COLLEGE ASSOCIATION OF LIABILITY MANAGEMENT

June 30, 2013

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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AUDITED FINANCIAL STATEMENTS

COLE + REED P.C.
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position of College Association of Liability Management ("CALM") as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 reasonable basis for our audit opinion.

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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, 2013 and 2012, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2013, College Association of Liability Management adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

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 Government 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 21, 2013

STATEMENTS OF NET POSITION

COLLEGE ASSOCIATION OF LIABILITY MANAGEMENT

	June 30 2013	June 30 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 559,476	$ 532,282
TOTAL ASSETS	559,476	532,282
LIABILITIES AND NET POSTION		
LIABILITIES		
Current Liabilities:		
Accrued liabilities	15,750	7,875
Claims advance	80,421	61,945
TOTAL CURRENT LIABILITIES	96,171	69,820
TOTAL UNRESTRICTED NET POSITION	$ 463,305	$ 462,462

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

COLLEGE ASSOCIATION OF LIABILITY MANAGEMENT

	Year Ended June 30 2013	Year Ended June 30 2012
OPERATING REVENUES		
Premium income	$ 3,762,072	$ 3,611,647
OPERATING EXPENSES		
Insurance premiums	3,180,932	3,031,965
Administrative fees	544,397	543,031
General and administrative	36,000	16,575
TOTAL OPERATING EXPENSES	3,761,329	3,591,571
OPERATING INCOME	743	20,076
NONOPERATING REVENUES		
Interest income	100	97
NET NONOPERATING REVENUES	100	97
CHANGE IN NET POSITION	843	20,173
NET POSITION AT BEGINNING OF YEAR	462,462	442,289
NET POSITION AT END OF YEAR	$ 463,305	$ 462,462

See notes to financial statements.

STATEMENTS OF CASH FLOWS

COLLEGE ASSOCIATION OF LIABILITY MANAGEMENT

	Year Ended June 30	
	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES		
Premium income received	$ 3,762,072	$ 3,611,647
Cash payments for re-insurance	(3,180,932)	(3,031,965)
Cash payments for administrative fees	(544,397)	(543,031)
Other cash payments to suppliers	(28,125)	(24,450)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,618	12,201
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income received	100	97
NET CASH PROVIDED BY INVESTING ACTIVITIES	100	97
CASH FLOW FROM FINANCING ACTIVITIES		
Net claims activity with CompSource	18,476	(18,067)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	18,476	(18,067)
CHANGE IN CASH AND CASH EQUIVALENTS	27,194	(5,769)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	532,282	538,051
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 559,476	$ 532,282
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 743	$ 20,076
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating liabilities - increase (decrease):		
Accrued liabilities	7,875	(7,875)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,618	$ 12,201

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

COLLEGE ASSOCIATION OF LIABILITY MANAGEMENT

June 30, 2013

NOTE A--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 Oklahoma. 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 Oklahoma. 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. CALM has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with Governmental Accounting Standards Board ("GASB"). CALM has elected to not apply FASB pronouncements issued after the applicable date.

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, 2013 and 2012, CALM held no investments classified as cash equivalents.

Retention Refunds and Contract Claim 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, 2013 or 2012. Policy contracts under the first dollar coverage program (see Note C) do not have policy or contract claim reserves as all claims under this program have been ceded to CompSource Oklahoma.

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

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 by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* such as interest income.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by CALM that is applicable to a future reporting period. At June 30, 2013 and 2012, CALM has no deferred inflows of resources.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by CALM that is applicable to a future reporting period. At June 30, 2013 and 2012, CALM has no deferred outflows of resources.

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 A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

New Accounting Pronouncements: The GASB has issued several new accounting pronouncements which will be effective to CALM during the fiscal year ended June 30, 2013. A description of the new accounting pronouncements and CALM's consideration of the impact of these pronouncements are described below (only pronouncements that are applicable to the CALM):

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*: GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB No. 62 did not have an impact on CALM's net position, activities or cash flows, or its financial statement presentation.
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*: GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement has required CALM to make changes in its financial statement presentation.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities:* GASB No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses) or inflows of resources (revenues) certain items that were previously recognized as assets and liabilities. CALM did not have any previously reported assets and liabilities requiring reclassification to deferred outflows/inflows of resources. As a result, the 2013 and 2012 statements of net position do not report any deferred outflows/inflows of resources.

NOTE B--DEPOSITS AND INVESTMENTS

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 or investments. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized. Investments are exposed to custodial credit risk if they are uninsured, are not registered in CALM's name, or are held by a counterparty or the counterparty's trust department but not in CALM's name.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Custodial Credit Risk--Continued: CALM does not have a written policy for custodial credit risk. As of June 30, 2013, CALM had cash on deposit with financial institutions totaling $465,217, which is either insured via federal deposit insurance or collateralized by U.S. Government obligations and accordingly has no credit risk. In addition, CALM has $94,259 of cash in sweep accounts invested in prime obligations which is not covered by federal deposit insurance or collateralized by U.S. government securities and, as a result, is subject to custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although it does not have a written policy to address interest rate risk, CALM's management and Board of Trustees monitor its investment performance on an ongoing basis to limit CALM's interest rate risk. As of June 30, 2013, all of CALM's excess cash was held in variable interest rate bank accounts.

NOTE C--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 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 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 upon request.

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

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

NOTE D--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, 2013 and 2012, CBR was paid a total of $367,192 and $366,271, respectively, for these services. CALM also paid The Beckman Company ("Beckman") a total of $177,205 and $176,760 in 2013 and 2012, 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 annual premium. CBR and Beckman were paid fees in an amount less than what they were entitled under the agreements; however, both CBR and Beckman have waived their rights to the unpaid fees, and no liability is recorded to reflect the unpaid fees.

NOTE E--CONTINGENCY

The insurance agreements with CompSource Oklahoma 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.