

**Oklahoma Higher Education
Employee Interlocal Group**

**Financial Statements
with Independent Auditors' Report**

December 31, 2019



**HINKLE &
COMPANY**
Strategic ^{PC}
Business Advisors

Oklahoma Higher Education Employee Interlocal Group
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December 31, 2019

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**HINKLE &
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Independent Auditor's Report

To the Member Institutions
Oklahoma Higher Education Employee Interlocal Group

Report on the Financial Statements

We have audited the accompanying statement of net position of Oklahoma Higher Education Employee Interlocal Group ("OKHEEI") as of December 31, 2019 and the related statement of revenues, expenses and change in net position, cash flows and the related notes to the financial statements for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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 OKHEEI as of December 31, 2019 and the changes in financial position and cash flows thereof for the initial period then ended in accordance 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 the management's discussion and analysis and the schedule of ten-year claims development information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020 on our consideration of OKHEEI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OKHEEI's internal control over financial reporting and compliance.

Tulsa, OK
June 26, 2020

Hill & Company, PC



Oklahoma Higher Education Employee Interlocal Group
Statement of Net Position
December 31, 2019

Assets

Contributions receivable \$ 6,000,668

Total Assets \$ 6,000,668

Liabilities

Reported Claims \$ 1,934,121

Claims incurred but not reported 2,403,021

Total Liabilities \$ 4,337,142

Net Position

Unrestricted 1,663,526

Total Net Position \$ 1,663,526

Oklahoma Higher Education Employee Interlocal Group
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended December 31, 2019

Operating Revenues	
Contributions	\$ 30,797,577
Interest revenue	110,746
Miscellaneous revenue	112,779
Total Operating Revenues	<u>31,021,102</u>
 Operating Expenses	
Claims expense	32,196,362
Administrative expenses	<u>112,779</u>
Total Operating Expenses	<u>32,309,141</u>
Change in Net Position	(1,288,039)
Net Position, Beginning of Year	<u>2,951,565</u>
Net Position, End of Year	<u>\$ 1,663,526</u>

Oklahoma Higher Education Employee Interlocal Group
Statement of Cash Flows
For the Year Ended December 31, 2019

Cash Flows from Operating Activities

Contributions	\$ 30,328,176
Interest revenue	110,746
Miscellaneous income	112,779
Administration costs paid	(112,779)
Claims paid	<u>(30,438,922)</u>

Net Cash Provided by Operating Activities	-
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Change in Cash	-
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Cash, Beginning of Year	-
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Cash, End of Year	\$ -
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**Reconciliation of Operating Loss to
Cash Used in Operating Activities**

Operating loss	\$ (1,288,039)
Adjustment to reconcile operating income to net cash provided by operating activities	
Change in assets and liabilities:	
Contribution receivable	(469,401)
Reported claims	1,388,086
Claims incurred but not reported	<u>369,354</u>

Net Cash Provided by Operating Activities	\$ -
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Oklahoma Higher Education Employee Interlocal Group
Notes to Financial Statements
December 31, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Oklahoma Higher Education Employee Interlocal Group (OKHEEI) was organized in the State of Oklahoma in 2009 and then reorganized in 2016. OKHEEI is designed as a risk-sharing pool for the purpose of providing health benefits to its member institutions. OKHEEI enters into contracts forming a risk-sharing pool as authorized by Oklahoma State Statutes Interlocal Cooperation Act, 74 O.S. §1001-1008. OKHEEI is governed by a Board of Trustees comprised of the Chief Financial Officer of each member institution. The 13 participating member institutions are East Central University, Murray State College, Northeastern Oklahoma State University, Northern Oklahoma College, Northwestern Oklahoma State University, Redlands Community College, Regional University System of Oklahoma Administrative Office, Rose State College, Seminole State College, Southeastern Oklahoma State University, Southwestern Oklahoma State University, University of Central Oklahoma and Western Oklahoma State College. Any excess net position of OKHEEI may be returned to its member institutions or may reduce future premiums.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The accompanying financial statements include the accounts and funds of OKHEEI.

Basis of Accounting

For financial reporting purposes, OKHEEI is considered a special-purpose government engaged only in business-type activities. Accordingly, OKHEEI’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. All significant intra-agency transactions have been eliminated.

Contributions Receivable

OKHEEI’s contributions receivable consists of amounts due from member institutions. These amounts are held by the member institutions in a fiduciary fund until requested by OKHEEI and are considered collectible. Accordingly, OKHEEI has no allowance for doubtful accounts for financial reporting purposes.

Oklahoma Higher Education Employee Interlocal Group
Notes to Financial Statements
December 31, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Claims Liabilities

Claims liabilities represent the estimated liability for unpaid claims and related claim expenses from reported claims and claims incurred but not reported. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the claims liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments to the liability are reflected in the operating results in the periods in which they are made.

Tax Status

OKHEEI is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through June 26, 2020, the date the financial statements were available to be issued.

Oklahoma Higher Education Employee Interlocal Group
Notes to Financial Statements
December 31, 2019

Note 2: Contributions Receivable

The following is a summary of the contributions receivable as of December 31, 2019:

Contributions receivable from:	
East Central University	\$ 379,036
Murray State College	222,852
Northeastern Oklahoma State University	2,031,749
Northern Oklahoma College	909,167
Northwestern Oklahoma State University	406,846
Redlands Community College	136,201
Rose State College	659,310
Seminole State College	227,176
Southeastern Oklahoma State University	273,858
Southwestern Oklahoma State University	633,736
Western Oklahoma State College	<u>120,737</u>
	<u>\$6,000,668</u>

Note 3: Claims Liabilities

The following is a summary of both reported and unreported claims liability for the year ended December 31, 2019:

Claims Liability, December 31, 2018	\$ 2,579,702
Claims and changes in estimates	32,196,362
Claims payments	<u>(30,438,922)</u>
Claims Liability, December 31, 2019	<u>\$ 4,337,142</u>

Note 4: Risk Management

OKHEEI purchases stop loss insurance for the purpose of reducing their adverse risk for claims which exceed a certain threshold.

Oklahoma Higher Education Employee Interlocal Group
Notes to Financial Statements
December 31, 2019

Note 5: Subsequent Events

COVID-19 Pandemic

Subsequent to year-end, the United States of America and the State of Oklahoma have declared an emergency associated with the COVID-19 pandemic. The Organization has been economically impacted by the event, however, the full economic effect has yet to be determined.

Exit of the University of Central Oklahoma

The University of Central Oklahoma ("UCO") gave effective notice that it intends to exercise its right to exit OKHEEI effective January 1, 2019. UCO's contributions during the initial period ending December 31, 2018 totaled \$11,313,271. Management is currently evaluating the effect this change will have on operations.

Oklahoma Higher Education Employee Interlocal Group
Schedule of Ten-Year Claims Development Information
Period Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
1. Net Contributions	\$ 31,021,102	\$ 42,494,429	\$ 40,139,636
2. Expenses other than claims expenses	112,779	51,811	21,944
3. Estimated claims expense - end of policy year	32,196,362	40,452,066	39,156,679
4. Cumulative payment as of: End of policy year	<u>30,438,922</u>	<u>41,956,884</u>	<u>35,072,159</u>
5. Estimated incurred claims and expenses End of policy year	<u>32,196,362</u>	<u>40,452,066</u>	<u>39,156,679</u>
6. Increase (decrease) in estimated claims and expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Prior to 2017 information not presented because 10-year data is not yet available.



Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Member Institutions
Oklahoma Higher Education Employee Interlocal Group

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Oklahoma Higher Education Employee Interlocal Group ("OKHEEI"), as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise OKHEEI's basic financial statements and have issued our report thereon dated June 26, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OKHEEI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OKHEEI's internal control. Accordingly, we do not express an opinion on the effectiveness of OKHEEI's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OKHEEI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hill & Company, PC

Tulsa, Oklahoma
June 26, 2020

