

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**OKLAHOMA SCHOOLS PROPERTY
AND CASUALTY COOPERATIVE**

SEPTEMBER 30, 2014

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

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Oklahoma Schools Property and Casualty Cooperative**

We have audited the accompanying financial statements of the Oklahoma Schools Property and Casualty Cooperative (the "Cooperative") which comprise the Statement of Financial Position as of September 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 Cooperative'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 Cooperative'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

Basis for Qualified Opinion

Certain supplemental information including the Schedule of Historical Claims Development is unavailable due to the failure of the prior claims administrator CCMSI to provide sufficient claims history.

Qualified Opinion

In our opinion, except for the omission of the supplemental information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Schools Property and Casualty Cooperative as of September 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.

Emphasis of Matter

As discussed in the Notes to the Financial Statements, certain errors in the financial statements as of and for the year ended September 30, 2013, were discovered during the current year. Accordingly, an adjustment has been made to fund balance as of September 30, 2013 to correct the errors.

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 an independent claims auditor. 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.

The accompanying financial statements have been prepared assuming the Cooperative will continue as a going concern. As discussed in the Notes to the Financial Statements, the Cooperative has ceased writing policies after May 15, 2014 and will continue only in the capacity of running off all claims incurred on or before May 15, 2014, until all claims have been paid. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

INDEPENDENT AUDITORS' REPORT – CONTINUED

Supplemental Information

The Supplemental Reconciliation of Claims Liability by Type of Contract is 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 the Supplemental Reconciliation of Claims Liability by Type of Contract is in conformity with guidelines established by the Governmental Accounting Standards Board.

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

February 27, 2015

Oklahoma Schools Property and Casualty Cooperative

STATEMENT OF FINANCIAL POSITION

September 30, 2014

ASSETS

Cash and cash equivalents	\$ 172,007
Total cash and cash equivalents	<u>172,007</u>
Supplemental contributions receivable	927,170
Accounts receivable	<u>11,381</u>
	\$ <u>1,110,558</u>

LIABILITIES AND FUND BALANCE

Unpaid losses and loss adjustment expenses	
Gross	\$ 762,131
Reinsurance recoverable on unpaid losses	
Net	(<u>13,463</u>)
	<u>748,668</u>
Miscellaneous liabilities	4,464
Accrued collection expense	<u>175,000</u>
	<u>179,464</u>
Fund balance	<u>182,426</u>
	\$ <u>1,110,558</u>

The accompanying notes are an integral part of this statement.

Oklahoma Schools Property and Casualty Cooperative

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE

For the Year Ended September 30, 2014

REVENUES

Member contributions, net of reinsurance premiums of \$563,015	\$ 620,558
Other income	<u>74,898</u>
	<u>695,456</u>

EXPENSES

Losses and loss adjustment expenses	631,198
Program administration fees	84,795
Royalty expenses	15,852
Other expenses	21,538
Collection expense	<u>175,000</u>
	<u>928,383</u>

NET LOSS BEFORE SUPPLEMENTAL
CONTRIBUTIONS

(232,927)

SUPPLEMENTAL CONTRIBUTIONS

1,209,792

NET INCOME AFTER SUPPLEMENTAL
CONTRIBUTIONS

976,865

Deficit in fund balance - beginning of year as restated

(794,439)

FUND BALANCE - END OF YEAR

\$ 182,426

The accompanying notes are an integral part of this statement.

Oklahoma Schools Property and Casualty Cooperative

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$	976,865
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Supplemental contributions receivable	(927,170)
Accounts receivable		114,769
Reinsurance recoverable on paid losses		143,456
Prepaid expenses		751,355
Increase (decrease) in liabilities:		
Unpaid losses and loss adjustment expenses		4,392
Unearned contributions	(1,462,639)
Miscellaneous liabilities		4,464
Accrued collection expense		175,000
NET CASH USED IN OPERATING ACTIVITIES	(<u>219,508)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(219,508)
Cash and cash equivalents at September 30, 2013		<u>391,515</u>
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30, 2014	\$	<u>172,007</u>

The accompanying notes are an integral part of this statement.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

NOTE 1 - ORGANIZATION OF TRUST

Oklahoma Schools Property and Casualty Cooperative (the "Cooperative") was formed and received a letter of approval from the Office of the Attorney General, State of Oklahoma April 1, 2010. The Cooperative is classified as an Interlocal Cooperation Entity.

The Cooperative primarily provides property and general liability coverage to school districts in the State of Oklahoma. For the year ended September 30, 2014 there were 44 school districts participating and all policies were cancelled as of May 15, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and reporting policies of the Cooperative conform to accounting principles generally accepted in the United States of America and prevailing practices within the insurance industry. Except as otherwise noted, the Cooperative 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.

Accounts Receivable

Contributions receivable are stated at net invoice amounts. Collectibility of balances are 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.

Contributions

Contributions are earned on a straight-line basis over the coverage period.

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

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unpaid Losses and Loss Adjustment Expenses - Continued

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 Cooperative's losses as prepared by the Cooperative's management. The liability for unpaid losses and loss adjustment expenses has not been discounted for the time value of money.

Income Tax Exemption

The Oklahoma Schools Property and Casualty Cooperative is a governmental entity and, thus, is exempt from Federal income taxes under Internal Revenue Code Section 115.

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 - REINSURANCE

The Cooperative used reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance contracts do not relieve the Cooperative from its obligations to members. Failure of the reinsurance carriers to honor its obligations could result in losses to the Cooperative. Accordingly, the Cooperative evaluates the financial condition of their reinsurance carriers to minimize its exposure to significant losses from reinsurer's insolvency.

As of September 30, 2014, reinsurance recoverable on unpaid losses of approximately \$13,000 is associated with a single reinsurance carrier. The current reinsurance coverage covers losses in excess of \$150,000 and up to \$5,000,000 for each occurrence per member.

NOTE 4 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses are based upon an evaluation of the Cooperative's losses as prepared by the Cooperative's management. This evaluation of the Cooperative'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.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2014

NOTE 4 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

Unpaid losses and loss adjustment expenses are shown net of reinsurance recoverables on unpaid losses and loss adjustment expenses of approximately \$13,000 at September 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 3.

During the year ended September 30, 2014, the Cooperative experienced a decrease in the recoveries recognized under these reinsurance contracts which totaled approximately \$130,000. This amount has decreased current year losses and loss adjustment expenses.

Losses and loss adjustment expenses included approximately \$145,000 of claims administration fees.

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

Balance at September 30, 2013	\$ 744,276
Less: reinsurance recoverable on unpaid loss and loss adjustment expenses - as restated	<u>143,456</u>
Net balance at September 30, 2013 as restated	<u>600,820</u>
Incurred related to:	
Current year	691,186
Prior years	(59,988)
Total incurred	<u>631,198</u>
Paid related to:	
Current year	439,890
Prior years	<u>43,460</u>
Total paid	<u>483,350</u>
Net balance at September 30, 2014	748,668
Plus reinsurance recoverable on unpaid losses loss adjustment expenses	<u>13,463</u>
Balance at September 30, 2014	<u>\$ 762,131</u>

See Note 10 for discussion of the restatement referred to above.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2014

NOTE 5 - THIRD PARTY ADMINISTRATION

The Cooperative is currently under a management agreement with The Sandner Group - Insurance Program Managers Inc. (TSG) to perform certain management services. Under the terms of the agreement, TSG has the authority to supervise, administer, or cause to be administered all business functions of the Cooperative. In consideration of these services, TSG is paid a fee of \$2,000 a month. Total fees paid to TSG were \$10,000 during the year ended September 30, 2014. The management agreement was with Cannon Cochran Management Services, Inc., (CCMSI) from September 30, 2013 through May 8, 2014. The management agreement was never provided by CCMSI. Total fees paid to CCMSI totaled approximately \$75,000 during the year ended September 30, 2014, of which no balance remains payable. These amounts were confirmed by written confirmation.

NOTE 6 - CONCENTRATIONS

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

The Cooperative 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 Cooperative evaluates each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 7 - MEMBER INDEMNIFICATION

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

NOTE 8 – SUPPLEMENTAL CONTRIBUTIONS RECEIVABLE

Gross supplemental contributions receivable in the amount of \$1,400,000 were assessed by the Cooperative in August 2014. The members are required to pay the supplemental contributions over three years and have been billed for the first installment. The supplemental contributions receivable amount on the balance sheet is the gross supplemental contribution of approximately \$1,400,000 less the amounts collected. The first installment of approximately \$587,000 was billed as of year end.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2014

NOTE 8 – SUPPLEMENTAL CONTRIBUTIONS RECEIVABLE - CONTINUED

Approximately \$202,000 of the first installment is still due as of the audit report date. The Cooperative is vigorously pursuing collections of the outstanding receivables. Management believes all supplemental contributions will ultimately be collected. Therefore, no allowance for the uncollected supplemental contributions receivable is considered necessary as of September 30, 2014.

NOTE 9 - GOING CONCERN

As of May 15, 2014, the Cooperative ceased writing policies. The Cooperative will remain in business for the sole purpose of running off claims incurred on or before May 15, 2014. Accordingly, the Cooperative will not continue as a going concern. No adjustments have been made to the accompanying financial statements for the carrying value of assets or liquidation of liabilities as a result of the Cooperative going into run off mode.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

Fund balance at September 30, 2013, as reported in the prior year financial statements has been adjusted for certain items as shown below:

Deficit in fund balance at September 30, 2013 as previously reported \$ (832,721)

The prior claims administrator (CCMSI) did not include certain expenses on excess claims as allowed under the excess policy. As a result, reinsurance recoverable was understated as originally reported at September 30, 2013 38,282

Deficit in fund balance at September 30, 2013, as restated \$ (794,439)

NOTE 11 - SUBSEQUENT EVENTS

Management considered subsequent events through February 27, 2015, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Oklahoma Schools Property / Casualty Cooperative

Supplemental Reconciliation of Claims Liability

by Type of Contract
September 30, 2014

	Property	2013-2014 Liability	Total
Unpaid Losses and Loss Adjustment Expenses -			
Beginning of year	\$ 438,695	\$ 305,581	\$ 744,276
Net of reinsurance receivables	143,456	-	143,456
Net unpaid losses and loss adjustment expense	295,239	305,581	600,820
Incurred Losses and Loss Adjustment Expenses			
Provision for covered events of the current accident year	514,865	176,322	691,186
Changes in provision for covered events of prior accident years	(305,974)	245,986	(59,988)
Total losses and loss adjustment expenses	208,891	422,307	631,198
Payments			
Losses and loss adjustment expense attributable to covered events of current accident year	423,594	16,296	439,890
Losses and loss adjustment expense attributable to covered events of prior accident years	(170,035)	213,495	43,460
Total payments	253,559	229,791	483,350
Add reinsurance recoverables	13,463	-	13,463
Unpaid Losses and Loss Adjustment Expenses - Net of reinsurance recoverables - End of year	\$ 264,033	\$ 498,097	\$ 762,131