

AUDITED FINANCIAL STATEMENTS

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2022

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2022

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, 2022

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, 2022 and 2021.

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 year ended June 30, 2022 resulted in a decrease to net position of approximately \$252,000 primarily due to investment losses and safety credit awards to member schools. The year ended June 30, 2021 resulted in an increase to net position of approximately \$189,000 as result of tight budget practices and positive investment returns.

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, 2022, OSAG membership is comprised of 495 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, 2022

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>2022</u>	<u>2021</u>	<u>2020</u>
Assets:			
Cash and cash equivalents	\$ 3,613,487	\$ 14,747,708	\$ 6,143,253
Due from Compsource Mutual	986	15,828	19,902
Investments	8,943,274	2,415,385	11,512,924
Prepaid expenses and other assets	94	101,519	276
Total assets	<u>\$ 12,557,841</u>	<u>\$ 17,280,440</u>	<u>\$ 17,676,355</u>
Liabilities:			
Due to members	\$ 4,597,966	\$ 8,393,674	\$ 8,978,923
Premiums received in advance	655,404	791,996	765,244
Policy and contract retention reserves	468,722	1,006,816	1,010,890
Other payables	170	379	22,239
Total liabilities	<u>5,722,262</u>	<u>10,192,865</u>	<u>10,777,296</u>
Net position:			
Unrestricted	6,435,352	6,641,710	6,516,915
Restricted	<u>400,227</u>	<u>445,865</u>	<u>382,144</u>
Total net position	<u>6,835,579</u>	<u>7,087,575</u>	<u>6,899,059</u>
Total liabilities and net position	<u>\$ 12,557,841</u>	<u>\$ 17,280,440</u>	<u>\$ 17,676,355</u>

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2022

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>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:			
Premium income	\$22,009,257	\$22,371,109	\$21,027,552
Operating expenses:			
Cost of reinsurance	17,142,357	17,370,935	16,146,083
Claims administration fee	1,968,061	2,010,692	1,876,198
Marketing and general consulting fee	2,201,817	2,277,288	2,122,165
Other expenses	<u>837,013</u>	<u>617,058</u>	<u>601,845</u>
Total operating expenses	22,149,248	22,275,973	20,746,291
Operating income (loss)	(139,991)	95,136	281,261
Net nonoperating revenues (expenses)	<u>(112,005)</u>	<u>93,380</u>	<u>213,541</u>
Change in net position	(251,996)	188,516	494,802
Net position, beginning of year	<u>7,087,575</u>	<u>6,899,059</u>	<u>6,404,257</u>
Net position, end of year	<u>\$ 6,835,579</u>	<u>\$ 7,087,575</u>	<u>\$ 6,899,059</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 revenues (expenses) are primarily comprised of income or losses on investments and net scholarship activities.

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2022

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>2022</u>	<u>2021</u>	<u>2020</u>
Cash provided by (used in):			
Operating activities	\$ (4,494,327)	\$ (586,464)	\$ 4,666,758
Noncapital financing activities	9,465	5,850	23,310
Investing activities	<u>(6,649,359)</u>	<u>9,185,069</u>	<u>(132,669)</u>
Net change in cash and cash equivalents	(11,134,221)	8,604,455	4,557,399
Cash and cash equivalents, beginning of year	<u>\$ 14,747,708</u>	<u>6,143,253</u>	<u>1,585,854</u>
Cash and cash equivalents, end of year	<u>\$ 3,613,487</u>	<u>\$ 14,747,708</u>	<u>\$ 6,143,253</u>

OSAG's overall liquidity decreased during the year ended June 30, 2022, primarily due to a decrease in cash from operating activities of approximately \$3,908,000. Premium income received decreased by approximately \$1,057,000 and cash received for member performance dividends and financial relief credits decreased by approximately \$3,202,000. This resulted in net cash used in operating activities of approximately \$4,494,000. OSAG also had net cash used in investing activities of approximately \$6,649,000 which was the result of significant investment purchases during the year. 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 financial relief credits of approximately \$1,276,000 and \$3,218,000, respectively.

Cash transactions in operating activities are primarily related to receipts of member contributions, the prepayment of member contributions, offset by insurance, and management disbursements of OSAG for the years ended June 30, 2022 and 2021. For the year ended June 2021, OSAG also received performance dividends and 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, 2022 or 2021.

OKLAHOMA SCHOOL ASSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

June 30, 2022

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, 2022.

The budget for the fiscal year ending June 30, 2022 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

Opinion

We have audited the accompanying financial statements of Oklahoma School Assurance Group ("OSAG"), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise OSAG's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSAG as of June 30, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OSAG, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OSAG's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OSAG's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. 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 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 8, 2022

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF NET POSITION

	June 30	
	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,613,487	\$ 14,747,708
Due from CompSource Mutual	986	15,828
Investments	7,483,306	2,415,385
Prepaid expenses and other assets	<u>94</u>	<u>101,519</u>
TOTAL CURRENT ASSETS	11,097,873	17,280,440
INVESTMENTS		
	<u>1,459,968</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 12,557,841</u>	<u>\$ 17,280,440</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Due to members	\$ 4,597,966	\$ 8,393,674
Premiums received in advance	655,404	791,996
Policy and contract retention reserves	468,722	1,006,816
Other payables	<u>170</u>	<u>379</u>
TOTAL CURRENT LIABILITIES	<u>5,722,262</u>	<u>10,192,865</u>
TOTAL LIABILITIES	5,722,262	10,192,865
NET POSITION		
Unrestricted net position	6,435,352	6,641,710
Restricted net position	<u>400,227</u>	<u>445,865</u>
TOTAL NET POSITION	<u>6,835,579</u>	<u>7,087,575</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,557,841</u>	<u>\$ 17,280,440</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30	
	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Premium income	\$22,009,257	\$22,371,109
OPERATING EXPENSES		
Cost of reinsurance	17,142,357	17,370,935
Claims administration fee	1,968,061	2,010,692
Marketing and general consulting fee	2,201,817	2,277,288
Professional services	387,796	394,196
Safety equipment grants	194,565	-
Insurance expense	70,340	57,588
Membership services-seminars	2,000	5,895
Board meeting expenses	350	-
Conferences	14,792	14,518
Sponsorship fees	74,889	71,823
Postage and printing expense	6,970	6,042
Telephone	4,224	4,224
Office expenses	21,539	47,630
Travel	5,946	5,671
Consulting fees	14,777	6,399
Other	38,825	3,072
TOTAL OPERATING EXPENSES	<u>22,149,248</u>	<u>22,275,973</u>
OPERATING INCOME (LOSS)	(139,991)	95,136
NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	(121,470)	87,530
Scholarship fundraising	29,465	20,850
Scholarship expense	<u>(20,000)</u>	<u>(15,000)</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(112,005)</u>	<u>93,380</u>
CHANGE IN NET POSITION	(251,996)	188,516
NET POSITION AT BEGINNING OF YEAR	<u>7,087,575</u>	<u>6,899,059</u>
NET POSITION AT END OF YEAR	<u>\$ 6,835,579</u>	<u>\$ 7,087,575</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premium income received	\$ 17,553,705	\$ 18,610,489
Cash received for member performance dividends and credits	-	3,202,123
Cash payments for reinsurance, claims, marketing and general administrative fees and other operating expenses	<u>(22,048,032)</u>	<u>(22,399,076)</u>
NET CASH USED IN OPERATING ACTIVITIES	(4,494,327)	(586,464)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions from scholarship fundraising	29,465	20,850
Cash payments on scholarship expense	<u>(20,000)</u>	<u>(15,000)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	9,465	5,850
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturity of investments	2,666,472	22,297,224
Purchases of investments	(9,379,738)	(13,232,957)
Investment income received	<u>63,907</u>	<u>120,802</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(6,649,359)</u>	<u>9,185,069</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,134,221)	8,604,455
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,747,708</u>	<u>6,143,253</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,613,487</u>	<u>\$ 14,747,708</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income (loss)	\$ (139,991)	\$ 95,136
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Due from CompSource Mutual	14,842	4,074
Prepaid expenses and other assets	101,425	(101,243)
Due to members	(3,795,708)	(585,249)
Premiums received in advance	(136,592)	26,752
Policy and contract retention reserves	(538,094)	(4,074)
Other payables	<u>(209)</u>	<u>(21,860)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (4,494,327)</u>	<u>\$ (586,464)</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Net unrealized loss on investments	<u>\$ (178,221)</u>	<u>\$ (49,737)</u>

See notes to financial statements.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2022

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, 2022 and 2021, 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, 2022

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, 2022 and 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 are 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, 2022

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, 2022 and 2021:

	<u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>
Retention applied towards premiums	\$ -	\$ 523,252	\$ -	\$ 523,252
Policy performance dividends	4,288,250	-	(1,571,856)	2,716,394
Financial relief credits	3,696,069	-	(2,747,104)	948,965
Other	409,355	-	-	409,355
	<u>\$ 8,393,674</u>	<u>\$ 523,252</u>	<u>\$ (4,318,960)</u>	<u>\$ 4,597,966</u>

	<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>

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, 2022

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 8, 2022, 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, 2022, OSAG had cash on deposit with financial institutions of approximately \$3,648,000. Of this amount, \$3,210,000 was either insured via federal deposit insurance or collateralized with securities held by the pledging financial institution's name. The remaining \$438,000 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, 2021, OSAG had cash on deposit with financial institutions of approximately \$14,770,000, which was either insured via federal deposit insurance or collateralized with securities held by pledging financial institutions in OSAG's name. Of this amount, \$5,281,000 was 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.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2022

NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

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, 2022 and 2021, 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 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, 2022 and 2021, OSAG has approximately \$3,421,000 and \$1,986,000, respectively, in certificates of deposit that are insured via federal deposit insurance and approximately \$5,145,000 and \$0, 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, 2022		June 30, 2021	
	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	\$ -

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, 2022		
	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
Certificates of deposit	\$ 3,420,613	\$ 1,960,645	\$ 1,459,968
U.S. Treasury bonds	5,145,400	5,145,400	-
	<u>\$ 3,420,613</u>	<u>\$ 1,960,645</u>	<u>\$ 1,459,968</u>

Investment Type	June 30, 2021		
	Investment Maturities (In Years)		
	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>

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2022

NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

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, 2022 and 2021, 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.

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, 2022

NOTE B--DEPOSITS AND INVESTMENTS--CONTINUED

Fair Value Measurements, Continued:

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

	2022			
	Level 1	Level 2	Level 3	Total
Certificates of deposit (brokered)	\$ -	\$ 3,175,613	\$ -	\$ 3,175,613
Mutual funds	377,261	-	-	377,261
U.S. Treasury bonds	5,145,400	-	-	5,145,400
Total Investments by fair value level	<u>\$ 5,522,661</u>	<u>\$ 3,175,613</u>	<u>\$ -</u>	8,698,274

Investments measured at amortized cost:

Certificates of deposit (non-brokered)	<u>245,000</u>
Total investments	<u>\$ 8,943,274</u>

	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)	<u>245,000</u>
Total investments	<u>\$ 2,415,385</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, 2022

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>2022</u>	<u>2021</u>
Policy and contract retention reserves at beginning of year	\$ 1,006,816	\$ 1,010,890
Reimbursements due to OSAG	(14,842)	(4,074)
Accrued refunds to qualifying members	<u>(523,252)</u>	<u>-</u>
Policy and contract retention reserves at end of year	<u>\$ 468,722</u>	<u>\$ 1,006,816</u>

As of June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
2016	\$ 372,329	\$ 409,530
2015	92,967	589,722
2014	715	4,853
2013	-	-
2012	2,175	2,175
2011 and prior	<u>536</u>	<u>536</u>
	<u>\$ 468,722</u>	<u>\$ 1,006,816</u>

Although the three-year period for aggregate policy and contract retention liabilities have all expired as of June 30, 2022, 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.

There were no retention amounts refunded during fiscal year 2022. Unused retention for the policy year ended June 30, 2016, refunded to qualifying members for the fiscal year 2021, totaled \$912,417.

OKLAHOMA SCHOOL ASSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

June 30, 2022

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, 2022 and 2021, CompSource Mutual, through Consolidated Benefit Resources, paid approximately \$726,000 and \$519,000, 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, 2022 and 2021, CompSource Mutual, through Consolidated Benefits Resources, paid approximately \$16,375,000 and \$14,206,000, 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 years ended June 30, 2022 and 2021, OSAG received \$0 and \$1,413,071, 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 \$0 and \$1,789,052 in financial relief credits from CompSource Mutual during the years ended June 30, 2022 and 2021, 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, 2022

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, 2022 and 2021. 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 \$45,000 for the years ended June 30, 2022 and 2021, 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.

*THE AUDITORS' COMMUNICATION WITH THOSE
CHARGED WITH GOVERNANCE*

OKLAHOMA SCHOOL ASSURANCE GROUP

JUNE 30, 2022



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, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 April 11, 2022. 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. OSAG adopted ASU 2016-02, *Leases (Topic 842)* during fiscal year 2022; however, the adoption of this pronouncement had no impact on OSAG’s financial statements. The application of existing policies was not changed during the year ended June 30, 2022. 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:

- 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, 2022 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 disclosures affecting the financial statements were:

- The disclosure regarding amounts due to members in Note A to the financial statements.
- The disclosure regarding contingencies associated with OSAG’s insurance agreements with CompSource Mutual in Note G 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.

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 8, 2022.

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 8, 2022