

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
ANNUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
WITH INDEPENDENT AUDITOR'S REPORT

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Review Trustees
Oklahoma Public Employees Health & Welfare Plan
Bartlesville, Oklahoma

We have audited the accompanying financial statements of the Oklahoma Public Employees Health & Welfare Plan, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 judgement, 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 Oklahoma Public Employees Health and Welfare Plan, as of June 30, 2018 and 2017 and the statement of income and changes in fund balance in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, on our consideration of the Oklahoma Public Employees Health and Welfare Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oklahoma Public Employees Health and Welfare Plan's internal control over financial reporting and compliance.

Kevin C. Duke, CPA, PC

Tulsa, Oklahoma
November 8, 2018

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
BALANCE SHEET
JUNE 30, 2018 and 2017

<u>ASSETS</u>	June 30, <u>2018</u>	June 30, <u>2017</u>
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 420,511	\$ 437,435
Investments (Note 3)	4,053,330	4,001,148
Accounts Receivable - Unpaid Premiums	2,605,342	2,853,066
Accounts Receivable - Rebates	1,623,516	900,000
Accounts Receivable - Refunds	<u>1,876,182</u>	<u>1,876,182</u>
Total Current Assets	<u>10,578,881</u>	<u>10,067,831</u>
TOTAL ASSETS	<u>\$ 10,578,881</u>	<u>\$ 10,067,831</u>

LIABILITIES AND FUND BALANCE

Current Liabilities:		
Accounts Payable	\$ 5,903,389	\$ 8,168,131
Bank Loan Payable	<u>2,795,947</u>	<u>3,152,883</u>
Total Current Liabilities	<u>8,699,336</u>	<u>11,321,014</u>
Total Liabilities	<u>8,699,336</u>	<u>11,321,014</u>
Fund Balance:		
Unrestricted Fund Balance	<u>1,879,545</u>	<u>(1,253,183)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 10,578,881</u>	<u>\$ 10,067,831</u>

See accompanying notes and auditor's report.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
STATEMENT OF INCOME
AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

<u>REVENUES:</u>	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>
Premiums (Note 6)	\$ 55,089,456	\$ 53,085,262
Specific reinsurance (Note 7)	403,667	11,202
Interest income	0	142
Unrealized gain (loss) on investments	52,181	297,726
Rebates	1,643,513	2,074,850
Subrogation	100,485	245,429
Runoffs	49,676	0
Refunds	<u>10,481</u>	<u>1,878,182</u>
 TOTAL REVENUES	 <u>57,349,459</u>	 <u>57,592,793</u>
<u>EXPENSES:</u>		
ACA reinsurance & PCORI	20,608	261,021
Administrator's fee (Note 8)	1,308,985	1,292,870
Bank fees	11,307	12,080
Claims paid (Note 4)	46,480,066	49,048,926
Claims supervisor fee (Note 9)	2,845,636	2,652,200
Dues and fees	0	933
Fidelity bond expense	16,276	12,247
Interest and investment expense	141,902	154,215
Legal fees	11,506	5,816
Life insurance	1,538,408	1,784,687
Postage	10,136	10,150
Premium reimbursement	1,098	0
Professional fees	91,300	162,880
Specific reinsurance (Note 7)	1,028,375	902,376
Storage rental	400	450
Printing	8,948	20,372
Office expense	1,294	2,654
VSP Vision	<u>700,486</u>	<u>803,077</u>
 TOTAL EXPENSES	 <u>54,216,731</u>	 <u>57,126,954</u>
 Net Income (Loss)	 <u>3,132,728</u>	 <u>465,839</u>
 FUND BALANCE - BEGINNING OF YEAR	 <u>(1,253,183)</u>	 <u>(1,719,022)</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 1,879,545</u>	 <u>\$ (1,253,183)</u>

See accompanying notes and auditor's report.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 3,132,728	\$ 465,839
Adjustment to reconcile net income (loss) to net cash used for operating activities		
Decrease (increase) in accounts receivable	(475,792)	(3,105,904)
Increase (decrease) in accounts payable	(2,264,742)	2,172,526
Increase (decrease) in unearned premiums	<u>0</u>	<u>(46)</u>
Net cash used for operating activities	<u>392,194</u>	<u>(467,585)</u>
Cash Flows from Investing Activities:		
Decrease (increase) in investments	<u>(52,182)</u>	<u>(197,726)</u>
Net cash provided by investing activities	<u>(52,182)</u>	<u>(197,726)</u>
Cash Flows from Financing Activities:		
Increase (decrease) in financing activities	<u>(356,936)</u>	<u>516,686</u>
Net cash provided by financing activities	<u>(356,936)</u>	<u>516,686</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(16,924)</u>	<u>(148,625)</u>
Cash and Cash Equivalents, Beginning of Year	<u>437,435</u>	<u>586,060</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 420,511</u></u>	<u><u>\$ 437,435</u></u>

See accompanying notes and auditor's report.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1: ORGANIZATION:

The Oklahoma Public Employees Health & Welfare Plan (hereinafter referred to as "The Plan") was organized on February 1, 1992 under the laws of the State of Oklahoma. Also on February 1, 1992, certain governmental agencies (hereinafter referred to as "Participating Agencies") acting under the provisions of Title 51, Oklahoma Statutes, Sections 167, 168, 169 and 172, Title 74 Oklahoma Statutes, Sections 1001, et seq., and other applicable provisions of Oklahoma Law, by their Inter-Local Government Agreement, established the Plan for the purpose of providing major medical, prescription, dental, vision, life and AD&D insurance benefits for the Participating Agencies' eligible employees and their dependents. These benefits are provided through insurance, self-insurance, or by a combination thereof as determined by the trustees pursuant to the terms of the Trust Agreement.

As of June 30, 2018 there were 103 participating groups in the Plan comprised of thirty-one (31) Oklahoma counties, five (5) schools, thirty-six (36) municipalities, six (6) CED's, five (5) schools, and twenty-five (25) other organization types.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents:

The Plan considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Basis Of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Income Taxes:

The Plan was organized under the laws of the State of Oklahoma by certain governmental entities' Inter-Local Government Agreement for the purpose of providing group health, dental and group term life insurance benefits, all essential government functions, to participating Oklahoma counties and is, therefore, exempt from federal income taxes under Internal Revenue Code Section 115. The Plan evaluates and accounts for its uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes (formerly FIN 48, Accounting for Uncertainty in Income Taxes), including the Plan's tax position as an exempt entity. It is also possible that some positions might be subject to uncertainty. The Plan evaluates any uncertain tax positions using the provisions of ASC 450, Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgement with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Interest and penalties, if any, resulting from any uncertain tax positions required to be recorded by the Plan would be presented in other expenses in the statement of income. Management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Currently, the Plan has no open examination with either the Internal Revenue Service or state taxing authorities.

Concentration Of Credit:

The Plan maintains its cash in bank deposit accounts which, at times during the month, may exceed the federally insured limits of \$250,000. The Plan has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Cash in Bank - Arvest	<u>\$ 420,511</u>
Total Cash and Cash Equivalents	<u>\$ 420,511</u>

Investments: The estimated fair values of investments are as follows:

Equity Investments - Arvest	\$ 1,101,801
Intermediate Bonds - Arvest	1,929,462
Short Term Bonds - Arvest	1,017,873
Fixed Income Securities - Arvest	<u>4,194</u>
Total Investments	<u>\$ 4,053,330</u>

NOTE 4: CLAIMS PAID:

The Plan paid claims for the Participating Agencies' eligible employees and their dependents for health, dental, vision, and life insurance claims as provided for in the Trust Agreement and approved by the Trustees. The Summary Plan description, adopted and approved by the Trustees, is furnished to the Participating Agencies and to all Plan Participants and is controlling and binding upon all persons claiming any right to benefits under the current plan. See the Summary Plan description for complete details of benefits available.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 5: CONTINGENT LIABILITY-CLAIMS INCURRED BUT NOT REPORTED (IBNR):

A contingent liability estimate for claims incurred but not reported ("IBNR") has been made of \$3,000,000.00. The accuracy of this estimate cannot be determined prior to the ultimate settlement of each claim. Accordingly, the ultimate cost of settling these claims may vary significantly from this contingent liability estimate.

Note 6: PREMIUMS:

Premium revenue reflects amounts received from eligible employees of Participating Agencies as provided for The Plan's "Benefit Book", formerly known as the Summary Plan Description.

Note 7: SPECIFIC REINSURANCE:

The Plan maintains an excess risk agreement with an insurance company that provides for a specific stop loss attachment point of \$425,000 per claimant per year as of June 30, 2018. Effective July 1, 2018, the stop loss attachment point remains at \$425,000 per claimant per year.

Note 8: ADMINISTRATIVE EXPENSES:

The Plan entered into a 12-month administrative agreement on March 19, 2017 with McElroy & Associates to provide administrative services for The Plan as agreed to in the agreement, for \$15.75 per "Contract" each month. The agreement was in effect from July 1, 2017 to June 30, 2018.

The Plan entered into a 12-month administrative agreement on May 9, 2018 with McElroy & Associates to provide administrative services for The Plan as agreed to in the agreement, for \$16.54 per "Contract" each month. The agreement is in effect from July 1, 2018 to June 30, 2019.

OKLAHOMA PUBLIC EMPLOYEES HEALTH & WELFARE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 9: CLAIMS SUPERVISOR FEE:

The Plan's administrative agreement with Blue Cross and Blue Shield provides for the administration of all functions in the claims and payment process of plan benefits. The administrative service fees agreed to were as follows:

	Effective <u>7/1/18 - 6/30/19</u>	Effective <u>7/1/2017 - 6/30/18</u>
Medical Administrative Fee	\$36.84 per contract per month	\$ 36.30 per contract per month
Dental Administrative Fee	\$ 2.68 per contract per month	\$ 2.64 per contract per month

Note 10: DATE OF MANAGEMENT'S REVIEW:

Subsequent events were evaluated through November 8, 2018, which is the date the financial statements were available to be issued.

Note 11: REVOLVING LINE OF CREDIT:

The Plan signed a debt modification agreement on January 15, 2018 with Arvest Bank which amended and maintained the line of credit at \$3,868,722 and is secured by the Plan's investments. Accrued interest of 5% is due and payable monthly on any balance due. The loan matures on January 20, 2019.

Note 12: RISKS AND UNCERTAINTIES:

The plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

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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 Board of Review Trustees
Oklahoma Public Employees Health & Welfare Plan
Bartlesville, Oklahoma

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 Oklahoma Public Employees Health and Welfare Plan statements as of and for the years ended June 30, 2018 and 2017, as listed in the table of contents, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated November 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oklahoma Public Employees Health and Welfare Plan's internal control over financial reporting 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 Oklahoma Public Employees Health and Welfare Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Oklahoma Public Employees Health and Welfare Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kevin C. Duke, CPA, PC

Tulsa, Oklahoma
November 8, 2018