

College Association of Liability Management

Financial Report
June 30, 2019 and 2018

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statements of net position	3
Statements of revenues, expenses and changes in net position	4
Statements of cash flows	5
Notes to financial statements	6-8

Other Matter

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 26, 2019

College Association of Liability Management

Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 879,987	\$ 922,000
	<u>879,987</u>	<u>922,000</u>
Total assets	\$ 879,987	\$ 922,000
Liabilities and Net Position		
Liabilities:		
Accrued liabilities	\$ 10,750	\$ 10,750
Advance premiums	30,000	-
Claims advance	92,654	92,654
Performance rebates payable to members	180,633	267,280
Policy and contract retention reserves	11,566	11,566
	<u>325,603</u>	<u>382,250</u>
Total liabilities	325,603	382,250
	<u>554,384</u>	<u>539,750</u>
Total unrestricted net position	\$ 554,384	\$ 539,750

See notes to financial statements.

College Association of Liability Management

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018**

	2019	2018
Operating revenues:		
Premium income	<u>\$ 2,001,818</u>	<u>\$ 1,879,305</u>
Operating expenses:		
Insurance premiums	1,544,303	1,500,559
Administrative fees	430,424	355,704
General and administrative	22,445	22,749
Total operating expenses	<u>1,997,172</u>	<u>1,879,012</u>
Operating income	4,646	293
Nonoperating revenues:		
Interest and other income	<u>9,988</u>	26,332
Change in net position	14,634	26,625
Net position at beginning of year	<u>539,750</u>	513,125
Net position at end of year	<u><u>\$ 554,384</u></u>	<u><u>\$ 539,750</u></u>

See notes to financial statements.

College Association of Liability Management

**Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Premium income received	\$ 2,031,818	\$ 1,879,305
Cash payments for insurance premiums	(1,544,303)	(1,500,559)
Cash payments for administrative fees	(430,424)	(355,704)
Cash received for retention claims covered by stop-loss insurance	-	52,214
Performance rebates received from CompSource payable to members	180,633	267,280
Performance rebates paid	(267,280)	(201,240)
Benefit retention payments to policyholders	-	(38,073)
Other cash payments to suppliers	(22,445)	(22,749)
Net cash provided by (used in) operating activities	(52,001)	80,474
Cash flows from investing activities:		
Interest income received	9,988	26,332
Change in cash and cash equivalents	(42,013)	106,806
Cash and cash equivalents at beginning of year	922,000	815,194
Cash and cash equivalents at end of year	\$ 879,987	\$ 922,000
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,646	\$ 293
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
Claims advance	-	14,141
Performance rebates payable to members	(86,647)	66,040
Advance premiums	30,000	-
Net cash provided by (used in) operating activities	\$ (52,001)	\$ 80,474

See notes to financial statements.

College Association of Liability Management

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 Insurance Company (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.

Policy and contract retention reserves: CALM'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 for 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 4). Unused retention for a policy period accrues to the benefit of the specific member upon expiration of the three-year period. Each member with unused retention may elect a refund or receive credit toward the following year's premium. Subsequent qualifying claims for a policy period in which the member's unused retention was either refunded or applied as a credit is the sole liability of the member.

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. Each university'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 been provided.

Each premium includes an amount designated to cover administrative expenses of CALM, which is determined annually by the Board of Trustees

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, and such amounts could be significant.

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.

College Association of Liability Management

Notes to 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, 2019 and 2018, CALM had cash on deposit with financial institutions totaling \$895,582 and \$963,159, 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. 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%, 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 Mutual or result in reduced premiums under the first dollar coverage program and, as a result, are not reflected as a liability of CALM. During 2019, CALM received rebates totaling \$180,633 and paid rebates totaling \$267,280. During 2018, CALM received rebates totaling \$267,280 and \$201,240 payment of rebates were made.

Note 4. Policy and Contract Retention Reserves

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 returned to the member or used to reduce future premium costs of the member. The following reconciles the changes in aggregate policy and contract retention liabilities for the years ended June 30, 2019 and 2018:

	2019	2018
Policy and contract retention reserves at beginning of year	\$ 11,566	\$ 11,566
Claims covered under stop-loss contracts	-	38,073
Benefit payments to policyholders	-	(38,073)
Policy and contract retention reserves at end of year	<u>\$ 11,566</u>	<u>\$ 11,566</u>
Current portion of policy and contract retention reserves	<u>\$ 11,566</u>	<u>\$ 11,566</u>

At June 30, 2019, total policy and contract retention reserves approximated the aggregate amount of unused member retention levels. The entire balance of retention reserves relate to the 2016 year.

College Association of Liability Management

Notes to Financial Statements

Note 5. 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, 2019 and 2018, CBR was paid a total of \$271,769 and \$231,151, 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 \$158,655 and \$124,553 in 2019 and 2018, 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 6. 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.