

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**OKLAHOMA SCHOOLS RISK
MANAGEMENT TRUST**

JUNE 30, 2014

C O N T E N T S

INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
Statement of Financial Position	10
Statement of Operations and Changes in Fund Balance	11
Statement of Cash Flows	12
NOTES TO FINANCIAL STATEMENTS	13
SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Supplemental Information	22
Schedule of Historical Claims Development	23
Supplemental Reconciliation of Claims Liability by Type of Contract	24



Shores, Tagman, Butler & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Schools Risk Management Trust

We have audited the accompanying financial statements of the Oklahoma Schools Risk Management Trust (the "Trust") which comprise the Statement of Financial Position as of June 30, 2014, and the related Statements of Operations and Changes in Fund Balance and of Cash Flows for the year then ended, and the related Notes to the Financial Statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust'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 Trust'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 opinion.

INDEPENDENT AUDITORS' REPORT – CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Schools Risk Management Trust as of June 30, 2014, and the results of its operations, its changes in fund balance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

The Management's Discussion and Analysis is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Emphasis of Matter

As discussed in the Notes to the Financial Statements, Oklahoma Schools Risk Management Trust adopted GASB Statement 65, Items Previously Reported as Assets and Liabilities. Accordingly, an adjustment has been made to Fund Balance as of June 30, 2013 to reflect this accounting change.

As discussed in the Notes to the Financial Statements, the liability for unpaid losses and loss adjustment expenses in the accompanying financial statements is based upon an evaluation by the Trust's independent actuary. Management believes that this estimate is reasonable. However, this estimate is subject to change and the changes can be material in relation to the financial statements taken as a whole. No assurance can be given that the actual losses will not be more or less than the current estimate.

Shoren, Terman, Butler & Company, P.A.

December 2, 2014

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS

This annual report consists of the Statement of Financial Position, the Statement of Operations and Changes in Fund Balance, and the Statement of Cash Flows. Along with the notes, they provide detailed financial information concerning Oklahoma Schools Risk Management Trust ("OSRMT" or the "Trust"). This section, the Management's Discussion and Analysis, is intended to provide an overview of the Oklahoma Schools Risk Management Trust's financial condition, results of operations, and other key information.

Using this Annual Report

OSRMT is a public entity self-insurance pool that provides property and casualty coverage to its participating members. Membership is open to all school districts and career techs in the state of Oklahoma. This annual report consists of a series of financial statements. The statement of financial position and the statement of operations and changes in fund balance provide information about the financial activities of OSRMT. These are followed by the statement of cash flows, which presents detailed information about the changes in OSRMT's cash position during the year.

Financial Overview

This annual statement consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements, which follow this section, provide both long-term and short-term information about OSRMT's financial status. OSRMT uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by OSRMT, which also includes any potential unrecoverable reinsurance claims. The three basic financial statements are presented as follows:

- **Statement of Financial Position** – This statement presents information reflecting OSRMT's assets, liabilities, and financial position.
- **Statement of Operations and Changes in Fund Balance** – This statement reflects the operating and nonoperating revenue for the previous two fiscal years. Operating revenue consists primarily of member contributions with the major sources of operating expenses being claims and claims adjustment expense, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income and changes in the fair value of investments.
- **Statement of Cash Flows** – This statement is presented on the direct method of reporting and reflects cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Financial Overview - Continued

In OSRMT's financial position, it is important to recognize the mission of OSRMT. From a financial perspective, OSRMT's general objectives are to formulate, develop, and administer, on behalf of the members, a program of coverages that are broad in scope at a competitive cost. OSRMT is a member of the School Leaders Risk Management Association. This affiliation gives each OSRMT member access to a broad range of expertly written white papers as well as checklists provided to assist school district members in accomplishing internal audits of many federally mandated programs as well as ensuring that the district is maintaining proper standards and records. As of June 30, 2014 and 2013, 190 and 121 educational institutions, respectively, within the State of Oklahoma participate in OSRMT.

The OSRMT Board of Trustees is a selection of board members from the ranks of elected school board members, school superintendents, and school business managers. OSRMT feels members are best represented by a diverse board allowing for each member to be fairly represented.

Condensed Financial Information

The statement of financial position report's OSRMT's financial position and how it has changed. Financial position is the difference between OSRMT's assets and liabilities and is one way to measure OSRMT's financial health or position. Over time, increases and decreases in OSRMT's financial position is an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	Years Ended June 30,	
	2014	2013
Cash and investments	\$ 1,390,797	\$ 835,957
Reserve contribution receivable	907,864	696,110
Prepaid insurance and other assets	2,927,676	845,574
Total current assets	\$ 5,226,337	\$ 2,377,641
Unpaid losses and loss adjustment expenses	\$ 3,998,223	\$ 1,765,335
Reinsurance recoverables	(2,525,966)	(1,035,473)
Advance contributions	640,850	390,965
Other liabilities	2,347,676	451,986
Total liabilities	\$ 4,460,783	\$ 1,572,813
Financial position	\$ 765,554	\$ 804,828

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The following table shows the major components of income from operations for the current year, compared to the prior year:

	Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
Operating Revenue		
Member contributions	\$ 9,450,240	\$ 7,312,036
Less Reinsurance ceded	(3,890,212)	\$(3,181,429)
Other operating expenses	<u>21,193</u>	<u>154,158</u>
Net operating revenue	\$ 5,581,221	\$ 4,284,765
Operating Expenses		
Provision for claims	\$ 3,877,588	\$ 1,952,852
Administrative expenses	<u>2,541,981</u>	<u>1,813,141</u>
Total operating expenses	\$ 6,419,569	\$ 3,765,993
Operating income (loss)	\$ (838,348)	\$ 518,772
Nonoperating revenue	799,074	709,869
Total Increase (Decrease) in Financial Position	\$ (<u>39,274</u>)	\$ <u>1,228,641</u>

Total provision for claims, as noted above, is dependent on many factors and will change from year to year based on these factors.

In addition to net position, when assessing the overall health of OSRMT, the reader needs to consider nonfinancial factors, such as the legal climate in the state, the general state of the financial markets, and the level of loss prevention undertaken by OSRMT and its members.

Condensed Financial Highlights

- Overall, the OSRMT's financial position decreased by \$39,274 from \$804,828 in 2013 to \$765,554 in 2014.
- Member contributions increased by \$2,138,204 from \$7,312,036 in 2013 to \$9,450,240 in 2014 which is the result of an increase in members from 121 at June 30, 2013 to 190 at June 30, 2014.
- Administrative expenses increased by \$802,808, from \$1,813,141 to \$2,615,949 in 2014. The increase is primarily due to an increase in member growth.

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Highlights - Continued

- Incurred claims and claims adjustment expenses, net of reinsurance recoveries were \$3,877,588 and \$1,952,852 for the years ended June 30, 2014 and 2013, respectively. The change is related to the growth in the number of members, the number of open and closed claims and loss experience. Incurred claims and claims adjustment expenses vary from year to year as they are driven by many factors outside OSRMT's control.

Economic Factors and Next Year's Rates

Operating expenses are expected to remain consistent with amounts reported in 2014. The provision for claim payments is expected to be consistent with historical trends and we are unaware of any economic events or legislative events that would have a significant impact on the operations of OSRMT.

This financial report is intended to provide our members and regulators with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact The Sandner Group Insurance Program Managers.

**FINANCIAL STATEMENTS &
NOTES TO THE FINANCIAL STATEMENTS**

Oklahoma Schools Risk Management Trust

STATEMENT OF FINANCIAL POSITION

June 30, 2014

ASSETS

Cash and cash equivalents	\$ 386,550
Investments available for sale	<u>1,004,247</u>
Total cash and investments	<u>1,390,797</u>
Contributions receivable	2,005,990
Reserve contributions receivable	907,864
Accrued interest receivable	9,134
Deferred expenses	46,333
Prepaid expenses and other current assets	<u>866,219</u>
	\$ <u>5,226,337</u>

LIABILITIES AND FUND BALANCE

Unpaid losses and loss adjustment expenses	
Gross	\$ 3,998,223
Reinsurance recoverable on unpaid losses	(2,525,966)
Net	<u>1,472,257</u>
Advance contributions	640,850
Unearned contributions	1,578,393
Reinsurance premiums payable	401,979
Accrued expenses and accounts payable	<u>367,304</u>
	<u>4,460,783</u>
Fund balance	<u>765,554</u>
	\$ <u>5,226,337</u>

The accompanying notes are an integral part of this statement.

Oklahoma Schools Risk Management Trust

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2014

REVENUES

Member contributions, net of reinsurance premiums of \$3,890,212	\$ 5,560,028
Net investment income	<u>21,193</u>
	<u>5,581,221</u>

EXPENSES

Losses and loss adjustment expenses	3,877,588
Program administration fees	773,923
Member acquisition costs	1,559,163
Other expenses	<u>208,895</u>
	<u>6,419,569</u>

NET LOSS BEFORE MEMBER RESERVE CONTRIBUTION

(838,348)

MEMBER RESERVE CONTRIBUTIONS

799,074

NET LOSS AFTER MEMBER RESERVE CONTRIBUTION

(39,274)

Fund balance - beginning of year as restated

804,828

FUND BALANCE - END OF YEAR

\$ 765,554

The accompanying notes are an integral part of this statement.

Oklahoma Schools Risk Management Trust

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (39,274)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of discounts on debt securities	18,689
Net unrealized gains on investment securities available for sale	(9,442)
Net realized gains on investment securities available for sale	(1,686)
Changes in operating assets and liabilities	
(Increase) decrease in assets:	
Contributions receivable	(1,917,203)
Reserve contributions receivable	(211,754)
Accrued interest receivable	(1,855)
Deferred expenses	(46,334)
Prepaid expenses and other assets	(116,710)
Increase (decrease) in liabilities:	
Unpaid losses and loss adjustment expenses	742,395
Advance contributions	249,885
Unearned contributions	1,205,121
Reinsurance premiums payable	401,979
Accounts payable and accrued expenses	288,590
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>562,401</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of debt securities	(1,140,525)
Maturities of debt securities	<u>683,378</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(457,147)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 105,254

Cash and cash equivalents at July 1, 2013 281,296

CASH AND CASH EQUIVALENTS AT JUNE 30, 2014 \$ 386,550

The accompanying notes are an integral part of this statement.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - ORGANIZATION OF TRUST

The Oklahoma Schools Risk Management Trust (OSRMT or the “Trust”) is a cooperative association of public school districts established on June 17, 2009. Approval was obtained from the Office of Attorney General, State of Oklahoma through the Interlocal Cooperative Agreement – Oklahoma Schools Risk Management Trust Agreement – (AG #ICA-09-003). The Trust was established as a group self-insurance program to indemnify each member for covered property/casualty losses as an alternative to insurance coverage from a commercial insurance carrier.

Members are required to make annual contributions as determined by the Board of Trustees. Such contributions are intended to cover estimated loss payments and related costs and administrative and operational expenses. Public school districts joining the Trust must remain members for a minimum of one plan period unless terminated by the Board of Trustees. Subsequent to this initial term, a member may withdraw its membership at the end of any plan period.

In the event of dissolution of OSRMT, surplus funds developed that are not needed to pay claims and other expenses of OSRMT would be distributed to members, past and current, in accordance with the by-laws as determined by the Board of Trustees.

The Trust is comprised of 190 Oklahoma public school districts as of June 30, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America, governmental accounting standards and prevailing practices within the insurance industry. Except as otherwise noted, the Trust carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include only cash in checking, savings or money market accounts, and other depository instruments with maturities of three months or less at the time of acquisition.

Investment Earnings

Investment earnings, including changes in fair value of investments, are recognized as nonoperating revenue in the Statement of Operations and Changes in Fund Balance.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions Receivable

Contributions receivable are stated at net invoice amounts. Collectibility of balances is reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. Management has determined amounts are collectible and no allowance for doubtful accounts is required.

Reserve Contribution Receivable

The Trust records a reserve contribution receivable and an increase to fund balance in conjunction with contributions when a member joins the Trust. The total required reserve contribution is computed at 24 percent of the member's first year contribution and is billed to the member over a 24-month period. The total reserve contribution is recognized as income in the first year of membership. Amounts are stated at net amounts expected to be collected as estimated by management. Management has recorded an allowance for doubtful accounts of \$52,200 as of June 30, 2014.

Contributions

Contributions are earned on a straight-line basis over the coverage period. The portion of the contribution that will be earned in the future is deferred and reported as unearned contribution. Contributions received prior to the beginning of a coverage year are reported as advance contributions.

Prepaid Expenses and Other Assets

Reinsurance premiums are recognized as expenses over the related coverage period. Certain payments reflect costs applicable to future activities. Those payments are recorded as prepaid expenses when paid and expensed when appropriate.

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses includes the estimated costs of investigating and settling all claims incurred as of the balance sheet date as well as an estimate for claims that occurred as of the balance sheet date but have not been reported. Such amounts are determined on the basis of an evaluation of the Trust's losses as prepared by the Trust's independent actuary. The liability for unpaid losses and loss adjustment expenses has not been discounted for the time value of money.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contribution Deficiency

Anticipated investment income is considered in determining if a contribution deficiency exists and no such deficiency exists.

Income Tax Exemption

The Oklahoma Schools Risk Management Trust, including The Trust, is a governmental entity and, thus, is exempt from Federal income taxes under Internal Revenue Code Section 115.

Fair Value Measurements

U.S. generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs in 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below

Level 1 - Inputs are unadjusted quoted prices for identical assets in active markets.

Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in active markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Inputs are unobservable and based on management estimate.

Risks and Uncertainties

The Trust 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.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Management 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 in the Statement of Financial Position and Statements of Operations and of Changes in Fund Balance, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

NOTE 3 - FAIR VALUE MEASUREMENTS

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Debt securities	\$ <u> --</u>	\$ <u> 1,004,247</u>	\$ <u> --</u>	\$ <u> 1,004,247</u>

The Trust did not have any Level 1 or Level 3 assets at any point during the year ended June 30, 2014.

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale are stated at their estimated fair market value and consist of the following as of:

	June 30, 2014			
	Estimated Amortized Cost	Market Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agency obligation	\$ 250,050	\$ 249,872	\$ --	\$(178)
Municipal bonds	<u>755,534</u>	<u>754,375</u>	<u>1,713</u>	<u>(2,872)</u>
	<u>\$ 1,005,584</u>	<u>\$ 1,004,247</u>	<u>\$ 1,713</u>	<u>\$(3,050)</u>

The amortized cost and estimated market value of investment securities available-for-sale as of June 30, 2014 by contractual maturity, are shown below. In some instances, actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE - CONTINUED

	June 30, 2014			
	<u>Estimated Amortized Cost</u>	<u>Market Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
Due in one year or less	\$ 57,255	\$ 57,319	\$ 64	\$ --
Due after one year through five years	833,250	831,839	1,489	(2,900)
Due after five years through ten years	<u>115,079</u>	<u>115,089</u>	<u>160</u>	<u>(150)</u>
	<u>\$ 1,005,584</u>	<u>\$ 1,004,247</u>	<u>\$ 1,713</u>	<u>\$(3,050)</u>

Proceeds from sales of investment securities available-for-sale for the year ended June 30, 2014 were approximately \$603,000. Gross gains of approximately \$1,700 and gross losses of approximately \$30 were realized on these sales.

NOTE 5 - REINSURANCE

The Trust has purchased reinsurance for protection against losses in excess of the applicable retention. Reinsurance contracts do not relieve the Trust from its obligations to members. Failure of reinsurers to honor their obligations could result in losses to the Trust.

Accordingly, the Trust evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurers' insolvency. As of June 30, 2014, reinsurance recoverable on unpaid losses and loss adjustment expenses of approximately \$2,500,000 was associated with a single reinsurance carrier and deducted from reserves.

The Trust has obtained the following reinsurance for the 2013-2014 program year:

The Trust obtained property-specific reinsurance with limits of up to \$500,000,000 any one loss occurrence, \$250,000,000 for flood coverage, and \$250,000,000 for earth movement.

The Trust obtained property aggregate excess of loss reinsurance with limits up to \$2,000,000 to limit its aggregate retention under the property excess of loss coverage.

The Trust obtained general liability and automobile liability excess of loss reinsurance for limits up to \$2,000,000 on a per member district, per occurrence or

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 5 - REINSURANCE - CONTINUED

claim made, per line of business basis. The coverage is subject to an annual aggregate combined single limit of \$2,000,000 per member district in respect to general liability, including sexual abuse and employee benefits liability, and an annual aggregate of \$2,000,000 per member district in respect to products liability as per the primary plans of coverage.

The Trust obtained equipment breakdown reinsurance coverage up to \$100,000,000.

The Trust obtained school board legal liability (E&O) reinsurance coverage for limits up to \$2,000,000.

NOTE 6 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses are based upon an evaluation of the Trust's losses as prepared by the Trust's independent actuary. This evaluation of the Trust's losses is a significant estimate which is subject to change and the change can be material in relation to the financial statements taken as a whole. This estimate includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. Unpaid losses and loss adjustment expenses have not been discounted for the time value of money.

Unpaid losses and loss adjustment expenses are shown net of reinsurance recoverables on unpaid losses and loss adjustment expenses of approximately \$2,500,000 at June 30, 2014. The losses and loss adjustment expenses are net of the effect of changes in recoveries recognized under the reinsurance contracts referred to in Note 5.

During the year ended June 30, 2014, the Trust experienced an increase in the recoveries recognized under these reinsurance contracts which totaled approximately \$2,800,000. This amount has decreased current year losses and loss adjustment expenses.

Losses and loss adjustment expenses included approximately \$377,000 of claims administration fees.

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 6 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSE - CONTINUED

Balance at June 30, 2013	\$ 1,765,335
Less reinsurance recoverable on unpaid loss and loss adjustment expenses	<u>1,035,473</u>
Net balance at June 30, 2013	<u>729,862</u>
Incurred related to:	
Current period	3,393,783
Prior period	<u>483,805</u>
Total incurred	<u>3,877,588</u>
Paid related to:	
Current period	2,327,484
Prior period	<u>807,709</u>
Total paid	<u>3,135,193</u>
Net balance at June 30, 2014	1,472,257
Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	<u>2,525,966</u>
Balance at June 30, 2014	\$ <u>3,998,223</u>

NOTE 7 - ROYALTY AGREEMENT/RELATED PARTY TRANSACTIONS

The Trust has a royalty agreement with Oklahoma State School Boards Association (OSSBA). The agreement grants the Trust the exclusive right and license to use the OSSBA name and logo in connection with the marketing and administration of the insurance programs offered by the Trust. Royalty expense totaled approximately \$165,000 for the year ended June 30, 2014, of which approximately \$40,000 remained payable at June 30, 2014.

NOTE 8 - CONCENTRATIONS

All members who participate in the Trust are school districts within the State of Oklahoma.

The Trust believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it may be impractical to insure all deposits throughout the year. As a result, the Trust evaluates each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 9 - MEMBER INDEMNIFICATION

The Trust has entered into an agreement with each participating member to provide property and casualty coverages for the participating members. The Trust is responsible for the payment of all covered claims that fall within the joint loss fund. The Trust shall adopt policies and procedures for responding to overpayments and underpayments, if any.

NOTE 10 – ACCOUNTING AND REPORTING CHANGE

At June 30, 2013 and prior years, member acquisition costs were deferred and amortized over the terms of the underlying policies. During 2014, the Trust adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which requires acquisition costs to be expensed as incurred. This standard requires that the financial statements be retroactively restated to reflect the change in accounting policy.

Fund Balance at July 1, 2013 as previously reported	\$ 878,796
Effect of adoption of GASB Statement No. 65	(<u>73,968</u>)
Fund Balance at July 1, 2013, as restated	\$ <u>804,828</u>

NOTE 11 - SUBSEQUENT EVENTS

Management considered subsequent events through December 2, 2014, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

**Board of Trustees
Oklahoma Schools Risk Management Trust**

The Schedule of Historical Claims Development and the Supplemental Reconciliation of Claims Liability by Type of Contract are not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the Schedule of Historical Claims Development is in conformity with guidelines established by the Governmental Accounting Standards Board.

December 2, 2014

Shore, Terman, Butler & Company, P.A.

**Oklahoma State School Boards Association Sponsored
Oklahoma Schools Risk Management Trust
Schedule of Historical Claim Development
June 30, 2014**

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
(1) Contribution and investment revenue:					
Earned contributions and Investment revenue	\$ 610,708	\$ 1,288,637	\$ 4,099,170	\$ 6,850,616	\$ 9,471,434
Ceded contributions	397,646	733,377	1,740,221	3,036,243	3,890,212
Net Contribution and investment revenue	213,062	555,260	2,358,949	3,814,373	5,581,222
(2) Estimated claims and expenses - End of accident year:					
Paid and reserve, including reinsurance	135,375	572,179	1,166,706	1,524,731	3,016,754
ULAE (admin)	20,169	53,599	165,882	306,064	377,029
Net incurred	155,544	625,778	1,332,588	1,830,795	3,393,783
(3) Net paid (cumulative):					
End of accident year	82,853	439,534	853,181	1,189,705	2,327,484
One year later	258,136	943,337	1,364,207	2,030,094	-
Two years later	258,136	978,940	1,681,808	-	-
Three years later	258,136	654,024	-	-	-
Four years later	243,896				
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
(4) Estimated ceded claims and expenses	-	473,927	491,086	3,805,588	50,417
(5) Estimated net incurred claims and expenses:					
End of accident year	155,544	625,778	1,332,588	1,830,795	3,393,783
One year later	258,136	947,274	1,423,666	2,312,479	-
Two years later	258,136	978,274	1,805,876	-	-
Three years later	299,735	654,024	-	-	-
Three years later	243,897				
Four years later					
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
(6) Increase in estimated net incurred claims and expenses from end of accident year	88,353	28,246	473,288	481,684	-

**Oklahoma State School Boards Association Sponsored
Oklahoma Schools Risk Management Trust**

**Supplemental Reconciliation of Claims Liability
by Type of Contract
June 30, 2014 and 2013**

	2013-2014			2012-2013		
	Property	Liability	Total	Property	Liability	Total
Unpaid Losses and Loss Adjustment Expenses -						
Beginning of year	\$ 1,495,310	\$ 270,025	\$ 1,765,335	\$ 925,733	\$ 48,782	\$ 974,515
Net of reinsurance receivables	<u>1,035,473</u>	<u>-</u>	<u>1,035,473</u>	<u>491,172</u>	<u>-</u>	<u>491,172</u>
Net unpaid losses and loss adjustment expense	459,837	270,025	729,862	434,561	48,782	483,343
Incurred Losses and Loss Adjustment Expenses						
Provision for covered events of the current accident year	2,896,249	497,534	3,393,783	1,493,877	336,918	1,830,795
Changes in provision for covered events of prior accident years	<u>302,697</u>	<u>181,108</u>	<u>483,805</u>	<u>7,941</u>	<u>114,116</u>	<u>122,057</u>
Total losses and loss adjustment expenses	3,198,946	678,642	3,877,588	1,501,818	451,034	1,952,852
Payments						
Losses and loss adjustment expense attributable to covered events of current accident year	2,129,560	197,924	2,327,484	1,034,147	155,558	1,189,705
Losses and loss adjustment expense attributable to covered events of prior accident years	<u>775,842</u>	<u>31,867</u>	<u>807,709</u>	<u>442,395</u>	<u>74,233</u>	<u>516,628</u>
Total payments	2,905,402	229,791	3,135,193	1,476,542	229,791	1,706,333
Add reinsurance recoverables	<u>2,525,966</u>	<u>-</u>	<u>2,525,966</u>	<u>1,035,473</u>	<u>-</u>	<u>1,035,473</u>
Unpaid Losses and Loss Adjustment Expenses - Net of reinsurance recoverables - End of year	<u>\$ 3,279,347</u>	<u>\$ 718,876</u>	<u>\$ 3,998,223</u>	<u>\$ 1,495,310</u>	<u>\$ 270,025</u>	<u>\$ 1,765,335</u>