

***THE AUDITORS' COMMUNICATION WITH THOSE  
CHARGED WITH GOVERNANCE***

**OKLAHOMA SCHOOL ASSURANCE GROUP**

**JUNE 30, 2019**



To the Board of Trustees  
Oklahoma School Assurance Group  
Oklahoma City, Oklahoma

We have audited the financial statements of Oklahoma School Assurance Group (“OSAG”) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 16, 2019. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Matters

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by OSAG are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by OSAG during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting OSAG’s financial statements were:

- OSAG’s allowance for doubtful accounts is based on the length of time a receivable is past due, previous payment history and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management’s estimate of the fair value of investments is based on valuations provided by the third-party entities that hold the investments for OSAG. We evaluated the key factors and assumptions used to estimate the fair value of the investments. Based on our evaluation, the estimated fair value for the investments appeared reasonable.
- OSAG’s liability for policy and contract retention reserves is generally limited to the prior three policy periods. Each individual member’s liability is limited to its specific retention level for each policy period. Actual member claims in excess of the retention level for a policy are covered by a stop-loss insurance agreement with CompSource Mutual. Any policy and contract retention reserves not required for claims will be used to reduce future premium costs of the active members. OSAG bases its estimate on claims data existing at June 30, 2019 and estimates of incurred but not reported claims; however, these liabilities are limited to OSAG’s retention levels. Further, any contract retention reserves not required for claims will be used to reduce future premium costs of active members. We evaluated the key factors and assumptions used to develop OSAG’s estimates and concluded that management’s estimate is reasonable.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure regarding contingencies associated with OSAG's insurance agreements with CompSource Mutual in Note F to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to OSAG's financial statements taken as a whole. Adjustments are detailed on Appendix A to this letter.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 22, 2019.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to OSAG's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as OSAG's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of OSAG and is not intended to be, and should not be, used by anyone other than these specified parties.

*Rose Rock CPAs PLLC*

Edmond, Oklahoma

November 22, 2019

**Oklahoma School Assurance Group**  
**Summary of Recorded Audit Adjustments**  
**Year Ended June 30, 2019**

Description	Effect-Debit (Credit)				
	Assets	Liabilities	Net Position	Revenue	Expenses
Audit adjustments:					
Zero interfund accounts	\$ 2,547	\$ -	\$ -	\$ -	\$ (2,547)
Adjust investments to fair value	50,794	-	-	(50,794)	-
Increase allowance for doubtful accounts	(45,906)	-	-	-	45,906
Total effect on statement of revenues, expenses and changes in net position	-	-	(7,435)	\$ (50,794)	\$ 43,359
Total effect on statement of net position	<u>\$ 7,435</u>	<u>\$ -</u>	<u>\$ (7,435)</u>		

*AUDITED FINANCIAL STATEMENTS*

**OKLAHOMA SCHOOL ASSURANCE GROUP**

**June 30, 2019**

# OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2019

---

## *Table of Contents*

---

### Required Supplementary Information

Management's Discussion and Analysis ..... i

Independent Auditors' Report ..... 1

### Financial Statements

Statements of Net Position..... 3

Statements of Revenues, Expenses and Changes in Net Position ..... 4

Statements of Cash Flows..... 5

Notes to the Financial Statements..... 6

# **OKLAHOMA SCHOOL ASSURANCE GROUP**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

**June 30, 2019**

---

The following Management's Discussion and Analysis (“MD&A”) of the activities and financial performance of Oklahoma School Assurance Group (“OSAG”) provides an introduction to the financial statements for the years ended June 30, 2019 and 2018.

OSAG, established in June 1994, is an Interlocal Cooperation Act Agency of schools offering membership to public and vocational technical school districts in Oklahoma with the mission of providing efficient and economical workers' compensation services to its members.

### **Financial and Activity Highlights**

Our operations for the years ended June 30, 2019 and 2018 resulted in increases to net position of approximately \$231,000 and \$117,000, respectively. These increases are a result of tight budget practices and investment management.

The school superintendents who preside over the OSAG program have played an integral part in the formation and critical decisions of OSAG. All member schools have a voice in OSAG, since this is a school-owned program, run by its peers and solely in business to serve Oklahoma schools.

OSAG is an inter-local and operates under the Oklahoma Open Meeting Act similar to school districts. OSAG is a member of various educational organizations and pays sponsorship to those organizations for membership. As of June 30, 2019, OSAG membership is comprised of 496 school districts.

### **OSAG Board of Trustees:**

- |                           |  |
|---------------------------|--|
| • Dr. John Cox (Chairman) | Superintendent – Peggs School District     |
| • Dr. Keith Weldon        | Superintendent – Calumet School District   |
| • Chad Hance              | Superintendent – Cache School District     |
| • Robert Trammell         | Superintendent – Cheyenne School District  |
| • Tony Potts              | Superintendent – Stringtown Public Schools |

### **OSAG Administrative Director:**

- Jack Dryden

### **OSAG Program Administration:**

- The Beckman Company

### **OSAG Claims Administration:**

- Consolidated Benefits Resources

### **OSAG Accounting Firm:**

- Wedel Rahill & Associates

### **OSAG Auditing Firm:**

- Rose Rock CPAs, PLLC



## OKLAHOMA SCHOOL ASSURANCE GROUP

### MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2019

---

**OSAG Mission Statement:** To provide efficient and economical workers' compensation services to Oklahoma public schools.

#### Overview of the Financial Statements and Financial Analysis

This report consists of Management's Discussion and Analysis (this part), the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. These statements provide financial information on OSAG as a whole.

These statements include all assets and liabilities using the accrual basis of accounting. All of the revenues and expenses are recognized when earned or incurred regardless of when cash is received or paid.

This financial report is designed to provide member school districts, creditors, and suppliers with a general overview of OSAG's finances.

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report OSAG's net position and how it has changed. Net position, the difference between assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure OSAG's financial health or position.

The following summarizes OSAG's assets, liabilities and net position as of June 30 (OSAG has no deferred outflows or inflows):

	2019	2018	2017
Assets:			
Cash and cash equivalents	\$ 1,585,854	\$ 2,428,443	\$ 2,845,449
Receivables and other assets	853	47,928	272,374
Investments	11,190,024	10,155,007	10,739,618
Total assets	<u>\$ 12,776,731</u>	<u>\$ 12,631,378</u>	<u>\$ 13,857,441</u>
Liabilities:			
Due to members	\$ 3,349,736	\$ 1,007,398	\$ 796,447
Premiums received in advance	1,114,855	1,307,931	1,298,616
Other payables	10,993	296,225	718
Policy and contract retention reserves	1,896,890	3,846,282	5,705,306
Total liabilities	<u>6,372,474</u>	<u>6,457,836</u>	<u>7,801,087</u>
Net position:			
Unrestricted	6,258,812	6,053,302	5,952,437
Restricted	145,445	120,240	103,917
Total net position	<u>6,404,257</u>	<u>6,173,542</u>	<u>6,056,354</u>
Total liabilities and net position	<u>\$ 12,776,731</u>	<u>\$ 12,631,378</u>	<u>\$ 13,857,441</u>

## OKLAHOMA SCHOOL ASSURANCE GROUP

### MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2019

---

#### Overview of the Financial Statements and Financial Analysis, Continued

The following summarizes OSAG's Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30:

	2019	2018	2017
Operating revenues:			
Premium income	\$ 21,562,995	\$ 20,654,462	\$ 22,596,857
Operating expenses:			
Cost of stop-loss insurance	16,636,507	16,195,236	18,017,681
Claims administration fees	1,992,076	1,777,317	1,816,634
Marketing and general consulting fees	2,228,884	2,052,443	2,119,150
Other expenses	828,348	544,799	551,159
Total operating expenses	21,685,815	20,569,795	22,504,624
Operating income (loss)	(122,820)	84,667	92,233
Net nonoperating revenue (expenses)	353,535	32,521	(423)
Change in net position	230,715	117,188	91,810
Net position, beginning of year	6,173,542	6,056,354	5,964,544
Net position, end of year	<u>\$ 6,404,257</u>	<u>\$ 6,173,542</u>	<u>\$ 6,056,354</u>

All of OSAG's operating revenue is related to the receipt of member contributions from OSAG's member school districts. OSAG's operating expenses primarily relate to claims losses, the costs associated with insurance premiums, the costs to process claims, and the costs of marketing OSAG to new entities. The net nonoperating revenue is primarily comprised of income earned on investments and net scholarship activities.

## OKLAHOMA SCHOOL ASSURANCE GROUP

### MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2019

#### Overview of the Financial Statements and Financial Analysis, Continued

##### The Statements of Cash Flows

The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future cash flows, ability to meet obligations as they come due, and needs for external financing. The following summarizes OSAG's cash flows for the years ended June 30:

	2019	2018	2017
Cash provided by (used in):			
Operating activities	\$ (161,107)	\$ (1,034,138)	\$ (2,554,374)
Noncapital financing activities	16,790	17,240	23,800
Investing activities	(698,272)	599,892	(673,225)
Net decrease in cash and cash equivalents	(842,589)	(417,006)	(3,203,799)
Cash and cash equivalents, beginning of year	2,428,443	2,845,449	6,049,248
Cash and cash equivalents, end of year	\$ 1,585,854	\$ 2,428,443	\$ 2,845,449

OSAG's overall liquidity decreased during the year ended June 30, 2019 primarily due to a decrease in cash received for claims covered by stop-loss insurance of approximately \$1,442,000, an increase in cash payments for stop-loss insurance, claims, marketing and general and administrative fees and other operating expenses of approximately \$1,074,000, plus net purchases of investments, net of related investment income, of approximately \$698,000. These decreases in liquidity were partially offset by increases in cash received for member performance dividends of approximately \$1,646,000 and a decrease in benefit payments to policy holders of approximately \$1,250,000. OSAG's overall liquidity decreased during the year ended June 30, 2018 primarily due to a decrease in premium income received of approximately \$2,267,000 and a decrease in cash received from claims covered by stop-loss insurance of approximately \$3,901,000, offset by a decrease in cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses of approximately \$1,935,000, and decreases in benefits paid to policyholders of approximately \$5,754,000 plus net proceeds from investment sales and maturities and related investment income of approximately \$600,000. OSAG's overall liquidity decreased during the year ended June 30, 2017 primarily due to a decrease in premium income received of approximately \$15,685,000, offset by a decrease in cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses of approximately \$7,367,000, and decreases in benefits paid to policyholders of approximately \$2,321,000 and net purchases of certificates of deposit of approximately \$673,300. Cash transactions in operating activities are primarily related to receipts of member contributions for the years ended June 30, 2019, 2018 and 2017 and for the prepayment of member contributions for fiscal years 2019, 2018 and 2017, offset by insurance and management disbursements of OSAG. Cash provided by or used in investing activities relates to proceeds from the sale or maturity of investments and income earned on investments net of investment purchases.

## **OKLAHOMA SCHOOL ASSURANCE GROUP**

### **MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED**

**June 30, 2019**

---

#### **Capital Asset and Debt Administration**

OSAG had no capital asset and debt administration activity during the years ended June 30, 2019, 2018, or 2017.

#### **Overview of the Financial Statements and Financial Analysis, Continued**

##### **Economic Factors and Premium Rates**

OSAG's management considered many factors when developing the annual operating budget for the fiscal year ending June 30, 2019.

The budget for the fiscal year ending June 30, 2019 was developed based upon the following key assumptions:

- Premium contributions are based upon the cost of excess insurance quoted by CompSource Mutual plus administrative costs.
- Investment income is projected to be approximately 1 percent of the market value of total investments.
- Stop-loss premiums deviate annually based on current workers’ compensation market levels and profitability of the group.



## Independent Auditors' Report

To the Board of Trustees  
Oklahoma School Assurance Group  
Oklahoma City, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Oklahoma School Assurance Group ("OSAG"), which comprise the statements of net position as of June 30, 2019 and 2018, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to OSAG'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 OSAG's internal controls. 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 OSAG as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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 in accordance with auditing standards generally accepted in the United States of America, 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.

***Rose Rock CPAs PLLC***

Edmond, Oklahoma  
November 22, 2019

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF NET POSITION

	June 30	
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,585,854	\$ 2,428,443
Premiums receivable, net	-	45,906
Investments	7,780,376	7,394,642
Other assets	853	2,022
TOTAL CURRENT ASSETS	9,367,083	9,871,013
INVESTMENTS	3,409,648	2,760,365
TOTAL ASSETS	<u>\$ 12,776,731</u>	<u>\$ 12,631,378</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Due to members	\$ 3,349,736	\$ 1,007,398
Due to CompSource Mutual	9,324	295,492
Premiums received in advance	1,114,855	1,307,931
Policy and contract retention reserves	1,896,890	3,846,282
Other payables	1,669	733
TOTAL CURRENT LIABILITIES	6,372,474	6,457,836
TOTAL LIABILITIES	6,372,474	6,457,836
NET POSITION		
Unrestricted net position	6,258,812	6,053,302
Restricted net position	145,445	120,240
TOTAL NET POSITION	6,404,257	6,173,542
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,776,731</u>	<u>\$ 12,631,378</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2019	2018
OPERATING REVENUES		
Premium income	\$21,562,995	\$20,654,462
OPERATING EXPENSES		
Cost of stop-loss insurance	16,636,507	16,195,236
Claims administration fee	1,992,076	1,777,317
Marketing and general consulting fee	2,228,884	2,052,443
Professional services	324,050	315,746
Safety equipment grants	227,280	-
Insurance expense	36,976	44,228
Membership services-seminars	12,473	3,336
Board meeting expenses	479	9,371
Conferences	31,178	11,414
Sponsorship fees	52,954	66,988
Postage and printing expense	11,871	9,544
Telephone	3,895	3,015
Office expenses	15,351	19,066
Travel	6,809	11,129
Consulting fees	17,274	12,984
Other	87,758	37,978
TOTAL OPERATING EXPENSES	<u>21,685,815</u>	<u>20,569,795</u>
OPERATING INCOME (LOSS)	(122,820)	84,667
NONOPERATING REVENUES (EXPENSES)		
Investment income	336,745	15,281
Scholarship fundraising	24,790	25,240
Scholarship expense	(8,000)	(8,000)
NET NONOPERATING REVENUES	<u>353,535</u>	<u>32,521</u>
CHANGE IN NET POSITION	230,715	117,188
NET POSITION AT BEGINNING OF YEAR	<u>6,173,542</u>	<u>6,056,354</u>
NET POSITION AT END OF YEAR	<u>\$ 6,404,257</u>	<u>\$ 6,173,542</u>

See notes to financial statements.



OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Premium income received	\$ 20,362,521	\$ 19,870,012
Cash received for claims covered by stop-loss insurance	-	1,442,263
Cash received for member performance dividends	1,646,104	-
Cash payments for stop-loss insurance, claims, marketing and general administrative fees and other operating expenses	(21,643,422)	(20,569,780)
Benefit payments to policy holders	(526,310)	(1,776,633)
NET CASH USED IN OPERATING ACTIVITIES	(161,107)	(1,034,138)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Contributions from scholarship fundraising	24,790	25,240
Cash payments on scholarship expense	(8,000)	(8,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	16,790	17,240
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturity of investments	7,050,501	9,136,860
Purchases of investments	(7,892,630)	(8,670,948)
Investment income received	143,857	133,980
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(698,272)	599,892
NET CHANGE IN CASH AND CASH EQUIVALENTS	(842,589)	(417,006)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,428,443	2,845,449
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,585,854	\$ 2,428,443
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (122,820)	\$ 84,667
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Provision for doubtful accounts	45,906	-
Changes in operating assets and liabilities:		
Due from CompSource Mutual	-	272,223
Premiums receivable	-	(45,906)
Other assets	1,169	(1,871)
Due to members	2,342,338	210,951
Due to CompSource Mutual	(286,168)	295,492
Premiums received in advance	(193,076)	9,315
Policy and contract retention reserves	(1,949,392)	(1,859,024)
Other payables	936	15
NET CASH USED IN OPERATING ACTIVITIES	\$ (161,107)	\$ (1,034,138)
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Net unrealized gain (loss) on investments	\$ 201,393	\$ (23,744)

See notes to financial statements.

# OKLAHOMA SCHOOL ASSURANCE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

---

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Oklahoma School Assurance Group ("OSAG") was established by an agreement with an effective date of June 1, 1994, and a duration of fifty years, unless sooner dissolved or extended. OSAG is an Interlocal Cooperation Act Agency of schools offering membership to Oklahoma public and vocational technical school districts with the mission of providing efficient and economical workers' compensation services to its members.

OSAG has created a Workers' Compensation Plan Fund and an Operating Fund. The purpose of the Workers' Compensation Plan Fund is to provide workers' compensation coverage through CompSource Mutual Insurance Company ("CompSource Mutual") to participating school districts in the state of Oklahoma as required by the Oklahoma Workers' Compensation Act. One basic insurance plan exists for covered employee claims of participating school districts. Covered employees include management, teachers, volunteers, and other full and part-time employees. The purpose of the Operating Fund is to provide management to the Workers' Compensation Plan Fund. For financial statement presentation purposes, the two funds have been combined with all inter-fund activity eliminated.

All affairs of OSAG are governed by a Board of Trustees elected by and from its members. Trustee responsibilities include reviewing and ensuring compliance with OSAG's policies and services as contemplated in its establishing agreement. For the years ended June 30, 2019 and 2018, the Board of Trustees contracted with Consolidated Benefits Resources to be the third-party administrator responsible for claims processing and management for OSAG members and The Beckman Company to serve as the marketing agent and professional insurance consultant. Fees payable to Consolidated Benefits Resources and The Beckman Company are determined on a member-by-member basis at the time the risk is underwritten.

Title to all assets acquired by OSAG is vested in it. In the event of termination, such property shall belong to the then members of OSAG in equal shares. Each participating school district 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 school district is responsible for its obligation under any contract entered into with OSAG.

Financial Statement Presentation: OSAG's financial statements are presented in accordance with requirements of the Governmental Accounting Standards Board ("GASB") specific to enterprise fund activities. Under these requirements, OSAG is required to present a statement of net position classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows, using the direct method.

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

## OKLAHOMA SCHOOL ASSURANCE GROUP

### NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

---

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Revenue Recognition: Insurance contracts with member school districts 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. Each school district's premium is based on its loss history for the last five years with the last three years having greater significance. 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 OSAG, which is determined annually by the Board of Trustees.

Cash, Cash Equivalents and Other Deposits: OSAG considers all demand deposit accounts and investments with original maturities of 90 days or less, excluding money market mutual funds held in OSAG's investment portfolio, to be cash equivalents. As circumstances dictate, amounts in each fund's main checking account are swept into interest-bearing accounts that are insured or collateralized by U.S. government securities. Non-negotiable certificates of deposit with original maturities of 90 days or more are classified as investments for financial reporting purposes.

Investments: OSAG reports most types of investments at fair value in the statements of net position and reports all investment income, including changes in fair value of investments, as revenue in the statements of revenues, expenses, and changes in net position.

Investments are classified as current and noncurrent consistent with the contractual maturities of investments that mature within a year and greater than a year, respectively. All investments with no stated maturity are considered current. Investments in pooled investment funds and U.S. Govt securities-based-mutual funds are reported as current in the accompanying statements of net position as OSAG has the ability to redeem these investments on at least a weekly basis. For purposes of interest rate risk disclosure (see Note B), the average maturities of the fund holdings are used to indicate interest rate risk. OSAG's investments can be liquidated and converted into cash based on management's determination; however, penalties may be incurred with an early redemption.

Premiums Receivable, net: Premiums receivable consists of amounts billed to members for insurance premiums. OSAG determines its allowance for premiums receivable by considering a number of factors, including length of time accounts receivable are past due and the previous payment history. Once an allowance for doubtful accounts has been established, OSAG continues collection efforts and any payments subsequently received on such receivables are credited to the operating expenses. The allowance for doubtful accounts was \$45,906 and \$0 at June 30, 2019 and 2018, respectively.

Due to CompSource Mutual: Due to CompSource Mutual consists of retention claims paid by CompSource Mutual for which OSAG is responsible for reimbursement. In December 2017, CompSource Mutual began paying OSAG retention claims using CompSource Mutual paper. Any OSAG retention claims paid by CompSource Mutual subsequent to December 1, 2017 are the responsibility of OSAG, and OSAG is required to reimburse CompSource Mutual for these cumulative retention payments.

## OKLAHOMA SCHOOL ASSURANCE GROUP

### NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

---

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Due to Members: Retention credits and performance dividends are accrued by OSAG and applied toward future member policy premiums. Due to members consists of \$1,703,632 in retention credits and \$1,646,104 in performance dividends as of June 30, 2019. The retention credits will be applied toward fiscal year 2020 member premiums while the performance dividends are expected to be applied to fiscal year 2021 member premiums that will be billed in May of 2020. Due to members consisted of \$1,007,398 as of June 30, 2018 and was applied toward fiscal year 2019 member premiums.

Policy and Contract Retention Reserves: OSAG's liability for policy and contract retention reserves is generally limited to the prior three policy periods. Each individual member's liability is limited to its specific retention level (amount set aside each policy period to pay claims of member employees) for each policy period. Actual member claims in excess of the retention level for a policy period are covered by a stop-loss insurance agreement with CompSource Mutual (see Note D). Unused retention for a policy period accrues to the benefit of the specific member upon expiration of the three-year period. If any unused retention remains for any member, that amount will generally be issued as a credit toward the following year's premium for active members only. At the discretion of OSAG, if at the end of the three-year period a member has significant ongoing claims, a portion of that member's unused retention may be held for payment of subsequent claim activity. Subsequent qualifying claims for a policy period in which the member's unused retention was either refunded or applied as a credit are to be paid by OSAG. Policy contracts under the first dollar coverage program (see Note E) do not have policy or contract retention reserves, as all claims under this program have been ceded to CompSource Mutual.

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

Net Position: OSAG's net position is classified as follows.

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

*Restricted Net Position:* Restricted expendable net position is derived from funds raised for the Gene Keith Scholarship. These resources are used for scholarships awarded annually by OSAG.

Insurance Premiums: Insurance premiums, which are determined on a member-by-member basis and include administrative fees and excess insurance premiums, are recognized as income ratably over the terms of the policies.

Tax Status: OSAG is a public entity organized under the laws of the state of Oklahoma. The income it earns in the exercise of its essential government function and which accrues to political subdivisions of the State of Oklahoma is exempt from federal income taxes under Internal Revenue Code Section 115(a).

## OKLAHOMA SCHOOL ASSURANCE GROUP

### NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

---

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Use of 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.

Date of Management's Review of Subsequent Events: Management has evaluated subsequent events through November 22, 2019, which is the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

#### NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits: Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging institution's trust department or agency but not in the depositor-government's name. As of June 30, 2019 and 2018, OSAG had cash on deposit with financial institutions of approximately \$1,611,000 and \$2,435,000, respectively, which is either insured via federal deposit insurance or collateralized with securities held by pledging financial institutions in OSAG's name.

Custodial Credit Risk - Investments: OSAG does not have a written policy for custodial credit risk. Investments are exposed to custodial credit risk if they are uninsured, are not registered in OSAG's name, or are held by a counterparty or the counterparty's trust department but not in OSAG's name. As of June 30, 2019 and 2018, OSAG's investments are held by its agent in OSAG's name. Accordingly, no investments are subject to custodial credit risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will default or will otherwise not fulfill its obligations. Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. As of June 30, 2019 and 2018, OSAG has approximately \$4,268,000 and \$3,822,000, respectively, in certificates of deposit that are insured via federal deposit insurance and approximately \$2,939,000 and \$2,768,000, respectively, in U.S. Treasury bonds that are explicitly guaranteed by the U.S. Government. Credit ratings for other debt securities are provided below:

# OKLAHOMA SCHOOL ASSURANCE GROUP

## NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

### NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

#### Credit Risk--Continued:

	June 30, 2019		June 30, 2018	
	Not Rated or Rating Not Triple-A Available		Not Rated or Rating Not Triple-A Available	
U.S. Govt securities-based mutual funds	\$ 1,040,622	\$ -	\$ 746,582	\$ -
Pooled investment funds	-	2,805,206	-	2,711,185
	<u>\$ 1,040,622</u>	<u>\$ 2,805,206</u>	<u>\$ 746,582</u>	<u>\$ 2,711,185</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. OSAG discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments by date range as outlined in the following table. Although it does not have a written policy to address interest rate risk, OSAG's management and Board of Trustees monitor its investment performance on an ongoing basis to limit OSAG's interest rate risk.

Maturities of investments are as follows:

	June 30, 2019		
Investment Type	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
U.S. Govt securities-based mutual funds	\$ 1,040,622	\$ 1,040,622	\$ -
Pooled investment funds	2,805,206	-	2,805,206
Certificates of deposit	4,267,781	2,697,235	1,570,546
U.S. Treasury bonds	2,939,102	1,100,000	1,839,102
	<u>\$ 11,052,711</u>	<u>\$ 4,837,857</u>	<u>\$ 6,214,854</u>

  

	June 30, 2018		
Investment Type	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
U.S. Govt securities-based mutual funds	\$ 746,582	\$ 746,582	\$ -
Pooled investment funds	2,711,185	-	2,711,185
Certificates of deposit	3,821,736	1,061,371	2,760,365
U.S. Treasury bonds	2,768,076	2,768,076	-
	<u>\$ 10,047,579</u>	<u>\$ 4,576,029</u>	<u>\$ 5,471,550</u>

## OKLAHOMA SCHOOL ASSURANCE GROUP

### NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

---

#### NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

Concentration of Investment Credit Risk: Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percentage of total investments of OSAG (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this consideration. At June 30, 2019 and 2018, OSAG has no individual investments in any issuer exceeding 5 percent of total investments.

Fair Value Measurements: The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Fund has the ability to access.

*Level 2* - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.

*Level 3* - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# OKLAHOMA SCHOOL ASSURANCE GROUP

## NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

### NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

#### Fair Value Measurements, Continued:

The following is a description of the valuation methodologies used for assets measured at fair value:

*Certificates of deposits (brokered):* Valued using observable inputs from active or inactive markets for the exact or similar securities.

*Mutual funds, U.S. Treasuries and U.S. Government securities-based mutual funds:* Valued at quoted prices for identical securities in active markets.

*Certificates of deposits (non-brokered):* Measured at amortized cost.

Investments at fair value consist of the following at June 30:

	2019			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (brokered)	\$ -	\$ 4,022,781	\$ -	\$ 4,022,781
Mutual funds	137,313	-	-	137,313
U.S. Treasury bonds	2,939,102	-	-	2,939,102
U.S. Government securities-based mutual funds	1,040,622	-	-	1,040,622
Total Investments by fair value level	<u>\$ 4,117,037</u>	<u>\$ 4,022,781</u>	<u>\$ -</u>	<u>8,139,818</u>
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				245,000
Pooled investment funds *				<u>2,805,206</u>
Total investments				<u><u>\$ 11,190,024</u></u>



# OKLAHOMA SCHOOL ASSURANCE GROUP

## NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

### NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

	2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (brokered)	\$ -	\$ 3,576,736	\$ -	\$ 3,576,736
Mutual funds	107,428	-	-	107,428
U.S. Treasury bonds	2,768,076	-	-	2,768,076
U.S. Government securities-based mutual funds	746,582	-	-	746,582
Total Investments by fair value level	<u>\$ 3,622,086</u>	<u>\$ 3,576,736</u>	<u>\$ -</u>	<u>7,198,822</u>
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				245,000
Pooled investment funds *				<u>2,711,185</u>
Total investments				<u>\$ 10,155,007</u>

\* - Certain assets have been presented as part of investments on the statements of net position but are not classified in the fair value hierarchy. The amounts in this table are intended to permit reconciliation of the fair value of investments in the fair value hierarchy to the amounts presented in the statements of net position.

Pooled investment funds consist solely of one fund invested in an array of direct obligation bonds of the United States Government, its agencies, instrumentalities or sponsored entities. This fund is valued using the net asset value ("NAV") of the pool. OSAG has no unfunded commitments related to this investment type. Shares are redeemable weekly at the NAV at the time of redemption.

### NOTE C--POLICY AND CONTRACT RETENTION

Prior to the 2017 policy year, an aggregate deductible policy was available to members which included policy and contract retention amounts. Policy and contract retention reserves provide for reported claims on a case-by-case basis. Policy and contract retention reserves not required to settle claims will be used to reduce future premium costs of the member.

# OKLAHOMA SCHOOL ASSURANCE GROUP

## NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2019

### NOTE C--POLICY AND CONTRACT RETENTION--CONTINUED

The following reconciles the changes in aggregate policy and contract retention liabilities for the years ended June 30:

	2019	2018
Policy and contract retention reserves at beginning of year	\$ 3,846,282	\$ 5,705,306
Claims covered under stop-loss contracts	-	1,214,173
Benefit payments to policyholders by OSAG	(242,951)	(1,776,633)
Benefit payments to policyholders by CompSource Mutual to be reimbured by OSAG	(2,809)	(289,166)
Accrued refunds to qualifying members	(1,703,632)	(1,007,398)
Policy and contract retention reserves at end of year	<u>\$ 1,896,890</u>	<u>\$ 3,846,282</u>
Current portion of policy and contract retention reserves	<u>\$ 1,896,890</u>	<u>\$ 3,846,282</u>

At June 30, 2019 and 2018, total policy and contract retention reserves approximated the aggregate amount of unused member retention levels. The following is a summary of the liability by year:

Policy Year	2019	2018
2016	\$ 1,299,604	\$ 3,200,987
2015	589,722	641,232
2014	4,853	-
2013	-	-
2012	2,175	2,175
2011 and prior	536	1,888
	<u>\$ 1,896,890</u>	<u>\$ 3,846,282</u>

Although the three-year period for aggregate policy and contract retention liabilities have all expired as of June 30, 2019, OSAG still has policy and contract retention reserves for certain members that were not refunded due to significant ongoing claim activity. These reserves are expected to be reduced by subsequent claim activity. Any unused retention reserves for these members that remain after the related claims have been closed are expected to be refunded or applied to future premiums.

Unused retention refunded to qualifying members for the policy year ended June 30, 2016 totaled \$1,703,632 to be applied to fiscal year 2020 premiums, or to satisfy subsequently incurred claims.

Unused retention refunded to qualifying members for the policy year ended June 30, 2015 totaled \$1,007,398 and was applied to fiscal year 2019 premiums.

## **OKLAHOMA SCHOOL ASSURANCE GROUP**

### **NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

**June 30, 2019**

---

#### **NOTE D--STOP-LOSS INSURANCE**

OSAG's Workers' Compensation Plan has contracted with CompSource Mutual to provide coverage within a policy period for aggregate deductible policies when an individual member's claims exceed its specific retention level. As outlined in the stop-loss agreement, each individual member's liability for claim losses is limited to its respective retention level for the specific policy period. For the year ended June 30, 2019, CompSource Mutual, through Consolidated Benefit Resources, paid approximately \$1,211,000 in aggregate deductible claim payments exceeding retention amounts.

#### **NOTE E--FIRST DOLLAR COVERAGE**

First dollar coverage insurance became available to group members on July 1, 2002. Under the first dollar coverage program, premiums are calculated each year, and prior to December 2017, CompSource Mutual placed an initial amount in escrow in the name of OSAG in order to fund a claims payment account for the first dollar coverage group. OSAG, through Consolidated Benefits Resources, billed CompSource Mutual on a monthly basis for claim payments made in the preceding month. Subsequently, all claims payments are processed by Consolidated Benefits Resources on CompSource mutual paper. For the year ending June 30, 2019, CompSource Mutual, through Consolidated Benefits Resources, paid approximately \$14,220,000 in claims under the first dollar coverage program. Starting with the 2017 policy year, all OSAG members are participating in the first dollar coverage program.

CompSource Mutual offers a performance dividend program based upon individual member loss ratios and premium amounts. Valuation of the performance dividends will be twenty-four (24) months after inception of the policy. Performance dividends earned by members, which are due from CompSource Mutual, are considered agency transactions with any amounts received by OSAG being owed to OSAG members. If a performance dividend is earned by a member that is no longer a member of OSAG at the time of payment, the performance dividend will be payable to OSAG. During the year ended June 30, 2019, OSAG received \$1,646,104 in performance dividends from CompSource Mutual that will be applied toward future member premiums. This liability is included in due to members in the accompanying statements of net position. OSAG did not receive any performance dividends from CompSource Mutual and no liability was recorded at June 30, 2018.

#### **NOTE F--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 OSAG 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 OSAG. OSAG'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.