

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

**Financial Report
with Supplemental Information
June 30, 2013**

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

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Independent Auditor's Report

To the Board of Trustees
Oklahoma State School Boards Association
Sponsored Oklahoma Schools
Risk Management Trust

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust (OSRMT) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which comprise OSRMT'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 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 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 qualified opinion.

To the Board of Trustees
Oklahoma State School Boards Association
Sponsored Oklahoma Schools
Risk Management Trust

Basis for Qualified Opinion

OSRMT's member contribution is recognized over the duration of the membership contract, typically a 12-month period. However, OSRMT's reserve capital contributions required to be paid by new members over a period of time are recognized as income in full during the first year of membership. Generally accepted accounting principles would require the reserve capital contributions to be amortized as revenue over the expected period of time the member is expected to be a member of OSRMT, not to exceed 10 years, in accordance with GASB Interpretation 4. Because management has not identified the expected membership time period, management is unable to determine the impact this departure from generally accepted accounting principles has on the financial statements. The reserve capital contributions recognized as income during fiscal year 2013 are approximately \$716,000 and from inception total \$1,670,454. We are unable to determine what portion of this inflow should be deferred, rather than recognized as revenue, under generally accepted accounting principles.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust as of June 30, 2013 and the respective changes in its financial position 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 Note 11 to the basic financial statements, the July 1, 2012 net position in the accompanying financial statements was restated as a result of moving from the statutory basis of accounting to generally accepted accounting principles. Previously, OSRMT filed its financial statements under the statutory basis of accounting, as is accepted practice within the insurance industry. Effective during the year ended June 30, 2013, the ODI changed its laws under the Interlocal Cooperation Act (ACT) and now requires all organizations subject to the Interlocal Cooperation Act to prepare their financial statements under generally accepted accounting principles. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Oklahoma State School Boards Association
Sponsored Oklahoma Schools
Risk Management Trust

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, supplemental reconciliation of claims liability by type of contract, and schedule of historical claims development, 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, which 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 supplemental 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.

Plante & Moran, PLLC

November 25, 2013

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Management's Discussion and Analysis

This annual report consists of the statement of net position, the statement of revenue, expenses, and changes in net position, 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 Oklahoma State School Boards Association Sponsored 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 in the state of Oklahoma. This annual report consists of a series of financial statements. The statement of net position and the statement of revenue, expenses, and changes in net position 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.

Effective during the year ended June 30, 2013, the Oklahoma Department of Insurance (ODI) changed its laws under the Interlocal Cooperation Act which now requires OSRMT's financial statements to be prepared and presented under generally accepted accounting principles (GAAP). OSRMT prepared the financial statements in accordance with statutory accounting practices as accepted within the insurance industry. For years prior to July 1, 2012, the ODI expressed no preference for accounting principles used. The June 30, 2012 financial information included in this annual report has been presented in accordance with statutory accounting principles, as filed with the ODI. The most significant difference between GAAP and statutory accounting is the classification of surplus notes outstanding as of June 30, 2012. Under GAAP, the surplus notes outstanding are required to be reported as a liability, while under statutory accounting principles, surplus notes are a component of capital and surplus. As noted in the notes to the financial statements, surplus notes outstanding at June 30, 2012 totaling \$600,000 were paid in full.

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 Net Position** - This statement presents information reflecting OSRMT's assets, liabilities, and net position.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Management's Discussion and Analysis (Continued)

- **Statement of Revenue, Expenses, and Changes in Net Position** - 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.

In analyzing 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 may be difficult to obtain at a cost savings and to develop a comprehensive loss prevention program. As of June 30, 2013 and 2012, 121 and 70 educational institutions, respectively, within the state of Oklahoma participate in OSRMT.

Condensed Financial Information

The statement of net position reports OSRMT's net position and how it has changed. Net 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 net position is an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	June 30	
	2013	2012
	GAAP Basis	STAT Basis
Cash and investments	\$ 835,957	\$ 734,239
Reserve capital contribution receivable	696,110	509,911
Prepaid expenses and other current assets	919,542	190,659
Total current assets	<u>\$ 2,451,609</u>	<u>\$ 1,434,809</u>
Unpaid losses and loss adjustment expenses	\$ 729,862	\$ 483,343
Advance contributions	390,965	313,117
Other liabilities	451,986	388,194
Total liabilities	<u>\$ 1,572,813</u>	<u>\$ 1,184,654</u>
Net position	<u>\$ 878,796</u>	<u>\$ 250,155</u>

Oklahoma State School Boards Association Sponsored 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	
	2013 GAAP Basis	2012 STAT Basis
Operating Revenue		
Member contributions	\$ 7,312,036	\$ 4,007,143
Less reinsurance ceded	(3,181,429)	(1,757,027)
Other operating revenue	154,158	-
Net operating revenue	4,284,765	2,250,116
Operating Expenses		
Provision for claims	1,952,852	1,633,884
Administrative expenses	1,813,141	951,613
Total operating expenses	3,765,993	2,585,497
Operating Income (Loss)	518,772	(335,381)
Nonoperating Expenses	(5,928)	(18,794)
Member Capital Reserve Contributions	715,797	-
Increase (Decrease) in Net Position	\$ 1,228,641	\$ (354,175)

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 risk prevention undertaken by OSRMT and its members.

OSRMT cannot control the first two factors. However, since inception, OSRMT has been a leader in implementing aggressive risk-prevention property and casualty alternative risk transfer programs.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Management's Discussion and Analysis (Continued)

Condensed Financial Highlights

- Overall, OSRMT's net position increased by \$1,228,641 from (\$349,845) (GAAP basis after adjusting for \$600,000 of surplus notes that were recorded as part of net position in the 2012 STAT basis financial statements) in 2012 to \$878,796 in 2013. These changes are a result of an increase in member contributions of \$3,304,893 from \$4,007,143 in 2012 to \$7,312,036 in 2013, which is the result of an increase in members from 70 at June 30, 2012 to 121 at June 30, 2013.
- Administrative expenses increased by \$861,528, from \$951,613 to \$1,813,141 in 2013. The increase is primarily due to an increase in member acquisition costs and program administration costs due to the increase in members as discussed above.
- Reserves (reported net of estimated reinsurance recoveries), both reported and incurred but not reported, increased by \$258,719 for the year ended June 30, 2013. The liability for reserves, both reported and incurred but not reported, is offset by amounts expected to be received from excess insurance carriers which total approximately \$2,500,000. Incurred claims and claims adjustment expenses, net of reinsurance recoveries, were \$1,952,852 and \$1,633,883 for the years ended June 30, 2013 and 2012, respectively. The change is related to the growth in the number of members, the number of open and closed claims, and loss experience. The provision for claims and incurred claims and claims adjustment expenses vary from year to year as they are driven by many factors outside OSRMT's control.

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.

Respectfully yours,



Chairperson

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Statement of Net Position June 30, 2013

Assets

Assets - Current assets

Cash and cash equivalents (Note 3)	\$	281,296
Investments (Note 3)		554,661
Contribution receivable		88,787
Reserve contribution receivable		696,110
Accrued interest receivable		7,279
Deferred acquisition costs		73,967
Prepaid expenses and other current assets		<u>749,509</u>

Total assets 2,451,609

Liabilities - Current liabilities

Unpaid losses and loss adjustment expenses (Notes 4 and 5)		729,862
Advance contributions		390,965
Unearned contributions		373,272
Accounts payable and accrued expenses		<u>78,714</u>

Total liabilities 1,572,813

Net Position - Unrestricted

\$ 878,796

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

Operating Revenue

Member contributions	\$ 7,312,036
Less reinsurance ceded (Note 5)	(3,181,429)
Other miscellaneous operating revenue	<u>154,158</u>
Net operating revenue	4,284,765

Operating Expenses

Loss and loss adjustment expense payments, net of □ reinsurance recoveries	1,706,333
Increase in losses and loss adjustment expense reserves	<u>246,519</u>
Total claims and claim adjustment expense (Note 4)	1,952,852
Program administration (Note 6)	567,225
Member acquisition costs	1,080,400
Legal	2,685
General insurance	29,019
Other expenses	<u>133,812</u>
Total operating expenses	<u>3,765,993</u>

Operating Income

518,772

Nonoperating Revenue (Expense)

Investment income	15,540
Net realized and unrealized loss on investments	(10,819)
Other expense	<u>(10,649)</u>
Total nonoperating expense	(5,928)

Member Reserve Contributions

715,797

Increase in Net Position

1,228,641

Net Position - Beginning of year (as restated, Note 11)

(349,845)

Net Position - End of year

\$ 878,796

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Statement of Cash Flows Year Ended June 30, 2013

Cash Flows from Operating Activities	
Cash received from members	\$ 7,498,157
Cash payments to suppliers for reinsurance and services	(5,756,258)
Losses and loss adjustment expenses paid	(1,706,333)
Other miscellaneous operating revenue received	<u>154,158</u>
Net cash provided by operating activities	189,724
Cash Flows from Investing Activities	
Investment income	8,726
Proceeds from sale of investments	1,315,330
Purchase of investments	<u>(1,792,495)</u>
Net cash used in investing activities	(468,439)
Cash Flows from Financing Activities	
Payments on surplus notes	(600,000)
Interest expense	(15,511)
Reserve contributions from members	<u>529,598</u>
Net cash used in financing activities	<u>(85,913)</u>
Net Decrease in Cash and Cash Equivalents	(364,628)
Cash and Cash Equivalents - Beginning of year	<u>645,924</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 281,296</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 518,772
Adjustments to reconcile operating loss to net cash from operating activities:	
(Increase) decrease in assets:	
Contribution receivable	54,982
Deferred acquisition costs	(27,542)
Prepaid expenses and other current assets	(749,509)
Increase in liabilities:	
Liability for unpaid losses and loss adjustment expenses	246,519
Advanced contributions	77,848
Unearned premiums	53,291
Accounts payable and accrued expenses	<u>15,363</u>
Net cash provided by operating activities	<u><u>\$ 189,724</u></u>

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 1 - Nature of Business

Oklahoma State School Boards Association Sponsored 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). OSRMT 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 OSRMT 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.

OSRMT is comprised of 121 Oklahoma public school districts as of June 30, 2013.

Note 2 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies applied by management in the preparation of the financial statements:

Basis of Presentation - The basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. OSRMT's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

Cash and Cash Equivalents - OSRMT considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents whose cost approximates fair value.

Investments - OSRMT reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement requires most investments of governmental entities to be reported at fair value in the statement of net position. Changes in the fair value of investments are reported in the statement of revenue, expenses, and changes in net position. Investments in municipal bonds are stated at fair value. Investments in money market accounts, which invest in securities having a maturity of one year or less at acquisition, are stated at historical or amortized cost, which approximates fair value.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

Investment Earnings - Investment earnings, including changes in fair value of investments, are recognized as nonoperating revenue in the statement of revenue, expenses and changes in net position.

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 - OSRMT records a reserve contribution receivable and an increase to net position 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. Subsequent to June 30, 2013, two members with renewal dates in July 2013 did not renew their membership. Prior to June 30, 2013, 100 percent of members renewed during their first three years. All other members with July 2013 and August 2013 renewal dates have renewed their membership for the year ending June 30, 2014. The reserve contribution of the non-renewing members totals \$9,066 or 1.30 percent of the uncollected reserve contribution at June 30, 2013. Renewing members have paid required reserve contributions of \$279,797. Amounts are stated at net amounts expected to be collected as estimated by management. Management has recorded an allowance for doubtful accounts of \$14,100 the year ended June 30, 2013.

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.

Liability for Unpaid Losses and Loss Adjustment Expenses - Claims expense, loss adjustment expenses, and related liabilities for claims reserves and loss adjustment expenses are recorded and estimated based on those claims reported as of June 30 as well as an estimate of claims which have occurred as of June 30 but have not yet been reported.

Reserve estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

Case basis reserves have been established for all reported losses by OSRMT's claims administrator. A reserve for incurred but not reported losses has been estimated by management based upon OSRMT's historical experience and industry experience, to provide for those losses which occurred at June 30 but have not yet been reported to the claims administrator.

Contributions and Related Acquisition Expenses - 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 advanced contributions. Commissions paid to obtain new members are capitalized as deferred acquisition costs and recognized as expense as the corresponding contributions are earned.

Contribution Deficiency - Anticipated investment income is considered in determining if a contribution deficiency exists.

Income Taxes - Management believes that OSRMT, as designed and currently being operated, is not subject to income taxes pursuant to Section 115 of the Internal Revenue Code. Therefore, no provision for income taxes has been provided in the accompanying financial statements.

Use of 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to unpaid loss and loss adjustment expenses including IBNR are described in Note 4.

Risks and Uncertainties - OSRMT 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 net position.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Activity - OSRMT distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with OSRMT's principal ongoing operations. The principal operating revenue and expenses of OSRMT relate to member contributions net of ceded reinsurance costs and claims and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Accounting and Reporting Change - During the year, OSRMT adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, the term "net assets" is now referred to as "net position." In addition, the pronouncement created the categories of deferred inflows of resources and deferred outflows of resources.

Note 3 - Deposits and Investments

The investment policy adopted by the board authorizes OSRMT to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, as well as money market funds. OSRMT is allowed to invest in obligations of the United States government and its agencies, obligations of the State of Oklahoma, and county, municipal, and school district debt obligations for which an ad valorem tax may be levied.

OSRMT has a chief investment officer (CIO) who works with an investment committee and an independent investment counselor. The CIO monitors performance as well as compliance with the approved investment guidelines. The investment guidelines change from time to time upon approval of the board of trustees.

OSRMT has designated one bank for the deposit of its funds.

OSRMT's bank deposits and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposit may not be returned. The Trust does not have a deposit policy for custodial credit risk of bank deposit.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

As June 30, 2013, OSRMT's deposit balance of \$371,018 had no deposits that were uninsured and uncollateralized. 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 with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the custodian, OSRMT will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The portfolio manager, Chilton Trust Company, LLC, transfers all securities to the custodian, State Street Bank. State Street Bank maintains U.S. Treasury obligations in book entry form at the Federal Reserve Bank and all positions are reconciled daily. All other securities are held in segregated sub-accounts with the Depository Trust Company (DTC), a central clearing agency which retains custody of the securities insulating the investments from the financial status of State Street Bank.

Investments are reported at fair value. As of June 30, 2013, OSRMT has the following investments:

Type of Investment	2013	
	Fair Value	How Held
Municipal bonds	\$ 554,661	In custody

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. OSRMT's investment policy does not restrict investment maturities. OSRMT's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with OSRMT's cash requirements.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

At June 30, 2013, the average maturities of investments are as follows:

<u>Type of Investment</u>	<u>Fair Value June 30, 2013</u>	<u>Weighted Average Maturity (Years)</u>
Municipal bonds	\$ 554,661	3.38

Credit Risk - OSRMT's investment policy limits investments to obligations of the United States government and its agencies, obligations of the State of Oklahoma, and county, municipal, and school district debt obligations for which an ad valorem tax may be levied. As of year end, the credit quality ratings of debt securities are as follows:

<u>Rating</u>	<u>Fair Value June 30, 2013</u>
AAA	\$ 95,849
AA+	115,893
AA	304,972
AA-	37,947
Total	<u>\$ 554,661</u>

OSRMT utilizes Standard & Poor's and Moody's to rate its investments.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk - OSRMT places a limit of no more than 10 percent of the total aggregate portfolio which shall be invested in any one security or the securities of any one issuer with the exception that more than 10 percent can be invested in U.S. government securities. Individual investments that exceed 5 percent of the total investment balance at June 30, 2013 are as follows:

2013	
Investment	
OK ST DEV FIN AUTH 4% 4/1/17	14.74%
OKLAHOMA CITY OK ZOOLOG 5% 6/01/15	10.74%
OK ST CAP IMP AUT 08 4.625% 7/01/18	10.24%
OKLAHOMA CITY OK 09B 5% 7/01/16	10.06%
OKLAHOMA CITY OK GO 5% 3/01/18	7.34%
OK ST AGRIC & MECH 10C 4% 8/01/16	6.84%
OK ST DEV FIN AUTH 5.125% 2/15/31	5.57%
OK ST WTR RES BRD 10A 5% 10/01/18	5.26%
TULSA OK GO 5% 10/01/17	5.20%
OKLAHOMA CITY OK GO 5% 3/01/17	5.14%

Note 4 - Liabilities for Unpaid Losses and Loss Adjustment Expense

The estimated reserve for unsettled claims filed is provided by the third-party administrator. The reserve for claims incurred but not reported is estimated by management based upon OSRMT's historical experience and industry experience. The estimates reflect the best judgment as to the potential for claims to increase beyond the amount already paid and reserve on filed claims. It is at least reasonably possible that a material change in the estimate could occur within the near term and thus the actual claims paid may be substantially different than these estimates. Any future adjustments to these amounts will affect the reported results of future periods.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 4 - Liabilities for Unpaid Losses and Loss Adjustment Expense (Continued)

The following table represents changes in those aggregate liabilities for OSRMT for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Total liability for unpaid losses and loss adjustment expenses, net of reinsurance recoveries - Beginning of year	\$ 483,343	\$ 206,446
Incurred Losses and Loss Adjustment Expenses		
Provision for covered events of the current year	1,830,902	1,332,588
Changes in provision for covered events of prior years	<u>121,950</u>	<u>301,296</u>
Total incurred losses and loss adjustment expenses	1,952,852	1,633,884
Payments		
Losses and loss adjustment expenses attributable to covered events of current year	1,189,705	853,183
Losses and loss adjustment expenses attributable to covered events of prior years	<u>516,628</u>	<u>503,804</u>
Total payments, net of reinsurance recoveries	<u>1,706,333</u>	<u>1,356,987</u>
Total liability for unpaid losses and loss adjustment expenses, net of expected reinsurance recoveries - End of year	<u>\$ 729,862</u>	<u>\$ 483,343</u>

Reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years have changed as a result of reestimation of unpaid claims and claim adjustment expenses. This change is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 5 - Reinsurance

OSRMT utilizes reinsurance to limit its maximum loss and minimize exposure on larger risks. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the primary liability of OSRMT as direct provider of coverage of the risks reinsured. OSRMT does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Amounts deducted from reserves as of June 30, 2013 for expected amounts to be recovered from reinsurers total approximately \$2,500,000.

OSRMT obtained property-specific excess of loss reinsurance with limits of \$500,000,000 any one loss occurrence, \$250,000,000 for flood coverage, and \$250,000,000 for earth movement at June 30, 2013.

OSRMT also obtained property aggregate excess of loss reinsurance to limit its aggregate retention under the property excess of loss coverage.

OSRMT 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 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.

OSRMT obtained equipment breakdown reinsurance coverage up to \$100,000,000, reinsured at 100 percent.

OSRMT obtained school board legal liability (E&O) reinsurance coverage for limits of \$5,000,000 reinsured at 100 percent at June 30, 2013.

Note 6 - Program Administration

The Sandner Group Insurance Program Managers, Inc. f/k/a Hinz Professional Insurance Program Managers (PM) serves as the administrator of OSRMT and is paid a program management fee based upon a percentage of total member contributions. PM administrative service expenses totaled \$567,225 for the year ended June 30, 2013.

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Notes to Financial Statements June 30, 2013

Note 7 - Service Agreement

OSRMT has a service agreement with The Sandner Group Claims Management f/k/a Hinz Claim Management, Inc. (CM), an affiliate of PM, to serve as claims administrator. Under the terms of the agreement, CM is paid based upon a percentage of total member contributions. Claims administration expense totals \$306,064 for the year ended June 30, 2013.

Note 8 - Royalty Agreement

OSRMT has a royalty agreement with Oklahoma State School Boards Association (OSSBA). The agreement grants OSRMT 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 OSRMT. Royalty expense totaled \$148,394 for the year ended June 30, 2013.

Note 9 - Surplus Note

OSRMT had entered into capital surplus note agreements with Brokers' Risk Placement Service, Inc. (BRPS), an affiliate of PM and CM.

The capital surplus notes issued on April 27, 2010 in the amount of \$300,000 and April 28, 2011 in the amount of \$300,000 were repaid during the year ended June 30, 2013.

The notes called for payments of interest at the prime rate as set forth in *The Wall Street Journal*, subject to a minimum rate of 2 percent and a maximum rate of 5 percent. The prime rate was 3.25 percent at June 30, 2013, resulting in interest expense of \$10,649 for the year ended June 30, 2013.

Note 10 - Upcoming Accounting Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued by the GASB in April 2012. The statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Once implemented, this statement will impact the format and reporting of the statement of net position. OSRMT is currently evaluating the impact this standard will have on the financial statements when adopted during OSRMT's 2013-2014 fiscal year.

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Notes to Financial Statements June 30, 2013

Note 11 - Prior Period Adjustment

The beginning of year (July 1, 2012) net position in the accompanying financial statements has been restated as a result of moving from the statutory basis of accounting to generally accepted accounting principles. For years prior to July 1, 2012, as is accepted practice in the insurance industry, OSRMT reported its financial statements under the statutory basis of accounting. Effective during the year ended June 30, 2013, the Oklahoma Department of Insurance (ODI) changed its laws under the Interlocal Cooperation Act (ACT) and now requires that all organizations subject to the Interlocal Cooperation Act prepare their financial statements under generally accepted accounting principles (GAAP).

Under statutory accounting principles, surplus notes are classified as a part of capital and surplus (net position), while under GAAP they are classified as a liability. As a result of this change, net position was decreased from \$250,155, as originally reported at June 30, 2012, to (\$349,845). In addition, net loss was increased from (\$354,175), as originally reported at June 30, 2012, to (\$544,175). As noted in Note 9, these surplus notes were paid in full during the year ended June 30, 2013.

Required Supplemental Information

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

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

	2012-2013			2011-2012		
	Property	Liability	Total	Property	Liability	Total
Unpaid Losses and Loss Adjustment Expenses						
Beginning of year	\$ 925,733	\$ 48,782	\$ 974,515	\$ 383,966	\$ 32,137	\$ 416,103
Net of reinsurance receivables	491,172	-	491,172	209,657	-	209,657
Net unpaid losses and loss adjustment expense	434,561	48,782	483,343	174,309	32,137	206,446
Incurred Losses and Loss Adjustment Expenses						
Provision for covered events of the current accident year	1,493,984	336,918	1,830,902	1,143,751	188,837	1,332,588
Changes in provision for covered events of prior accident years	7,834	114,116	121,950	295,778	5,518	301,296
Total losses and loss adjustment expenses	1,501,818	451,034	1,952,852	1,439,529	194,355	1,633,884
Payments						
Losses and loss adjustment expense attributable to covered events of current accident year	1,034,147	155,558	1,189,705	709,215	143,968	853,183
Losses and loss adjustment expense attributable to covered events of prior accident years	442,395	74,233	516,628	470,062	33,742	503,804
Total payments	1,476,542	229,791	1,706,333	1,179,277	177,710	1,356,987
Unpaid Losses and Loss Adjustment Expenses - Net of reinsurance recoverables - End of year	\$ 459,837	\$ 270,025	\$ 729,862	\$ 434,561	\$ 48,782	\$ 483,343

Oklahoma State School Boards Association Sponsored Oklahoma Schools Risk Management Trust

Schedule of Historical Claims Development June 30, 2013

	2009-2010	2010-2011	2011-2012	2012-2013
(1) Contribution and investment revenue:				
Earned	\$ 610,708	\$ 1,288,637	\$ 4,099,170	\$ 6,850,616
Ceded	<u>397,646</u>	<u>733,377</u>	<u>1,740,221</u>	<u>3,036,243</u>
Net earned	213,062	555,260	2,358,949	3,814,373
(2) Estimated claims and expenses - End of accident year:				
Paid and reserve, including reinsurance	135,375	572,179	1,166,706	1,524,731
ULAE (admin)	<u>20,169</u>	<u>53,599</u>	<u>165,882</u>	<u>306,064</u>
Net incurred	155,544	625,778	1,332,588	1,830,795
(3) Net paid (cumulative):				
End of accident year	82,853	439,534	853,181	1,189,705
One year later	258,136	943,337	1,364,207	-
Two years later	258,136	978,940	-	-
Three years later	258,136	-	-	-
(4) Estimated ceded claims and expenses	-	473,927	491,086	1,035,580
(5) Estimated net incurred claims and expenses:				
End of accident year	155,544	625,778	1,332,588	1,830,795
One year later	258,136	947,274	1,423,666	-
Two years later	258,136	978,274	-	-
Three years later	258,136	-	-	-
(6) Increase in estimated net incurred claims and expenses from end of accident year	102,592	352,496	91,078	-

NOTES

- (1) Amount of gross premium revenue and reported investment revenue, amount of premium revenue ceded, amount of net reported premium revenue (net of excess insurance or reinsurance), and reported investment revenue for the fiscal year.
- (2) Total gross amount of incurred claims and allocated claim adjustment expenses (both paid and accrued before the effect of loss assumed by excess insurers or reinsurers), loss assumed by excess insurers or reinsurers (both paid and accrued), and total net amount of incurred claims and allocated claim adjustment expenses (both paid and accrued). Amounts are presented as originally reported at the end of the policy year including the latest year. Amounts are limited to provisions for claims resulting from events that triggered coverage under the policy or participation.
- (3) The cumulative net amount paid as of the end of the policy year for each of the incurred claims and allocated expense amounts presented in (2) above.
- (4) The estimated amount for loss assumed by excess insurers or reinsurers as of the end of the current year for each of the policy years presented in (2).
- (5) The estimated amount for net incurred claims and claim adjustment expenses as of the end of each year for each of the policy years presented in (2).
- (6) The change in net incurred claims and claim adjustment expenses from the original estimate, based on the difference between the latest reestimated amount presented in (6) above for each of the policy years and the original net incurred claims and claim adjustment amounts reported in (3).