

**OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014 AND 2013**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**

**OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

	<b><u>Page</u></b>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Financial Position	3
Combined Statement of Activity and changes in Fund Balance	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 9
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements Performed in Accordance with <u>Government</u> <u>Auditing Standards</u>	10 - 11

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Review Trustees  
Oklahoma Public Employees Health & Welfare Plan  
Bartlesville, Oklahoma

We have audited the accompanying financial statements of the Oklahoma Public Employees Health & Welfare Plan, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Public Employees Health and Welfare Plan, as of June 30, 2014 and 2013 and the statement of activity and changes in fund balance in accordance with accounting principles generally accepted in the United States of America.

*Kevin C. Duke, CPA, PC*

Tulsa, Oklahoma  
October 30, 2014

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2014 and 2013

<u>ASSETS</u>	June 30, <u>2014</u>	June 30, <u>2013</u>
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 268,660	\$ 1,976,330
Investments (Note 3)	6,668,656	4,302,228
Accounts Receivable - Unpaid Premiums	994,490	0
Accounts Receivable - Cimarron M.H.	<u>4,188</u>	<u>8,188</u>
Total Current Assets	<u>7,935,994</u>	<u>6,286,746</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,935,994</u></b>	<b><u>\$ 6,286,746</u></b>

LIABILITIES AND FUND BALANCE

Current Liabilities:

Accounts Payable	\$ 1,808,544	\$ 919,858
Unearned Premiums	<u>74,194</u>	<u>1,807</u>
Total Current Liabilities	<u>1,882,738</u>	<u>921,665</u>
Total Liabilities	<u>1,882,738</u>	<u>921,665</u>

Fund Balance:

Unrestricted Fund Balance	<u>6,053,256</u>	<u>5,365,081</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 7,935,994</u></b>	<b><u>\$ 6,286,746</u></b>

See accompanying notes and auditor's report.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN  
COMBINED STATEMENT OF ACTIVITY  
AND CHANGES IN FUND BALANCE  
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

<u>REVENUES:</u>	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
Premiums (Note 6)	\$ 34,281,948	\$ 31,217,949
Specific reinsurance (Note 7)	352,731	1,061,734
Investment income	127,674	83,713
Rebates	226,512	240,483
Subrogation	0	76,392
Interest income	<u>3,235</u>	<u>998</u>
 TOTAL REVENUES	 <u>34,992,100</u>	 <u>32,681,269</u>
 <u>EXPENSES:</u>		
Administrator's fee (Note 8)	817,346	739,755
Bank fees	4,709	3,926
Claims paid (Note 4)	29,130,999	25,562,156
Claims supervisor fee (Note 9)	1,825,872	1,557,077
Dues and fees	1,264	681
Fidelity bond expense	10,403	8,571
Legal fees	13,726	20,292
Life insurance	1,456,017	1,303,976
Postage	11,880	7,973
Professional fees	10,685	18,000
Specific reinsurance (Note 7)	456,821	560,126
Storage rental	600	600
Printing	14,628	19,846
Office expense	3,283	1,066
VSP Vision	<u>545,692</u>	<u>568,030</u>
 TOTAL EXPENSES	 <u>34,303,925</u>	 <u>30,372,075</u>
 Net Income (Loss)	 <u>688,175</u>	 <u>2,309,194</u>
 FUND BALANCE - BEGINNING OF YEAR	 <u>5,365,081</u>	 <u>3,055,887</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 6,053,256</u>	 <u>\$ 5,365,081</u>

See accompanying notes and auditor's report.

**OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 and 2013**

	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 688,175	\$ 2,309,194
Adjustment to reconcile net income to net cash provided by operating activities		
Decrease (increase) in accounts receivable	(990,490)	55,276
Increase (decrease) in accounts payable	888,686	363,723
Increase (decrease) in unearned premiums	<u>72,387</u>	<u>1,126</u>
Net cash provided by operating activities	<u>658,758</u>	<u>2,729,319</u>
Cash Flows from Investing Activities:		
Decrease (increase) in investments	<u>(2,366,428)</u>	<u>(1,834,148)</u>
Net cash used for investing activities	<u>(2,366,428)</u>	<u>(1,834,148)</u>
Cash Flows from Financing Activities:		
None	<u>-</u>	<u>-</u>
Net cash provided for financing activities	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,707,670)</u>	<u>895,171</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,976,330</u>	<u>1,081,159</u>
Cash and Cash Equivalents, End of Year	<u>\$ 268,660</u>	<u>\$ 1,976,330</u>

See accompanying notes and auditor's report.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 1: ORGANIZATION:

The Oklahoma Public Employees Health & Welfare Plan (hereinafter referred to as "The Plan") was organized on February 1, 1992 under the laws of the State of Oklahoma. Also on February 1, 1992, certain governmental agencies (hereinafter referred to as "Participating Agencies") acting under the provisions of Title 51, Oklahoma Statutes, Sections 167, 168, 169 and 172, Title 74 Oklahoma Statutes, Sections 1001, et seq., and other applicable provisions of Oklahoma Law, by their Inter-Local Government Agreement, established the Plan for the purpose of providing major medical, prescription, dental, vision, life and AD&D insurance benefits for the Participating Agencies' eligible employees and their dependents. These benefits are provided through insurance, self-insurance, or by a combination thereof as determined by the trustees pursuant to the terms of the Trust Agreement.

As of June 30, 2014 the Participating Agencies in the Plan were thirty-two (32) Oklahoma counties, five (5) schools, eighteen (18) municipalities, one (1) hospital, six (6) CED's, four (4) COG's, three (3) water districts, two (2) E911's, three (3) local government authorities, and three (3) other organization types.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents:

The Plan considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Basis Of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Income Taxes:

The Plan was organized under the laws of the State of Oklahoma by certain governmental entities' Inter-Local Government Agreement for the purpose of providing group health, dental and group term life insurance benefits, all essential government functions, to participating Oklahoma counties and is, therefore, exempt from federal income taxes under Internal Revenue Code Section 115.

Concentration Of Credit:

The Plan maintains its cash in bank deposit accounts which, at times during the month, may exceed the federally insured limits of \$250,000. The Plan has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.



**OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

**Cash and cash equivalents:** Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Cash in Bank - Arvest	\$ 247,082
Cash in Bank - Bancfirst	<u>21,578</u>
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 268,660</u></b>

**Investments:** The estimated fair values of investments are as follows:

Fixed Government Securities - Arvest	\$2,855,406
Equity Investments - Arvest	812,032
Intermediate Bonds - Arvest	1,501,185
Short Term Bonds - Arvest	1,397,821
Fixed Income Securities - Arvest	2,212
Certificate of Deposit - Bancfirst	<u>100,000</u>
<b>Total Investments</b>	<b><u>\$6,668,656</u></b>

**NOTE 4: CLAIMS PAID:**

The Plan paid claims for the Participating Agencies' eligible employees and their dependents for health, dental, vision, and life insurance claims as provided for the Trust Agreement and approved by the Trustees. The Summary Plan description, adopted and approved by the Trustees, is furnished to the Participating Agencies and to all Plan Participants and is controlling and binding upon all persons claiming any right to benefits under the current plan. See the Summary Plan description for a complete detail of benefits available.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

Note 5: CONTINGENT LIABILITY-CLAIMS INCURRED BUT NOT REPORTED (IBNR):

A contingent liability estimate for claims incurred but not reported ("IBNR") has been made of \$3,694,586. The accuracy of this estimate cannot be determined prior to the ultimate settlement of each claim. Accordingly, the ultimate cost of settling these claims may vary significantly from this contingent liability estimate.

Note 6: PREMIUMS:

Premium revenue reflects amounts received from eligible employees of Participating Agencies as provided for The Plan's "Benefit Book", formerly known as the Summary Plan Description.

Note 7: SPECIFIC REINSURANCE:

The Plan maintains an excess risk agreement with an insurance company that provides for a specific stop loss attachment point of \$300,000 per claimant per year as of June 30, 2014. Effective July 1, 2014, the stop loss attachment point is \$350,000 per claimant per year..

Note 8: ADMINISTRATIVE EXPENSES:

The Plan entered into a 24-month administrative agreement on March 15, 2012 with McElroy & Associates to provide administrative services for The Plan as agreed to in the agreement, for a flat fee in the amount of \$10,000 each month or \$13.00 per "Contract" each month, which ever is greater. Per contract means per participant enrolled in the Plan on the first day of each month and includes active employees, retirees, and COBRA enrollees. The agreement was in effect from July 1, 2012 to June 30, 2014.

The Plan entered into a 24-month administrative agreement on March 30, 2014 with McElroy & Associates to provide administrative services for The Plan as agreed to in the agreement, for a flat fee in the amount of \$10,000 each month or \$14.50 per "Contract" each month, which ever is greater. The agreement is in effect from July 1, 2014 to June 30, 2016.

**OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 9: CLAIMS SUPERVISOR FEE:**

The Plan's administrative agreement with Blue Cross and Blue Shield provides for the administration of all functions in the claims and payment process of plan benefits. The administrative service fees agreed to were as follows:

	Effective <u>7/1/14 - 6/30/15</u>	Effective <u>7/1/2013 - 6/30/14</u>
Medical Administrative Fee	\$34.21 per contract per month	\$ 31.53 per contract per month
Dental Administrative Fee	\$ 2.39 per contract per month	\$ 2.21 per contract per month

**Note 10: SUBSEQUENT EVENTS:**

The Plan's administrator has evaluated subsequent events for the Plan through October 30, 2014, the date the financial statements were available to be issued.

**Note 11: REVOLVING LINE OF CREDIT:**

The Plan signed a loan agreement on August 22, 2014 with Arvest Bank which extended the \$1,000,000 line of credit to August 20, 2015. Accrued interest of 4.5% is due and payable monthly on any balance due. No loans were made for the year ending June 30, 2014.

**Note 12: RISKS AND UNCERTAINTIES:**

The plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

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

To the Board of Review Trustees  
Oklahoma Public Employees Health & Welfare Plan  
Bartlesville, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Oklahoma Public Employees Health and Welfare Plan statements as of and for the years ended June 30, 2014 and 2013, as listed in the table of contents, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated October 30, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Kevin C. Duke, CPA, PC*

Tulsa, Oklahoma  
October 30, 2014