:

GASB Statement No. 72, *Fair Value Measurement and Applications* (GASB No. 72) addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 76) identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

OMAG is currently evaluating the impact that these new standards will have on its financial statements.

#### Note 2. Deposits and Investments

OMAG's investments are managed in accordance with its investment policy by one or more investment managers. OMAG's assets should be invested to achieve principal stability, income to support the mission of OMAG, liquidity and capital growth. OMAG's target allocation is 15 percent equity and 85 percent fixed income securities. No investments should exceed 10 percent of total 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.

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

#### Note 2. Deposits and Investments (Continued)

At June 30, 2015, cash deposits of OMAG totaled \$16,275,888 (exclusive of reconciling items of \$2,401,037). Of this amount \$13,717,089 was invested in short term U.S. government obligations and \$850,000 was covered by Federal Deposit Insurance. As of June 30, 2015, \$1,708,799 of uninvested cash was swept to money market accounts held by affiliated banks of the investment manager.

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.

The composition of fixed income investments and maturity schedule, stated at fair value at June 30, 2015, is summarized as follows:

	Maturities (in Years)				
	Fair value	<1	1-5	6-10	>10
Mortgage backed securities	\$ 3,502,858	\$ -	\$ 393,038	\$ 933,924	\$ 2,175,896
Corporate bonds	16,138,684	547,930	12,086,414	3,504,340	-
Municipal bonds	59,143,441	6,608,793	31,321,684	18,984,168	2,228,796
Certificate of Deposit	426,055	-	426,055	-	-
	<u>\$ 79,211,038</u>	<u>\$ 7,156,723</u>	<u>\$ 44,227,191</u>	<u>\$ 23,422,432</u>	<u>\$ 4,404,692</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 principal. 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.

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, 2015, is as follows:

	AAA	AA	A	BBB	BB	Not Rated	Total
Mortgage backed securities	\$ -	\$ 3,502,858	\$ -	\$ -	\$ -	\$ -	\$ 3,502,858
Municipal bonds	1,467,546	41,887,108	13,520,455	2,047,995	184,917	35,420	59,143,441
Corporate bonds	-	644,691	6,086,482	8,487,261	920,250	-	16,138,684
Certificate of Deposits	-	-	-	-	-	426,055	426,055
	<u>\$ 1,467,546</u>	<u>\$ 46,034,657</u>	<u>\$ 19,606,937</u>	<u>\$ 10,535,256</u>	<u>\$ 1,105,167</u>	<u>\$ 461,475</u>	<u>\$ 79,211,038</u>

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 agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 703,253	\$ 3,502,858
Mortgage backed securities	-	9,352,627	-	-	-	-	59,143,441
Municipal bonds	162,885	21,479,947	20,904,125	515,119	7,622,094	-	16,138,684
Corporate bonds	-	-	135,333	887,222	5,713,575	-	426,055
	<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>

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

#### Note 2. Deposits and Investments (Continued)

**Concentration of credit risk:** 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):

	2015	2014
SPDR S&P 500 Trust	9%	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.

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

	2015	2014
Interest and dividends	\$ 2,562,820	\$ 706,363
Unrealized gains (losses)	350,154	2,210,475
Realized gains (losses)	218,818	(79,876)
	<u>\$ 3,131,792</u>	<u>\$ 2,836,962</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 3. Capital Assets

Capital assets consist of the following at June 30, 2015 and 2014:

	July 1, 2014	Additions	Deletions	June 30, 2015
Capital assets:				
Land	\$ 464,026	\$ -	\$ -	\$ 464,026
Office building	3,507,893	58,841	-	3,566,734
Software	751,773	799,237	-	1,551,010
Furnishings and equipment	619,387	58,002	-	677,389
Total capital assets	<u>5,343,079</u>	<u>916,080</u>	<u>-</u>	<u>6,259,159</u>
Accumulated depreciation:				
Office building	222,896	89,288	-	312,184
Software	-	221,573	-	221,573
Furnishings and equipment	349,333	76,197	-	425,530
Total accumulated depreciation	<u>572,229</u>	<u>387,057</u>	<u>-</u>	<u>959,286</u>
Capital assets, net	<u>\$ 4,770,850</u>	<u>\$ 529,023</u>	<u>\$ -</u>	<u>\$ 5,299,873</u>

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

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#### Note 3. Capital Assets (Continued)

	July 1, 2013	Additions	Deletions	June 30, 2014
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	591,953	36,499	(9,065)	619,387
Total capital assets	<u>4,563,872</u>	<u>788,272</u>	<u>(9,065)</u>	<u>5,343,079</u>
Accumulated depreciation:				
Office building	135,201	87,695	-	222,896
Furnishings and equipment	273,503	84,895	(9,065)	349,333
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>

#### Note 4. Reserves for Claim Losses and Loss Adjustment Expenses

OMAG's 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, 2015 and 2014, are adequate to cover the ultimate net cost of claim losses and loss adjustment expenses to date.

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 \$4,100,000 and \$4,072,838 at June 30, 2015 and 2014, respectively.

**Oklahoma Municipal Assurance Group**

**Notes to Financial Statements**

**Note 4. Reserves for Claim Losses and Loss Adjustment Expenses (Continued)**

The following represents changes in those liabilities for OMAG during 2015, 2014 and 2013:

	2015		2014		2013	
	Liability	Property	Liability	Property	Liability	Property
Reserves for claim losses and loss adjustment expenses, beginning of year	\$21,088,195	\$ 2,683,321	\$24,228,727	\$ 3,051,516	\$23,623,222	\$ 1,798,285
Less reinsurance recoverables	-	(1,831,662)	-	(1,145,366)	(20,000)	(497,639)
Net balance, beginning of year	21,088,195	851,659	24,228,727	1,906,150	23,603,222	1,300,646
Incurred claim losses and loss adjustment expenses:						
Provision for insured events of the current year	8,339,977	2,401,312	7,907,194	2,446,391	8,475,988	3,277,693
Changes in provision for insured events of prior years	711,696	140,287	(4,212,381)	(447,475)	(1,339,059)	695,304
Total incurred claim losses and loss adjustment expenses	9,051,673	2,541,599	3,694,813	1,998,916	7,136,929	3,972,997
Payments:						
Claim payments and loss adjustment expenses attributable to insured events of the current year	(2,074,977)	(940,343)	(2,384,194)	(1,982,733)	(1,670,988)	(1,811,199)
Claim payments and loss adjustment expenses attributable to insured events of prior years	(5,357,891)	(769,911)	(4,451,151)	(1,070,674)	(4,840,436)	(1,556,294)
Total payments	(7,432,868)	(1,710,254)	(6,835,345)	(3,053,407)	(6,511,424)	(3,367,493)
Net reserve for claim losses and loss adjustment expenses, end of year	22,707,000	1,683,004	21,088,195	851,659	24,228,727	1,906,150
Plus reinsurance recoverables	-	735,871	-	1,831,662	-	1,145,366
Reserve for claim losses and loss adjustment expenses, end of year	\$22,707,000	\$ 2,418,875	\$21,088,195	\$ 2,683,321	\$24,228,727	\$ 3,051,516

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

#### Note 4. 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 increased by approximately \$712,000 in 2015 due to unfavorable development on case basis reserves and more 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 liability claim losses and loss adjustment expenses decreased by approximately \$4,212,000 in 2014 and \$1,339,000 in 2013 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 increased by approximately \$140,000 in 2015 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 \$447,000 in 2014 due to favorable 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 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.

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

#### Note 5. Reinsurance

OMAG's liability insurance agreements are reinsured for excess losses. A summary of the significant components of the reinsurance contracts for the years ended June 30, 2015 and 2014 is as follows:

Responsibility for individual losses			Aggregate deductible and plan limits	Cost of reinsurance
Group	Reinsurer	Insured		
June 30, 2015			\$300,000 self-insured retentions; plan limit of \$1,000,000 for personal injury and errors and omissions.	\$595,000 for policy year ended April 30, 2015; \$595,000 for policy year ended April 30, 2016.
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, 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 April 30, 2014; \$595,000 for policy year ended April 30, 2015.
Up to \$ 300,000	\$ 300,000 to \$ 1,000,000	Excess over \$ 1,000,000		

OMAG's property insurance agreements are also reinsured for excess losses. OMAG is generally reinsured for property losses in excess of \$150,000 (\$500,000 for wind and hail losses), with limits ranging from \$250,000 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 \$3,300,000 and \$2,210,000 for the years ended June 30, 2015 and 2014, respectively.

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

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#### Note 5. Reinsurance (Continued)

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 6. 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 7). 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.

#### Note 7. Deposit Funding Reserves

The following summarizes the deposit funding reserves for municipalities with workers' compensation coverage (see note 6) for the years ended June 30, 2015 and 2014, respectively:

	2015	2014
Deposit funding reserve, beginning of year	\$ 11,094,584	\$ 10,564,923
Contributions	9,916,715	9,055,299
Allocation of investment income and changes in fair value of investments	204,372	323,762
Claims paid, net of recoveries	(8,210,219)	(8,265,831)
Return to municipalities	(726,238)	(583,569)
Deposit funding reserve, end of year	<u>\$ 12,279,214</u>	<u>\$ 11,094,584</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.

## Oklahoma Municipal Assurance Group

### Notes to Financial Statements

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#### Note 8. 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. All employees, including part time employees, are eligible for this defined contribution plan immediately upon employment. OMAG contributes 17 percent of total covered compensation to the Plan. Contributions made by OMAG are 100 percent 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 \$356,000 and \$353,000 for the years ended June 30, 2015 and 2014, respectively. There were approximately \$8,500, and \$-0- forfeitures utilized to offset contributions during the years ended June 30, 2015 and 2014, 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.

## **Required Supplementary Information**

## Oklahoma Municipal Assurance Group

### Schedule 1—Required Supplementary Information—Claim Development Coverage Liability Insurance Coverage

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

See Accompanying Independent Auditor's Report.

## Oklahoma Municipal Assurance Group

### Schedule 1—Required Supplementary Information—Claim Development Coverage Liability Insurance Coverage

	Years Ended June 30									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
(1) Premiums and investment revenue, as originally reported at end of policy year:										
Earned	\$13,700,472	\$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
Ceded	592,917	595,000	595,000	595,000	595,000	607,500	632,917	812,941	907,367	820,670
<b>Net earned</b>	<b>13,107,555</b>	<b>13,831,150</b>	<b>11,190,922</b>	<b>10,346,698</b>	<b>10,998,862</b>	<b>12,390,338</b>	<b>14,267,075</b>	<b>15,808,025</b>	<b>14,355,225</b>	<b>12,275,396</b>
(2) Unallocated expenses, as originally reported at end of policy year	2,879,266	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
(3) Estimated losses and expenses, end of policy year:										
Incurred	8,339,977	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
Ceded	-	-	-	-	-	20,000	-	450,000	-	-
<b>Net incurred</b>	<b>8,339,977</b>	<b>7,907,194</b>	<b>8,475,988</b>	<b>9,318,451</b>	<b>8,626,500</b>	<b>8,394,307</b>	<b>7,749,359</b>	<b>9,967,878</b>	<b>8,594,010</b>	<b>8,553,210</b>
(4) Net paid (cumulative) as of:										
End of policy year	2,074,977	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
One year later		4,026,006	3,188,435	3,907,862	3,070,803	3,587,843	2,700,340	3,719,938	2,632,856	3,310,541
Two years later			5,322,518	5,303,915	4,478,824	5,786,729	3,189,262	5,974,873	4,068,227	4,879,016
Three years later				6,504,280	5,765,664	6,758,797	3,958,902	6,686,882	4,894,497	6,451,981
Four years later					6,033,703	6,497,843	4,447,658	7,056,470	5,370,028	7,385,400
Five years later						6,570,627	4,646,566	7,153,950	5,696,327	7,605,781
Six years later							4,720,033	7,178,979	5,759,965	7,610,944
Seven years later								7,116,207	5,795,183	7,603,576
Eight years later									5,822,669	7,626,487
Nine years later										7,649,880
(5) Reestimated ceded losses and expenses	-	-	431,987	-	-	-	-	450,000	-	-
(6) Reestimated net incurred losses and expenses:										
End of policy year	8,339,977	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
One year later		8,681,006	7,483,435	9,107,861	8,403,803	9,363,843	5,429,340	9,908,938	8,056,856	8,321,541
Two years later			7,740,531	8,117,915	7,716,824	9,409,729	5,463,418	9,116,873	7,830,227	8,384,016
Three years later				7,646,280	6,946,664	8,752,797	5,354,902	8,728,726	6,836,497	8,372,981
Four years later					6,654,703	7,546,843	5,278,658	8,351,470	6,648,028	7,935,151
Five years later						7,186,627	5,101,566	8,175,950	6,488,327	7,775,781
Six years later							4,959,033	7,812,979	6,402,977	7,693,944
Seven years later								7,735,207	6,177,183	7,667,576
Eight years later									6,006,669	7,721,486
Nine years later										7,670,880
(7) (Decrease) increase in estimated net incurred losses and expenses from end of policy year	-	773,812	(735,457)	(1,672,171)	(1,971,797)	(1,207,680)	(2,790,326)	(2,232,671)	(2,587,341)	(882,330)

## Oklahoma Municipal Assurance Group

### Schedule 2—Required Supplementary Information—Claim Development Coverage Property Insurance Coverage

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

See Accompanying Independent Auditor's Report.

## Oklahoma Municipal Assurance Group

### Schedule 2—Required Supplementary Information—Claim Development Coverage Property Insurance Coverage

	Years ended June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
(1) Premiums and investment revenue, as originally reported at end of policy year:										
Earned	\$ 8,735,079	\$ 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
Ceded	3,300,001	2,209,720	1,776,339	1,374,651	1,095,471	869,489	730,879	658,184	679,445	781,626
<b>Net earned</b>	<b>5,435,078</b>	<b>6,023,342</b>	<b>4,417,844</b>	<b>3,619,586</b>	<b>3,552,795</b>	<b>4,108,878</b>	<b>4,623,681</b>	<b>5,290,555</b>	<b>5,356,772</b>	<b>4,955,355</b>
(2) Unallocated expenses, as originally reported at end of policy year	1,247,323	1,163,015	979,408	1,005,903	771,302	799,490	848,541	858,852	871,790	920,709
(3) Estimated losses and expenses, end of policy year:										
Incurred	2,474,438	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
Ceded	73,126	229,159	490,000	265,985	2,348,915	963,987	222,268	556,193	610,398	317,370
<b>Net incurred</b>	<b>2,401,312</b>	<b>2,446,391</b>	<b>3,277,693</b>	<b>2,900,762</b>	<b>2,119,617</b>	<b>1,756,029</b>	<b>1,449,947</b>	<b>2,652,476</b>	<b>1,321,878</b>	<b>1,414,392</b>
(4) Net paid (cumulative) as of:										
End of policy year	940,343	1,982,733	1,811,199	1,740,641	1,234,047	964,534	904,428	1,456,798	845,567	770,500
One year later		2,341,063	2,897,134	3,479,944	2,203,094	1,914,771	1,433,310	2,304,209	1,298,275	1,368,667
Two years later			2,887,420	3,760,883	3,248,904	1,645,296	1,522,456	2,837,827	1,269,576	1,390,684
Three years later				4,038,258	2,624,452	1,435,377	1,545,705	2,778,924	1,242,673	1,355,859
Four years later					1,959,388	1,658,360	1,637,041	2,672,430	1,296,486	1,353,860
Five years later						1,666,146	1,637,041	2,672,430	1,297,127	1,353,860
Six years later							1,637,041	2,670,595	1,297,127	1,351,861
Seven years later								2,670,595	1,291,639	1,351,861
Eight years later									1,301,604	1,357,347
Nine years later										1,357,347
(5) Reestimated ceded losses and expenses	(73,126)	(157,664)	(2,554,506)	(565,974)	(2,548,613)	(2,379,857)	(512,209)	(434,045)	(828,804)	(241,144)
(6) Reestimated net incurred losses and expenses:										
End of policy year	2,401,312	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
One year later		2,342,422	2,928,827	3,947,019	2,314,304	1,904,819	1,558,348	2,614,983	1,321,233	1,441,573
Two years later			3,082,424	3,836,212	2,191,807	1,622,695	1,527,620	2,986,998	1,269,576	1,409,830
Three years later				3,847,107	1,974,787	1,394,104	1,568,908	2,744,178	1,241,455	1,358,184
Four years later					1,959,388	1,622,651	1,569,043	2,672,430	1,296,486	1,353,860
Five years later						1,666,146	1,543,436	2,672,430	1,297,127	1,353,860
Six years later							1,585,140	2,670,595	1,297,127	1,351,860
Seven years later								2,670,595	1,291,639	1,351,860
Eight years later									1,301,604	1,357,347
Nine years later										1,357,347
(7) (Decrease) increase in estimated net incurred losses and expenses from end of policy year	-	(103,969)	(195,269)	946,345	(160,229)	(89,883)	135,193	18,119	(20,274)	(57,045)

## **Supplementary Information**

Oklahoma Municipal Assurance Group

Schedule 3—Supplementary Information  
Statement of Net Position—Information by Insurance Coverage  
June 30, 2015

<b>Assets</b>	Liability	Property	Workers' Compensation	Operating	Eliminations	Total
<b>Current Assets</b>						
Cash and cash equivalents	\$ (449,573)	\$ (148,418)	\$ (1,776,431)	\$ 16,249,273	\$ -	\$ 13,874,851
Investments	-	-	-	21,888,354	-	21,888,354
Premiums receivable, net	1,048,847	977,964	79,686	-	-	2,106,497
Reinsurance receivable	431,987	268,725	480,884	-	-	1,181,596
Accrued interest receivable	-	-	-	647,212	-	647,212
Deposits and prepaid expenses	491,667	-	25,925	41,959	(25,518)	534,033
<b>Total current assets</b>	<b>1,522,928</b>	<b>1,098,271</b>	<b>(1,189,936)</b>	<b>38,826,798</b>	<b>(25,518)</b>	<b>40,232,543</b>
<b>Noncurrent Assets</b>						
Investments	-	-	-	72,054,315	-	72,054,315
Capital assets, net	-	-	-	5,299,873	-	5,299,873
Interplan receivable	70,427,754	23,100,208	15,082,464	-	(108,610,426)	-
<b>Total noncurrent assets</b>	<b>70,427,754</b>	<b>23,100,208</b>	<b>15,082,464</b>	<b>77,354,188</b>	<b>(108,610,426)</b>	<b>77,354,188</b>
<b>Total assets</b>	<b>\$ 71,950,682</b>	<b>\$ 24,198,479</b>	<b>\$ 13,892,528</b>	<b>\$ 116,180,986</b>	<b>\$ (108,635,944)</b>	<b>\$ 117,586,731</b>
<b>Liabilities and Net Position</b>						
<b>Current Liabilities</b>						
Reserves for claim losses and loss adjustment expenses	\$ 7,048,000	\$ 1,683,004	\$ -	\$ -	\$ -	8,731,004
Deposit funding reserves, current portion	-	-	6,063,813	-	-	6,063,813
Accounts payable and accrued expenses	-	-	916,319	292,355	-	1,208,674
Advance premiums	405,809	131,981	-	-	-	537,790
Unearned premiums	2,745,862	2,422,692	-	-	(25,518)	5,143,036
<b>Total current liabilities</b>	<b>10,199,671</b>	<b>4,237,677</b>	<b>6,980,132</b>	<b>292,355</b>	<b>(25,518)</b>	<b>21,684,317</b>
<b>Noncurrent Liabilities</b>						
Reserves for claim losses and loss adjustment expenses	15,659,000	-	-	-	-	15,659,000
Deposit funding reserves	-	-	6,215,401	-	-	6,215,401
Interplan payable	-	-	-	108,610,426	(108,610,426)	-
<b>Total noncurrent liabilities</b>	<b>15,659,000</b>	<b>-</b>	<b>6,215,401</b>	<b>108,610,426</b>	<b>(108,610,426)</b>	<b>21,874,401</b>
<b>Total liabilities</b>	<b>25,858,671</b>	<b>4,237,677</b>	<b>13,195,533</b>	<b>108,902,781</b>	<b>(108,635,944)</b>	<b>43,558,718</b>
<b>Net Position</b>						
Invested in capital assets	-	-	-	5,299,873	-	5,299,873
Unrestricted	46,092,011	19,960,802	696,995	1,978,332	-	68,728,140
<b>Total net position</b>	<b>46,092,011</b>	<b>19,960,802</b>	<b>696,995</b>	<b>7,278,205</b>	<b>-</b>	<b>74,028,013</b>
<b>Total liabilities and net position</b>	<b>\$ 71,950,682</b>	<b>\$ 24,198,479</b>	<b>\$ 13,892,528</b>	<b>\$ 116,180,986</b>	<b>\$ (108,635,944)</b>	<b>\$ 117,586,731</b>

See Accompanying Independent Auditor's Report.

Oklahoma Municipal Assurance Group

Schedule 4—Supplementary Information  
Statement of Net Position—Information by Insurance Coverage  
June 30, 2014

<b>Assets</b>	Liability	Property	Workers' Compensation	Operating	Eliminations	Total
<b>Current Assets</b>						
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
Deposits and prepaid expenses	502,083	-	25,925	46,730	(27,812)	546,926
<b>Total current assets</b>	<b>1,653,992</b>	<b>1,740,429</b>	<b>(315,877)</b>	<b>36,156,094</b>	<b>(27,812)</b>	<b>39,206,826</b>
<b>Noncurrent Assets</b>						
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)	-
<b>Total noncurrent assets</b>	<b>67,685,411</b>	<b>19,774,974</b>	<b>11,971,056</b>	<b>70,870,647</b>	<b>(99,431,441)</b>	<b>70,870,647</b>
<b>Total assets</b>	<b>\$ 69,339,403</b>	<b>\$ 21,515,403</b>	<b>\$ 11,655,179</b>	<b>\$ 107,026,741</b>	<b>\$ (99,459,253)</b>	<b>\$ 110,077,473</b>
<b>Liabilities and Net Position</b>						
<b>Current Liabilities</b>						
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
<b>Total current liabilities</b>	<b>8,104,813</b>	<b>3,200,757</b>	<b>5,665,940</b>	<b>183,332</b>	<b>(27,812)</b>	<b>17,127,030</b>
<b>Noncurrent Liabilities</b>						
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)	-
<b>Total noncurrent liabilities</b>	<b>16,319,195</b>	<b>-</b>	<b>5,507,941</b>	<b>99,431,441</b>	<b>(99,431,441)</b>	<b>21,827,136</b>
<b>Total liabilities</b>	<b>24,424,008</b>	<b>3,200,757</b>	<b>11,173,881</b>	<b>99,614,773</b>	<b>(99,459,253)</b>	<b>38,954,166</b>
<b>Net Position</b>						
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
<b>Total net position</b>	<b>44,915,395</b>	<b>18,314,646</b>	<b>481,298</b>	<b>7,411,968</b>	<b>-</b>	<b>71,123,307</b>
<b>Total liabilities and net position</b>	<b>\$ 69,339,403</b>	<b>\$ 21,515,403</b>	<b>\$ 11,655,179</b>	<b>\$ 107,026,741</b>	<b>\$ (99,459,253)</b>	<b>\$ 110,077,473</b>

See Accompanying Independent Auditor's Report.

Oklahoma Municipal Assurance Group

Schedule 5—Supplementary Information

Statement of Revenues, Expenses and Changes in Net Position—Information by Insurance Coverage

June 30, 2015

	Liability	Property	Workers' Compensation	Operating	Eliminations	Total
Operating Revenues						
Premium and administrative services revenue	\$ 11,634,349	\$ 8,127,336	\$ 1,399,063	\$ -	\$ (55,404)	\$ 21,105,344
Investment income	2,046,623	607,711	155,581	321,877	-	3,131,792
Management fee	-	-	-	3,675,000	(3,675,000)	-
Commissions and other revenue	19,500	32	-	37,606	-	57,138
<b>Total operating revenues</b>	<b>13,700,472</b>	<b>8,735,079</b>	<b>1,554,644</b>	<b>4,034,483</b>	<b>(3,730,404)</b>	<b>24,294,274</b>
Operating Expenses						
Claims incurred, net of recoveries	9,051,673	2,541,599	-	-	-	11,593,272
Cost of reinsurance	592,917	3,300,001	-	-	-	3,892,918
Employee compensation and benefits	-	-	-	2,682,170	-	2,682,170
Trust administration	1,800,000	1,100,000	775,000	-	(3,675,000)	-
Claims administration	635,090	90,000	547,365	-	-	1,272,455
Commissions and professional services	81,986	56,841	-	73,436	-	212,263
Insurance consultants	75,000	-	-	-	-	75,000
Other expenses	287,190	482	16,582	1,412,640	(55,404)	1,661,490
<b>Total operating expenses</b>	<b>12,523,856</b>	<b>7,088,923</b>	<b>1,338,947</b>	<b>4,168,246</b>	<b>(3,730,404)</b>	<b>21,389,568</b>
<b>Operating income (loss)</b>	<b>1,176,616</b>	<b>1,646,156</b>	<b>215,697</b>	<b>(133,763)</b>	<b>-</b>	<b>2,904,706</b>
Net Position at Beginning of Year	44,915,395	18,314,646	481,298	7,411,968	-	71,123,307
Net Position at End of Year	<b>\$ 46,092,011</b>	<b>\$ 19,960,802</b>	<b>\$ 696,995</b>	<b>\$ 7,278,205</b>	<b>\$ -</b>	<b>\$ 74,028,013</b>

See Accompanying Independent Auditor's Report.

Oklahoma Municipal Assurance Group

Schedule 5—Supplementary Information

Statement of Revenues, Expenses and Changes in Net Position—Information by Insurance Coverage

June 30, 2014

	Liability	Property	Workers' Compensation	Operating	Eliminations	Total
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	17,500	50,708	-	43,923	-	112,131
<b>Total operating revenues</b>	<b>14,426,150</b>	<b>8,233,062</b>	<b>997,408</b>	<b>3,714,062</b>	<b>(3,551,261)</b>	<b>23,819,421</b>
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	194,015	215	27,862	904,387	(76,261)	1,050,218
<b>Total operating expenses</b>	<b>7,241,398</b>	<b>5,371,651</b>	<b>1,371,604</b>	<b>3,908,710</b>	<b>(3,551,261)</b>	<b>14,342,102</b>
<b>Operating income (loss)</b>	<b>7,184,752</b>	<b>2,861,411</b>	<b>(374,196)</b>	<b>(194,648)</b>	<b>-</b>	<b>9,477,319</b>
Net Position at Beginning of Year	37,730,643	15,453,235	855,494	7,606,616	-	61,645,988
Net Position at End of Year	<b>\$ 44,915,395</b>	<b>\$ 18,314,646</b>	<b>\$ 481,298</b>	<b>\$ 7,411,968</b>	<b>\$ -</b>	<b>\$ 71,123,307</b>

See Accompanying Independent Auditor's Report.

