

**Oklahoma Higher Education  
Employee Interlocal Group**

**Financial Statements**  
with Independent Auditor's Report

**December 31, 2020**

**Oklahoma Higher Education Employee Interlocal Group**  
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**December 31, 2020**

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**HINKLE &  
COMPANY**  
Strategic <sup>PC</sup>  
Business Advisors

## 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, 2020 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.

### Auditor's 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, 2020 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 23, 2023 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.

*Hick & Company, PC*

Tulsa, OK  
June 23, 2023



# Oklahoma Higher Education Employee Interlocal Group

## Statement of Net Position

December 31, 2020

### Assets

Cash and cash equivalents	\$	3,694,858
Investments		2,839,794
Dividend receivable		2,444
Contributions receivable		<u>48,806</u>
<b>Total Assets</b>	<b>\$</b>	<b><u><u>6,585,902</u></u></b>

### Liabilities

Accounts payable	\$	777
Reported Claims		778,354
Claims incurred but not reported		<u>2,279,408</u>
<b>Total Liabilities</b>		<b><u>3,058,539</u></b>

### Net Position

Unrestricted		<u>3,527,363</u>
<b>Total Net Position</b>	<b>\$</b>	<b><u><u>3,527,363</u></u></b>

**Oklahoma Higher Education Employee Interlocal Group**  
Statement of Revenues, Expenses and Change in Net Position  
For the Year Ended December 31, 2020

**Operating Revenues**

Contributions	\$ 32,404,908
Investment income	115,414
Total Operating Revenues	32,520,322

**Operating Expenses**

Claims expenses	29,614,503
Premiums expenses	942,712
Administrative expenses	99,270
Total Operating Expenses	30,656,485

**Change in Net Position**

1,863,837

**Net Position, *Beginning of Year***

1,663,526

**Net Position, *End of Year***

\$ 3,527,363

# Oklahoma Higher Education Employee Interlocal Group

## Statement of Cash Flows

For the Year Ended December 31, 2020

### Cash Flows from Operating Activities

Contributions	\$ 38,356,770
Interest revenue	81,603
Administration costs paid	(99,270)
Premiums expenses	(942,712)
Claims paid	<u>(30,893,106)</u>
Net Cash Provided by Operating Activities	<u>6,503,285</u>

### Cash Flow from Investing Activities

Purchase of investments	<u>(2,808,427)</u>
Net Cash Used in Investing Activities	<u>(2,808,427)</u>

### Change in Cash

3,694,858

### Cash, Beginning of Year

-

### Cash, End of Year

\$ 3,694,858

### Reconciliation of Operating Loss to Cash Used in Operating Activities

Change in net position	\$ 1,863,837
Adjustment to reconcile operating income to net cash provided by operating activities	
Net realized/unrealized (gain)/loss on investments	(31,367)
Change in assets and liabilities:	
Dividend receivable	(2,444)
Contribution receivable	5,951,862
Accounts payable	777
Reported claims	(1,155,767)
Claims incurred but not reported	<u>(123,613)</u>

### Net Cash Provided by Operating Activities

\$ 6,503,285

**Oklahoma Higher Education Employee Interlocal Group**  
Notes to Financial Statements  
December 31, 2020

**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 12 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, 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.

**Cash and Investments**

At December 31, 2020, OKHEEI's cash and cash equivalents represents treasury obligations in the organization's name at BOK Financial. The organization has no demand accounts.

Investments are carried at fair value. Fair value is based on quoted market prices.



# Oklahoma Higher Education Employee Interlocal Group

Notes to Financial Statements

December 31, 2020

## **Note 1: Nature of Operations and Summary of Significant Accounting Policies** (Continued)

### **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.

### **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 23, 2023, the date the financial statements were available to be issued.

# Oklahoma Higher Education Employee Interlocal Group

## Notes to Financial Statements

December 31, 2020

### Note 2: Investments

Investments of OKHEEI are governed by Title 19 OSA 953.1A, as amended, of the Oklahoma Statutes. The Oklahoma Statutes place no limitations or restrictions on the choice of investment vehicles other than those a prudent investor would select. BOK Financial is the custodian of the cash and investments. OKHEEI's investment securities are not exposed to custodial credit risk because all securities are held by a third-party custodian rather than a counterparty.

As of December 31, 2020, the composition of OKHEEI's investments is shown as follows:

	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 599,165	\$ 623,324
Fixed income	2,251,425	2,216,470
	<u>\$ 2,850,590</u>	<u>\$ 2,839,794</u>

The Board of Trustees of OKHEEI has formally adopted investment guidelines for the investment manager. The investment managers are expected to execute all transactions as efficiently as possible. There are no specific restrictions on the portfolio turnover or preference for long or short holding periods. The Board does, however, anticipate that long-term performance will be enhanced by investment strategies, not trading strategies.

All securities transactions are affected through brokerage firms. OKHEEI's assets may be invested in publicly traded common and preferred stocks, convertible bonds, and non-convertible fixed income securities, whether interest bearing or discount instruments, including money market instruments, subject to any restrictions specifically outline in the Statement of Investment Policies, Guidelines, and Objectives (Policy).

The Board has adopted the following Assets Allocation among stocks, bonds, and cash to service as a general guideline in investing OKHEEI's assets.

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash and Cash Equivalent	0%	5%	10%
Fixed Income	70%	80%	90%
Equities	5%	15%	25%
Alternatives	0%	0%	10%

# Oklahoma Higher Education Employee Interlocal Group

Notes to Financial Statements

December 31, 2020

## Note 2: Investments (Continued)

Fair Value Measurement: GASB establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs consist of unobservable inputs which are used when observable inputs are unavailable and reflect an entity's own assumptions about the assumptions that the market participants would use in pricing the assets or liabilities. Mineral interests held as investments are valued as level 3 inputs. Mineral interests are valued using an income approach in which the value is estimated at four times the previous calendar years mineral income. There has been no change in valuation methodologies used at December 31, 2020.

The following is a summary of the compensation of investments as of December 31, 2020:

	Fair Value Hierarchy	
Equities	Level 1	\$ 623,324
Fixed income	Level 1	2,216,470
		<u>\$ 2,839,794</u>

## Note 3: Contributions Receivable

The following is a summary of the contributions receivable as of December 31, 2020:

Contributions receivable from:

Murray State College	\$ 22,410
Northwestern Oklahoma State University	5,377
Southeastern Oklahoma State University	17,753
Western Oklahoma State College	3,266
	<u>\$ 48,806</u>

**Oklahoma Higher Education Employee Interlocal Group**  
Notes to Financial Statements  
December 31, 2020

**Note 4: Claims Liabilities**

The following is a summary of both reported and unreported claims liability for the year ended December 31, 2020:

Claims Liability, December 31, 2019	\$ 4,337,142
Claims and changes in estimates	29,614,503
Claims payments	<u>(30,893,883)</u>
Claims Liability, December 31, 2020	<u>\$ 3,057,762</u>

**Note 5: Risk Management**

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

**Note 6: Subsequent Events**

Western Oklahoma State College (WOSC) gave effective notice that it intends to exercise its right to exit OKHEEI effective December 2021.

## **Required Supplementary Information**

**Oklahoma Higher Education Employee Interlocal Group**  
Schedule of Ten-Year Claims Development Information  
Period Ended December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
1. Net Contributions	\$ 32,520,322	\$ 31,021,102	\$ 42,494,429	\$ 40,139,636
2. Expenses other than claims expenses	1,041,982	112,779	51,811	21,944
3. Estimated claims expense - end of policy year	29,614,503	32,196,362	40,452,066	39,156,679
4. Cumulative payment as of: End of policy year	<u>30,893,106</u>	<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>29,614,503</u>	<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>	<u>\$ -</u>

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



**Independent Auditor's 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, 2020 and the related notes to the financial statements, which collectively comprise OKHEEI's basic financial statements and have issued our report thereon dated June 23, 2023.

**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 Oklahoma Higher Education Employee Interlocal Group internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hick & Company, PC*

Tulsa, Oklahoma  
June 23, 2023

