

AUDITED FINANCIAL STATEMENTS

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2021

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2021

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OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2021

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, 2021 and 2020.

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, 2021 and 2020 resulted in increases to net position of approximately \$189,000 and \$495,000, 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, 2021, OSAG membership is comprised of 494 school districts.

OSAG Board of Trustees:

- Dr. John Cox (Chairman) Superintendent – Peggs School District
- Dr. Keith Weldon Superintendent – Alex 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 Marketing:

- 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, 2021

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. 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 from the previous year. 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):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets:			
Cash and cash equivalents	\$ 14,747,708	\$ 6,143,253	\$ 1,585,854
Due from Compsource Mutual	15,828	19,902	-
Investments	2,415,385	11,512,924	11,190,024
Prepaid expenses and other assets	<u>101,519</u>	<u>276</u>	<u>853</u>
Total assets	<u>\$ 17,280,440</u>	<u>\$ 17,676,355</u>	<u>\$ 12,776,731</u>
Liabilities:			
Due to members	\$ 8,393,674	\$ 8,978,923	\$ 3,349,736
Premiums received in advance	791,996	765,244	1,114,855
Policy and contract retention reserves	1,006,816	1,010,890	1,896,890
Other payables	<u>379</u>	<u>22,239</u>	<u>10,993</u>
Total liabilities	10,192,865	10,777,296	6,372,474
Net position:			
Unrestricted	6,641,710	6,516,915	6,258,812
Restricted	<u>445,865</u>	<u>382,144</u>	<u>145,445</u>
Total net position	<u>7,087,575</u>	<u>6,899,059</u>	<u>6,404,257</u>
Total liabilities and net position	<u>\$ 17,280,440</u>	<u>\$ 17,676,355</u>	<u>\$ 12,776,731</u>

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2021

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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues:			
Premium income	\$22,371,109	\$21,027,552	\$21,562,995
Operating expenses:			
Cost of reinsurance	17,370,935	16,146,083	16,636,507
Claims administration fee	2,010,692	1,876,198	1,992,076
Marketing and general consulting fee	2,277,288	2,122,165	2,228,884
Other expenses	<u>617,058</u>	<u>601,845</u>	<u>828,348</u>
Total operating expenses	22,275,973	20,746,291	21,685,815
Operating income (loss)	95,136	281,261	(122,820)
Net nonoperating revenue	<u>93,380</u>	<u>213,541</u>	<u>353,535</u>
Change in net position	188,516	494,802	230,715
Net position, beginning of year	<u>6,899,059</u>	<u>6,404,257</u>	<u>6,173,542</u>
Net position, end of year	<u>\$ 7,087,575</u>	<u>\$ 6,899,059</u>	<u>\$ 6,404,257</u>

OSAG's operating revenue is primarily related to the receipt of member contributions from OSAG's member school districts. OSAG's operating expenses primarily relate to 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, 2021

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 an entity's cash receipts and disbursements during a period. This statement also aids in assessing an entity's ability to generate future cash flows, the 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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash provided by (used in):			
Operating activities	\$ (586,464)	\$ 4,666,758	\$ (161,107)
Noncapital financing activities	5,850	23,310	16,790
Investing activities	<u>9,185,069</u>	<u>(132,669)</u>	<u>(698,272)</u>
Net change in cash and cash equivalents	8,604,455	4,557,399	(842,589)
Cash and cash equivalents, beginning of year	<u>6,143,253</u>	<u>1,585,854</u>	<u>2,428,443</u>
Cash and cash equivalents, end of year	<u>\$ 14,747,708</u>	<u>\$ 6,143,253</u>	<u>\$ 1,585,854</u>

OSAG's overall liquidity increased during the year ended June 30, 2021, primarily due to an increase in cash provided by investing activities of approximately \$9,318,000 due to the transfer of certain investments to deposit accounts. This was partially offset by decreases in premium income received and cash received for member performance dividends and credits of approximately \$1,276,000 and \$3,218,000, respectively. OSAG's overall liquidity increased during the year ended June 30, 2020, primarily due to an increase in cash received for member performance dividends and credits of approximately \$4,774,000 that will be applied toward future member premiums. A decrease in premium income received of approximately \$476,000 was offset by a reduction in benefit payments to policyholders of approximately \$524,000.

Cash transactions in operating activities are primarily related to receipts of member contributions, the prepayment of member contributions, receipt of performance dividends, offset by insurance, and management disbursements of OSAG for the years ended June 30, 2021 and 2020. For the years ended June 30, 2021 and 2020, OSAG also received financial relief credits that are included cash flows from operating activities. 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.

Capital Asset and Debt Administration

OSAG had no capital asset and debt administration activity during the years ended June 30, 2021 or 2020.

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2021

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, 2021.

The budget for the fiscal year ending June 30, 2021 was developed based upon the following key assumptions:

- Premium contributions are based upon the cost of reinsurance quoted by CompSource Mutual plus administrative costs.
- Annual investment income projections are based on current year market activity.
- Reinsurance premiums deviate annually based on current workers' compensation market levels and the 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, 2021 and 2020, 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, 2021 and 2020, 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 11, 2021

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF NET POSITION

	June 30	
	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,747,708	\$ 6,143,253
Due from CompSource Mutual	15,828	19,902
Investments	2,415,385	9,749,161
Prepaid expenses and other assets	<u>101,519</u>	<u>276</u>
TOTAL CURRENT ASSETS	17,280,440	15,912,592
INVESTMENTS		
	<u>-</u>	<u>1,763,763</u>
TOTAL ASSETS	<u>\$ 17,280,440</u>	<u>\$ 17,676,355</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Due to members	\$ 8,393,674	\$ 8,978,923
Premiums received in advance	791,996	765,244
Policy and contract retention reserves	1,006,816	1,010,890
Other payables	<u>379</u>	<u>22,239</u>
TOTAL CURRENT LIABILITIES	<u>10,192,865</u>	<u>10,777,296</u>
TOTAL LIABILITIES	10,192,865	10,777,296
NET POSITION		
Unrestricted net position	6,641,710	6,516,915
Restricted net position	<u>445,865</u>	<u>382,144</u>
TOTAL NET POSITION	<u>7,087,575</u>	<u>6,899,059</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 17,280,440</u>	<u>\$ 17,676,355</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	2021	2020
OPERATING REVENUES		
Premium income	\$22,371,109	\$21,027,552
OPERATING EXPENSES		
Cost of reinsurance	17,370,935	16,146,083
Claims administration fee	2,010,692	1,876,198
Marketing and general consulting fee	2,277,288	2,122,165
Professional services	394,196	373,617
Insurance expense	57,588	44,000
Membership services-seminars	5,895	8,610
Board meeting expenses	-	939
Conferences	14,518	3,105
Sponsorship fees	71,823	78,059
Postage and printing expense	6,042	6,658
Telephone	4,224	3,620
Office expenses	47,630	50,636
Travel	5,671	4,001
Consulting fees	6,399	14,542
Other	3,072	14,058
	<u>22,275,973</u>	<u>20,746,291</u>
TOTAL OPERATING EXPENSES		
	95,136	281,261
OPERATING INCOME		
NONOPERATING REVENUES (EXPENSES)		
Investment income	87,530	190,231
Scholarship fundraising	20,850	31,310
Scholarship expense	(15,000)	(8,000)
	<u>93,380</u>	<u>213,541</u>
NET NONOPERATING REVENUES		
	188,516	494,802
CHANGE IN NET POSITION		
NET POSITION AT BEGINNING OF YEAR	<u>6,899,059</u>	<u>6,404,257</u>
	\$ 7,087,575	\$ 6,899,059
NET POSITION AT END OF YEAR	<u>\$ 7,087,575</u>	<u>\$ 6,899,059</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premium income received	\$ 18,610,489	\$ 19,886,726
Cash received for member performance dividends and credits	3,202,123	6,420,402
Cash payments for reinsurance, claims, marketing and general administrative fees and other operating expenses	(22,399,076)	(21,637,561)
Benefit payments to policy holders	-	(2,809)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(586,464)</u>	<u>4,666,758</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions from scholarship fundraising	20,850	31,310
Cash payments on scholarship expense	(15,000)	(8,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>5,850</u>	<u>23,310</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturity of investments	22,297,224	15,478,348
Purchases of investments	(13,232,957)	(15,653,352)
Investment income received	120,802	42,335
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>9,185,069</u>	<u>(132,669)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,604,455	4,557,399
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,143,253</u>	<u>1,585,854</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 14,747,708</u>	<u>\$ 6,143,253</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	\$ 95,136	\$ 281,261
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
Due from CompSource Mutual	4,074	(29,226)
Prepaid expenses and other assets	(101,243)	577
Due to members	(585,249)	5,629,187
Premiums received in advance	26,752	(349,611)
Policy and contract retention reserves	(4,074)	(886,000)
Other payables	(21,860)	20,570
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (586,464)</u>	<u>\$ 4,666,758</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Net unrealized gain (loss) on investments	<u>\$ (49,737)</u>	<u>\$ 4,430</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

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, 2021 and 2020, 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 the 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 a 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, 2021

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 contract period. Each school district's premium is based on its loss history for the last five years, with the previous three years having greater significance. Premiums received in advance are amounts received in excess of amounts due, 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 to be cash equivalents. As circumstances dictate, amounts in OSAG's deposit accounts are swept into interest-bearing accounts that are insured or collateralized by U.S. government securities or money market mutual funds. At June 30, 2021, OSAG utilized certain brokerage deposit accounts that automatically provided federal deposit insurance by sweeping balances up to \$2,500,000 to various program banks. Deposits in excess of this limit were automatically swept to a U.S. government securities-based money market mutual fund. For purposes of financial statement classification, money market mutual funds utilized as part of OSAG's brokerage deposit accounts are classified as cash and cash equivalents in the accompanying statements of net position. Non-negotiable certificates of deposit with original maturities of 90 days or more and money market mutual funds outside of OSAG's brokerage deposit accounts 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 one year, respectively. All investments with no stated maturity are considered current. Investments in U.S. government securities-based-mutual funds are reported as current in the accompanying statements of net position. 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 early redemption.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

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

Due to Members: Retention credits, financial relief credits, and performance dividends are accrued by OSAG and applied toward future member premiums. Due to members consisted of the following as of June 30, 2021 and 2020:

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2021</u>
Retention applied towards premiums	\$ 912,417	\$ -	\$ (912,417)	\$ -
Policy performance dividends	2,930,930	1,413,071	(55,751)	4,288,250
Financial relief credits	4,676,221	1,789,052	(2,769,204)	3,696,069
Other	459,355	-	(50,000)	409,355
	<u>\$ 8,978,923</u>	<u>\$ 3,202,123</u>	<u>\$ (3,787,372)</u>	<u>\$ 8,393,674</u>

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>
Retention applied towards premiums	\$ 1,703,632	\$ 912,417	\$ (1,703,632)	\$ 912,417
Policy performance dividends	1,646,104	1,284,826	-	2,930,930
Financial relief credits	-	4,676,221	-	4,676,221
Other	-	484,355	(25,000)	459,355
	<u>\$ 3,349,736</u>	<u>\$ 7,357,819</u>	<u>\$ (1,728,632)</u>	<u>\$ 8,978,923</u>

Policy and Contract Retention Reserves: OSAG's liability for policy and contract retention reserves is generally limited to the prior three policy periods. Each member's liability is limited to its specific retention level (amount set aside each policy period to pay the claims of member employees) for each policy period. Actual member claims exceeding 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 the 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, such as contributions and investment income.

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.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

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

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.

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).

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 11, 2021, 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, 2021, OSAG had cash on deposit with financial institutions of approximately \$14,770,000. Of this amount, \$5,281,000 is either insured via federal deposit insurance or collateralized with securities held by the pledging financial institution's name. The remaining \$9,489,000 in deposits were swept to a U.S. Government securities-based money market mutual fund. These funds are not insured or collateralized. However, OSAG's management does not consider these swept funds to be a significant risk based on the fact that the money market mutual fund is rated Triple-A and primarily is comprised of short-term financial instruments issued by the U.S. Government. As of June 30, 2020, OSAG had cash on deposit with financial institutions of approximately \$6,148,000, which was 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, 2021 and 2020, OSAG's investments are held by its agent in OSAG's name. Accordingly, no investments are subject to custodial credit risk.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will default or 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, 2021 and 2020, OSAG has approximately \$1,986,000 and \$3,570,000, respectively, in certificates of deposit that are insured via federal deposit insurance and approximately \$0 and \$1,849,000, respectively, in U.S. Treasury bonds that are explicitly guaranteed by the U.S. Government. Credit ratings for other debt securities are provided below:

	June 30, 2021		June 30, 2020	
	Triple-A	Not Rated or Rating Not Available	Triple-A	Not Rated or Rating Not Available
U.S. Govt securities-based mutual funds	\$ 9,556	\$ -	\$ 5,733,265	\$ -

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:

Investment Type	June 30, 2021		
	Carrying Value	Less Than 1	1-5
U.S. Govt securities-based mutual funds	\$ 9,556	\$ 9,556	\$ -
Certificates of deposit	1,985,836	1,985,836	-
	<u>\$ 1,995,392</u>	<u>\$ 1,995,392</u>	<u>\$ -</u>

Investment Type	June 30, 2020		
	Carrying Value	Less Than 1	1-5
U.S. Govt securities-based mutual funds	\$ 5,733,265	\$ 5,733,265	\$ -
Certificates of deposit	3,569,634	1,805,871	1,763,763
U.S. Treasury bonds	1,849,364	1,849,364	-
	<u>\$ 11,152,263</u>	<u>\$ 9,388,500</u>	<u>\$ 1,763,763</u>

Concentration of Investment Credit Risk: Exposure to a concentration of credit risk is considered to exist when investments in any one issuer represent a significant percentage of the 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. As of June 30, 2021 and 2020, OSAG has no individual investments in any issuer exceeding 5 percent of total investments.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

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.

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 same 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.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

Fair Value Measurements, Continued:

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

	2021			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (brokered)	\$ -	\$ 1,740,836	\$ -	\$ 1,740,836
Mutual funds	419,993	-	-	419,993
U.S. Government securities-based mutual funds	9,556	-	-	9,556
Total Investments by fair value level	<u>\$ 429,549</u>	<u>\$ 1,740,836</u>	<u>\$ -</u>	2,170,385
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				245,000
Total investments				<u>\$ 2,415,385</u>
	2020			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (brokered)	\$ -	\$ 3,324,634	\$ -	\$ 3,324,634
Mutual funds	360,661	-	-	360,661
U.S. Treasury bonds	1,849,364	-	-	1,849,364
U.S. Government securities-based mutual funds	5,733,265	-	-	5,733,265
Total Investments by fair value level	<u>\$ 7,943,290</u>	<u>\$ 3,324,634</u>	<u>\$ -</u>	11,267,924
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				245,000
Total investments				<u>\$ 11,512,924</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 the reconciliation of the fair value of investments in the fair value hierarchy to the amounts presented in the statements of net position.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

NOTE C--POLICY AND CONTRACT RETENTION

Before 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 the members' future premium costs.

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

	<u>2021</u>	<u>2020</u>
Policy and contract retention reserves at beginning of year	\$ 1,010,890	\$ 1,896,890
Reimbursements due to OSAG	(4,074)	26,417
Accrued refunds to qualifying members	-	(912,417)
Policy and contract retention reserves at end of year	<u>\$ 1,006,816</u>	<u>\$ 1,010,890</u>

As of June 30, 2021 and 2020, 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:

<u>Year</u>	<u>2021</u>	<u>2020</u>
2016	\$ 409,530	\$ 413,604
2015	589,722	589,722
2014	4,853	4,853
2013	-	-
2012	2,175	2,175
2011 and prior	536	536
	<u>\$ 1,006,816</u>	<u>\$ 1,010,890</u>

Although the three-year period for aggregate policy and contract retention liabilities have all expired as of June 30, 2021, 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 for the policy year ended June 30, 2016, refunded to qualifying members for the fiscal year 2021, totaled \$912,417.

Unused retention for the policy year ended June 30, 2016, refunded to qualifying members for the fiscal year 2020 premiums, totaled \$1,703,632.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

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, a policy option before the fiscal year 2018, when an individual member's claims exceed its specific retention level. As outlined in the stop-loss agreement, each member's liability for claim losses is limited to its respective retention level for the specific policy period. For the years ended June 30, 2021 and 2020, CompSource Mutual, through Consolidated Benefit Resources, paid approximately \$519,000 and \$926,000, respectively, 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. Starting with the 2017 policy year (fiscal year 2018), all OSAG members participate in the first dollar coverage program. Claims payments are processed by Consolidated Benefits Resources on CompSource Mutual paper. For the years ending June 30, 2021 and 2020, CompSource Mutual, through Consolidated Benefits Resources, paid approximately \$14,206,000 and \$13,942,000, respectively, in claims under 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 the 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 who 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, 2021 and 2020, OSAG received \$1,413,071 and \$1,284,826, respectively, 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.

Due to the ongoing COVID-19 pandemic and its impact on schools, OSAG received \$1,789,052 and \$4,676,221 in financial relief credits from CompSource Mutual during the years ended June 30, 2021 and 2020, respectively. Similar to the performance dividends discussed above, the financial relief credits will be applied toward future member premiums and are included in due to members in the accompanying statements of net position.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2021

NOTE F- RETIREMENT PLAN

OSAG employees participate in the Oklahoma School Assurance Group 403(b) Plan (the “Plan”). All OSAG employees are eligible for this defined contribution plan immediately upon employment. OSAG contributed 16.5% of total covered compensation to the Plan for the years ended June 30, 2021 and 2020. Contributions made by OSAG are immediately vested. OSAG’s Board of Trustees intends to continue the Plan indefinitely; however, they reserve the right to amend or terminate the Plan if it becomes necessary. Contributions to the Plan were approximately \$45,000 and \$42,000 for the years ended June 30, 2021 and 2020, respectively.

Employer contributions are recognized in the period that the contributions are due. All contributions are made to the Plan, which is a separate entity from OSAG. Accordingly, the assets and liabilities of the Plan are not reflected in OSAG’s financial statements.

NOTE G--CONTINGENCIES

Reinsurance

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 reinsurance 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 reinsurance 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.