College Association of Liability Management

Financial Report
June 30, 2015

Contents

Independent Auditor's Report

Board of Trustees
College Association of Liability Management
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying statement of net position of College Association of Liability Management (CALM) as of June 30, 2015, and the related statement 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College Association of Liability Management as of June 30, 2015, and the changes in its 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 College Association of Liability Management, as of and for the year ended June 30, 2014, were audited by other auditors, whose reported dated December 12, 2014, expressed an unmodified opinion on those statements.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

RSM US LLP

Oklahoma City, Oklahoma
December 15, 2015

College Association of Liability Management

Statements of Net Position
June 30, 2015 and 2014

		2015		2014
Assets:				
Current assets:				
Cash and cash equivalents	**$**	**602,783**	$	593,079
Total assets		**602,783**		593,079
Liabilities and net position:				
Liabilites:				
Current liabilities:				
Accrued liabilities		**9,000**		23,000
Claims advance		**83,335**		82,550
Total current liabilities		**92,335**		105,550
Total unrestricted net position	**$**	**510,448**	$	487,529

See Notes to Financial Statements.

College Association of Liability Management

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

	2015	2014
Operating revenues:		
Premium income	$ 3,936,280	$ 3,915,673
Operating expenses:		
Insurance premiums	3,274,957	3,268,001
Administrative fees	619,528	594,327
General and administrative	19,012	29,229
Total operating expenses	3,913,497	3,891,557
Operating income	22,783	24,116
Nonoperating revenues:		
Interest income	136	108
Net nonoperating revenues	136	108
Change in net position	22,919	24,224
Net position at beginning of year	487,529	463,305
Net position at end of year	$ 510,448	$ 487,529

See Notes to Financial Statements.

College Association of Liability Management

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

	2015	2014
Cash Flows From Operating Activities		
Premium income received	$ 3,936,280	$ 3,915,673
Cash payments for insurance premiums	(3,274,957)	(3,268,001)
Cash payments for administrative fees	(619,528)	(594,327)
Other cash payments to suppliers	(33,012)	(21,979)
Net cash provided by operating activities	8,783	31,366
Cash Flows From Investing Activities		
Interest income received	136	108
Net cash provided by investing activities	136	108
Cash Flows From Financing Activities		
Net claims activity with CompSource	785	2,129
Net cash provided by financing activities	785	2,129
Change in cash and cash equivalents	9,704	33,603
Cash and Cash Equivalents at Beginning of Year	593,079	559,476
Cash and Cash Equivalents at End of Year	$ 602,783	$ 593,079
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 22,783	$ 24,116
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating liabilities:		
Accrued liabilities	(14,000)	7,250
Net cash provided by operating activities	$ 8,783	$ 31,366

See Notes to Financial Statements.

Note 1. Organization and Significant Accounting Policies

Organization: College Association of Liability Management (CALM) was organized on January 16, 1997, with the state of Oklahoma, as an Interlocal Cooperation Act Agency of Colleges and Universities to provide a workers' compensation insurance plan for participating colleges and universities through CompSource Mutual. The CALM Workers' Compensation Plan (the Plan) became effective July 1, 1997.

CALM is governed by a Board of Trustees elected from members of the participating colleges and universities. Title to all assets acquired by CALM is vested in it. In the event of termination, such property shall belong to the then members of CALM in equal shares. Each participating university pays for all costs, premiums or other fees attributable to its respective participation in any plan, policy or service created in the establishing agreement and the service agreement with CompSource Mutual. Each university is responsible for its obligation under any contract entered into with CALM.

Basis of accounting: For financial reporting purposes, CALM is considered a special-purpose government engaged only in business-type activities. Accordingly, CALM'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.

Cash, cash equivalents, and other deposits: CALM considers all demand deposit accounts and investments with original maturities of 90 days or less to be cash equivalents. As of June 30, 2015 and 2014, CALM held no investments classified as cash equivalents.

Retention refunds and contract retention reserves: Effective July 1, 2003, each university began participating in the first dollar coverage program, and as a result, CALM has not collected any retention funds since policy year 2003. During 2008, CALM refunded all remaining retention funds to the universities, and as a result, CALM no longer has any retention refund liabilities or contract claim reserves outstanding at June 30, 2015 or 2014. Policy contracts under the first dollar coverage program (see Note 3) do not have policy or contract claim reserves, as all claims under this program have been ceded to CompSource Mutual.

Revenue recognition: Insurance contracts with member universities are for a one-year period beginning July 1 through June 30. Premiums are determined on a member-by-member basis and are due at the beginning of each contract period and are recognized as revenue over the period of the contract. Premiums received in advance are amounts received in excess of amounts due and for which coverage has not yet been provided. Each premium includes an amount designated to cover administrative expenses of CALM, which is determined annually by the Board of Trustees.

CALM has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute CALM's principal ongoing operations, such as premiums. Nonoperating revenues consist of other revenue sources that are defined as nonoperating revenues, such as investment income.

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

Income taxes: CALM 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.

Note 1. Organization and Significant Accounting Policies (Continued)

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. The requirements of this statement are effective for financial statements beginning after June 15, 2015. Earlier application is encouraged.

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*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

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

Note 2. Deposits

Custodial credit risk: Custodial credit risk is the risk that in the event of failure of a counterparty, CALM will not be able to recover the value of its deposits. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized.

CALM does not have a written policy for custodial credit risk. As of June 30, 2015 and 2014, CALM had cash on deposit with financial institutions totaling $602,783 and $593,079, respectively, which is either insured via federal deposit insurance or collateralized by U.S. government obligations and accordingly has no credit risk.

Note 3. First Dollar Insurance

First dollar coverage insurance became available to group members on July 1, 2000. Under the first dollar coverage program, premiums are calculated each year based upon payrolls by class code and modified for experience. CompSource Mutual places an initial amount in escrow in the name of CALM in order to fund a claims payment account for the first dollar coverage group. CALM, through its third-party administrator, bills CompSource Mutual on a monthly basis for claim payments made in the preceding month. All monies remaining in escrow and not utilized by CALM will be returned to CompSource Mutual upon request.

First dollar coverage group members are eligible for performance rebates based upon loss performance ratios. The loss performance ratios are calculated 18 months after the inception date of each policy.

Note 3. First Dollar Insurance (Continued)

The calculation is made by CompSource Mutual using loss development factors and trend factors to incurred losses. If an individual member achieves a loss ratio less than 70 percent, that member is entitled to a 5 percent rebate of their first dollar coverage premium. If the loss ratio is less than 50 percent, the member is entitled to a rebate of 10 percent of their premium. Rebates earned by members are paid by CompSource Mutual or result in reduced premiums under the first dollar coverage program and, as a result, are not reflected as a liability of CALM.

Note 4. Administrative Fees

CALM uses the services of Consolidated Benefits Resources (CBR), operating as a third-party administrative claims management program, for the prevention, investigation, processing, accounting and payment of workers' compensation claims. During the years ended June 30, 2015 and 2014, CBR was paid a total of $417,882 and $400,882, respectively, for these services. CALM also paid The Beckman Company (Beckman), which is a related party as Beckman serves in the role of executive director of CALM, a total of $201,660 and $193,445 in 2015 and 2014, respectively, to provide services for workers' compensation marketing and various administrative responsibilities.

The fees are based on an agreed-upon percentage of the adjusted CompSource Mutual annual premium.

Note 5. Contingency

The insurance agreements with CompSource Mutual minimize losses that could arise from excess workers' compensation claims or those of an unusual nature. Although the ceding of insurance does not discharge CALM from its primary responsibility to its member school districts, the insurance company that provides the stop-loss coverage assumes the related liability when an individual member's claims exceed its specific retention level within a policy period. For accounting purposes, it is the practice of the original insurer, to the extent of the coverage ceded, to treat such risks as though they are not liable. Failure of the stop-loss carrier to honor its obligation could result in losses to CALM. CALM's management evaluates the financial condition of its carrier to minimize its exposure to significant losses and believes the carrier presently used is financially sound and will be able to meet its contractual obligations.

RSM