

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**OKLAHOMA SCHOOLS RISK
MANAGEMENT TRUST**

JUNE 30, 2020 AND 2019

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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 ("OSRMT" or the "Trust") which comprise the Statements of Net Position as of June 30, 2020 and 2019, and the related Statements of Revenues, Expenses and Changes in Net Position and of Cash Flows for the years then ended, and the related Notes to 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.

INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Oklahoma Schools Risk Management Trust as of June 30, 2020 and 2019, and the results of its operations and changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is 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 Financial Statements, the liabilities for unpaid losses and loss adjustment expenses in the accompanying financial statements are based upon evaluations by the Trust's independent actuary. Management believes that these estimates are reasonable. However, these estimates are 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. Our opinion is not modified with respect to this matter.

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

December 15, 2020

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS

This annual report consists of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements 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 public school districts and career techs in the state of Oklahoma. This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide information about the financial activities of OSRMT. These are followed by the Statements of Cash Flows, which present 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, the basic financial statements, and required supplemental information. The basic financial statements 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:

- **Statements of Net Position** - These statements present information reflecting OSRMT's assets, liabilities, and net position.
- **Statements of Revenues, Expenses and Changes in Net Position** - These statements reflect 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.
- **Statements of Cash Flows** - These statements are presented on the direct method of reporting and reflect cash flows from operating and investing activities. Cash collections and payments are reflected in these statements 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 considering 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 and are provided at a competitive cost. As of June 30, 2020, 2019, and 2018, 88, 105, and 159 educational institutions, respectively, within the State of Oklahoma participate in OSRMT.

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.

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

Condensed Financial Information

The Statements of Net Position report OSRMT's net position. 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 are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	<u>June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash and investments	\$ 377,662	\$ 2,522,155	\$ 1,718,254
Reserve contributions receivable	8,834	--	4,565
Reinsurance recoverable on paid losses	218,591	108,278	64,497
Prepaid insurance and other assets	118,229	321,814	3,104,965
Total current assets	\$ 723,316	\$ 2,952,247	\$ 4,892,281
Unpaid losses and loss adjustment expenses	\$ 3,935,761	\$ 5,372,319	\$ 4,456,174
Reinsurance recoverable on unpaid losses	(1,441,014)	(1,363,585)	(1,001,134)
Advance contributions	297,719	146,603	961,732
Other liabilities	344,474	958,309	1,449,533
Total liabilities	\$ 3,136,940	\$ 5,113,646	\$ 5,866,305
Net position	\$ (2,413,624)	\$ (2,161,399)	\$ (974,024)

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Condensed Financial Information - Continued

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

	<u>Year Ended June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues			
Member contributions	\$ 7,646,104	\$ 11,188,731	\$ 14,576,246
Less reinsurance ceded	(4,721,237)	(5,525,807)	(6,476,795)
Other income	<u>11,770</u>	<u>49,517</u>	<u>76,867</u>
Net revenue before member reserve/ initiation contribution	<u>2,936,637</u>	<u>5,712,441</u>	<u>8,176,318</u>
Expenses			
Provision for claims	1,692,388	4,655,955	5,152,028
Administrative expenses	<u>1,496,474</u>	<u>2,239,295</u>	<u>4,047,557</u>
Total expenses	<u>3,188,862</u>	<u>6,895,250</u>	<u>9,199,585</u>
Net income (loss) before member reserve/initiation contribution	(252,225)	(1,182,809)	(1,023,267)
Member reserve/initiation contribution	<u>-</u>	<u>(4,565)</u>	<u>(2,297)</u>
Total Increase (Decrease) in Net Position	\$ (<u>252,225</u>)	\$ (<u>1,187,374</u>)	\$ (<u>1,025,564</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 net position decreased by \$1,187,374 from \$(1,025,564) in 2018 to \$(2,161,399) in 2019 and decreased by \$252,225 to \$(2,413,624) in 2020.
- Member contributions decreased by \$3,387,515 from \$14,576,246 in 2018 to \$11,188,731 in 2019 and decreased by \$3,542,627 to \$7,646,104 in 2020.

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Condensed Financial Highlights - Continued

- Incurred claims, incurred but not reported claims and claims adjustment expenses, net of reinsurance recoveries were \$1,692,388, \$4,655,955, and \$5,152,028, for the years ended June 30, 2020, 2019, and 2018, respectively. The change is related to 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 Contribution Rates

Property reinsurance rates have realized significant increases in recent years due to intensified frequency and severity of catastrophic weather-related events globally. Management believes this trend will continue with property reinsurance rates rising significantly for the year ending June 30, 2021. As a result, package contributions for members increased this year and may increase next year. Management continues to work aggressively to keep reinsurance expenses as low as possible without increasing the risk retained by OSRMT.

OSRMT will continue to select and add public school districts that meet membership criteria.

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.

Contacting OSRMT'S Management

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 FINANCIAL STATEMENTS**

Oklahoma Schools Risk Management Trust

STATEMENTS OF NET POSITION

ASSETS

	June 30,	
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 172,636	\$ 1,330,558
Investment in securities	205,026	1,191,597
Contributions receivable	43,851	65,690
Reserve contributions receivable	8,834	--
Reinsurance recoverable on paid losses	218,591	108,278
Prepaid expenses and other current assets	74,378	256,124
Total current assets	<u>723,316</u>	<u>2,952,247</u>
Total assets	<u>\$ 723,316</u>	<u>\$ 2,952,247</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Unpaid losses and loss adjustment expenses - Gross	\$ 3,521,989	\$ 4,643,621
Reinsurance recoverable on unpaid losses	(1,441,014)	(1,363,585)
Net	<u>2,080,975</u>	<u>3,280,036</u>
Advance contributions	297,719	146,603
Reinsurance payable	102,211	--
Contribution overpayments	31,833	--
Advance payments by reinsurer	--	783,630
Accounts payable and accrued expenses	210,430	174,679
Total current liabilities	<u>2,723,168</u>	<u>4,384,948</u>
NONCURRENT LIABILITIES		
Unpaid losses and loss adjustment expenses - Gross	413,772	728,698
Reinsurance recoverable on unpaid losses	--	--
Net	<u>413,772</u>	<u>728,698</u>
Total noncurrent liabilities	<u>413,772</u>	<u>728,698</u>
Total liabilities	3,136,940	5,113,646
NET POSITION, UNRESTRICTED	<u>(2,413,624)</u>	<u>(2,161,399)</u>
Total liabilities and net position	<u>\$ 723,316</u>	<u>\$ 2,952,247</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2020	2019
OPERATING REVENUES		
Contributions earned	\$ <u>7,646,104</u>	\$ <u>11,188,731</u>
	<u>7,646,104</u>	<u>11,188,731</u>
OPERATING EXPENSES		
Losses and loss adjustment expenses	1,692,388	4,655,955
Reinsurance expense	4,721,237	5,525,807
Program administration fees	484,606	855,053
Member acquisition costs	843,112	1,172,580
Other expenses	<u>168,756</u>	<u>216,227</u>
	<u>7,910,099</u>	<u>12,425,622</u>
OPERATING LOSS	<u>(263,995)</u>	<u>(1,236,891)</u>
NON OPERATING INCOME		
Net investment income	<u>11,770</u>	<u>49,517</u>
	<u>11,770</u>	<u>49,517</u>
DECREASE IN NET POSITION	<u>(252,225)</u>	<u>(1,187,374)</u>
Net position - beginning of year	<u>(2,161,399)</u>	<u>(974,025)</u>
NET POSITION - END OF YEAR	\$ <u>(2,413,624)</u>	\$ <u>(2,161,399)</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions collected	\$ 7,850,892	\$ 10,990,499
Excess insurance premiums paid	(4,721,237)	(5,525,807)
Loss and loss adjustment payments	(3,316,688)	(4,146,042)
Other expenses paid	(1,960,396)	(577,013)
NET CASH (USED IN) PROVIDED BY		
OPERATING ACTIVITIES	<u>(2,147,429)</u>	<u>741,637</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(40,677)	(2,589,065)
Proceeds from sales and maturities of investment securities	1,015,735	2,523,433
Investment income collected	<u>23,283</u>	<u>61,556</u>
NET CASH PROVIDED BY (USED IN)		
INVESTING ACTIVITIES	<u>998,341</u>	<u>(4,076)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Member reserve contributions	(8,834)	4,565
NET CASH (USED IN) PROVIDED BY		
FINANCING ACTIVITIES	<u>(8,834)</u>	<u>4,565</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(1,157,922)</u>	742,126
Cash and cash equivalents at beginning of year	<u>1,330,558</u>	<u>588,432</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>172,636</u>	\$ <u>1,330,558</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

STATEMENTS OF CASH FLOWS - CONTINUED

	Years Ended June 30,	
	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (263,995)	\$ (1,236,891)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Contributions receivable	21,839	1,839,649
Deferred expenses	--	41,001
Reinsurance recoverable on paid losses	(110,313)	(43,781)
Prepaid expenses and other current assets	181,746	894,319
Increase (decrease) in liabilities:		
Unpaid losses and loss adjustment expenses	(1,513,987)	553,694
Reinsurance payable	102,211	--
Advance contributions	151,116	(815,130)
Unearned contributions	--	(1,222,751)
Contribution overpayments	31,833	--
Advance payments by reinsurer	(783,630)	783,630
Accounts payable and accrued expenses	<u>35,751</u>	<u>(52,103)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (2,147,429)	\$ <u>741,637</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 88 Oklahoma public school districts as of June 30, 2020, and 105 districts as of June 30, 2019.

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 Statements 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.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Earnings

Investment earnings, including changes in fair value of investments, are recognized as non operating revenue in the Statements of Revenues, Expenses and Changes in Net Position.

Contributions Receivable

Contributions receivable are stated at net invoiced 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 (Capital) Contributions Receivable

During the year ended June 30, 2020, The Trust declared a portion of the contributions be set aside as Reserve (capital) contributions with no associated fees attached to these contributions as a strategy to eliminate the deficit. Amounts are stated at net amounts expected to be collected as estimated by management. At June 30, 2020, management has recorded Reserve (capital) contributions receivable of approximately \$9,000. Management has determined the amount is collectible and no allowance for doubtful accounts is required.

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.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unpaid Losses and Loss Adjustment Expenses - Continued

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 been discounted for the time value of money.

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.

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 Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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 markets that are not active; 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.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 3 - FAIR VALUE MEASUREMENTS

Assets recorded at fair value, as discussed above, are summarized below:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Exchange-traded funds	\$ <u>205,026</u>	\$ <u>--</u>	\$ <u>--</u>	\$ <u>205,026</u>
	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Exchange-traded funds	\$ <u>1,191,597</u>	\$ <u>--</u>	\$ <u>--</u>	\$ <u>1,191,597</u>

The Trust did not have any Level 2 or Level 3 assets at any point during the years ended June 30, 2020 and 2019. There were no transfers between any levels during the years ended June 30, 2020 and 2019.

For the years ended June 30, 2020 and 2019, respectively, the exchange traded funds (ETFs) above include fixed income and equity securities.

NOTE 4 - INVESTMENT SECURITIES

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

	June 30, 2020			
	Cost	Estimated Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed income -				
Exchange-traded funds	\$ 171,436	\$ 176,486	\$ 5,920	\$ (870)
Equity securities -				
Exchange-traded funds	<u>28,179</u>	<u>28,540</u>	<u>884</u>	<u>(523)</u>
	\$ <u>199,615</u>	\$ <u>205,026</u>	\$ <u>6,804</u>	\$ <u>(1,393)</u>

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 4 - INVESTMENT SECURITIES - CONTINUED

	June 30, 2019			
	Cost	Estimated Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed income -				
Exchange-traded funds	\$ 893,911	\$ 894,283	\$ 590	\$ (218)
Equity securities -				
Exchange-traded funds	<u>296,206</u>	<u>297,314</u>	<u>1,108</u>	<u>(--)</u>
	<u>\$ 1,190,117</u>	<u>\$ 1,191,597</u>	<u>\$ 1,698</u>	<u>\$ (218)</u>

Proceeds from sales of investment securities for the years ended June 30, 2020 and 2019 were approximately \$1,016,000 and \$2,134,000, respectively. Gross gains of approximately \$17,000 and \$60,000 and gross losses of approximately \$33,000 and \$47,000, respectively, were realized on these sales.

Information pertaining to securities with gross unrealized losses at June 30, 2020 and June 30, 2019, respectively, aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	June 30, 2020					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
Fixed income -						
Exchange-traded funds	\$ --	\$ (--)	\$ 11,917	\$ (870)	\$ 11,917	\$ (870)
Equity securities -						
Exchange-traded funds	<u>11,507</u>	<u>(523)</u>	<u>--</u>	<u>--</u>	<u>11,507</u>	<u>(523)</u>
	<u>\$ 11,507</u>	<u>\$ (523)</u>	<u>\$ 11,917</u>	<u>\$ (870)</u>	<u>\$ 23,424</u>	<u>\$ (1,393)</u>
	June 30, 2019					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
Fixed income -						
Exchange-traded fund	<u>\$ 59,631</u>	<u>\$ (218)</u>	<u>\$ --</u>	<u>\$ (--)</u>	<u>\$ 59,631</u>	<u>\$ (218)</u>

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 4 - INVESTMENT SECURITIES - CONTINUED

The unrealized losses on 3 and 1 ETFs at June 30, 2020 and 2019, respectively, were caused primarily by normal stock price fluctuations. The severity of the impairment (ranging from 4% to 7%, and minimal, respectively) is consistent with the individual variability of a stock price over a short-term period of time.

The Trust has evaluated the near-term prospects of the issuers in relation to the severity and duration of the above impairments and has the intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value. Further, the Trust has evaluated each issuer and noted no issuer with compelling evidence that any of these losses are permanent. Based on this analysis, the Trust does not consider these investments to be other-than-temporarily impaired at June 30, 2020 and 2019.

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, 2020 and 2019, reinsurance recoverable on unpaid losses and loss adjustment expenses of approximately \$1,660,000 and \$1,364,000, respectively, were associated with multiple reinsurance carriers and deducted from reserves.

The Trust has obtained the following reinsurance for the 2019/2020 and 2018/2019 program years:

The Trust obtained property-specific reinsurance with limits of up to \$100,000,000 any one loss occurrence for June 30, 2020 and \$100,000,000 any one loss occurrence for June 30, 2019.

The Trust obtained property aggregate excess of loss reinsurance with limits up to \$1,500,000 in 2019/2020 and 2018/2019, 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 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, as per the primary plans of coverage.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - REINSURANCE - CONTINUED

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 \$5,000,000 in 2019/2020 and 2018/2019.

The Trust obtained cyber liability coverage up to \$1,000,000 in 2019/2020 and 2018/2019.

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 trending of reported losses. For the years ended June 30, 2020 and 2019, the undiscounted IBNR totaled approximately \$955,000 and \$1,467,000, respectively. For the years ended June 30, 2020 and 2019, the liability for unpaid losses and loss adjustment expenses has been discounted to its net present value in the accompanying financial statements. The reserves were discounted utilizing loss payout patterns provided by management at discount rates ranging from 3.0% to 3.5%. The discounted reserves represents the present value of the net reserves. The unpaid losses and loss adjustment expenses were discounted by approximately \$65,000 at June 30, 2020 and \$109,000 at June 30, 2019, net of the effects of discounting the reinsurance recoverable on unpaid losses.

The independent actuary provided a range of losses as of June 30, 2020, of approximately \$2,063,000 to \$2,626,000 (undiscounted) The losses recorded were approximately \$2,341,000 (undiscounted) and was at the actuary's point estimate. The independent actuary provided a range of losses as of June 30, 2019, of approximately \$3,879,000 to \$4,902,000 (undiscounted). The losses recorded were approximately \$4,160,000 (undiscounted) and was approximately \$374,000 less than the actuary's point estimate. This creates further uncertainty as to the ultimate level of losses for the year ended June 30, 2019.

At June 30, 2020 and 2019, unpaid losses and loss adjustment expenses are shown net of reinsurance recoverables on unpaid losses and loss adjustment expenses of approximately \$1,441,000 and \$1,364,000, respectively. 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.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 6 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

Any increase or decrease in the estimate of ultimate incurred losses and loss adjustment expenses as compared to the prior year will result in a direct increase or decrease in the current year's operating income. Increases or decreases of this nature occur as the result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and loss adjustment expenses. In addition, there are no premium adjustments made based on loss development, as there are no retrospectively rated policies.

At June 30, 2020 and 2019, losses and loss adjustment expenses included approximately \$313,000 and \$577,000, respectively, of service fees. A portion of these fees are for loss control in addition to the claims administration fees. However, the contract does not have a breakdown of what portion are for loss control services.

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

	<u>2020</u>	<u>2019</u>
Balance at June 30,	\$ 5,372,319	\$ 4,456,174
Less reinsurance recoverable on unpaid loss and loss adjustment expenses	<u>1,363,585</u>	<u>1,001,134</u>
Net balance at June 30,	<u>4,008,734</u>	<u>3,455,040</u>
Incurred related to:		
Current period	1,610,540	4,409,318
Prior periods	81,848	246,637
Total incurred	<u>1,692,388</u>	<u>4,655,955</u>
Paid related to:		
Current period	1,074,567	2,037,137
Prior periods	2,131,808	2,065,124
Total paid	<u>3,206,375</u>	<u>4,102,261</u>
Net balance at June 30,	2,494,747	4,008,734
Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	<u>1,441,014</u>	<u>1,363,585</u>
Balance at June 30,	\$ <u>3,935,761</u>	\$ <u>5,372,319</u>

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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. At June 30, 2020 and 2019, royalty expense totaled approximately \$55,000 and \$131,000, respectively, of which approximately \$0- and \$6,000 remained payable at June 30, 2020 and 2019, respectively.

NOTE 8 - CONCENTRATIONS

All members who participate in the Trust are public school districts and vocational technical school districts within the State of Oklahoma.

The Trust maintains cash in demand deposit accounts with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits.

NOTE 9 - UNCERTAINTIES

The Trust’s investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Trust.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. The related financial impact including the impact on claims and duration cannot be reasonably estimated at this time.

NOTE 10 - ADVANCE PAYMENTS BY REINSURER

During the year ended June 30, 2019, the Trust received approximately \$784,000 from a reinsurer in advance of actual claim disbursements.

NOTE 11 - GOING CONCERN AND MANAGEMENT’S PLANS

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of OSRMT as a going concern. OSRMT has sustained decreases in net position in the past three years totaling

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 11 - GOING CONCERN AND MANAGEMENT'S PLANS - CONTINUED

approximately \$252,000, \$1,187,000 and \$1,026,000 for the years ended June 30, 2020, 2019 and 2018, respectively. The largest impact on the net position is due to a 99 percent increase in effective property reinsurance rates between the years ending June 30, 2020 and 2017. The Board of Trustees has initiated actions as detailed below to improve the overall financial position of OSRMT. Management believes that actions presently being taken to revise OSRMT's operating and financial requirements provide the opportunity for OSRMT to continue as a going concern.

As noted above, property reinsurance rates have increased significantly in recent years due to intensified frequency and severity of catastrophic weather-related events globally. Management believes this trend will continue. Management continues to work aggressively to keep reinsurance expenses as low as possible without increasing the risk retained by OSRMT. OSRMT has experienced a loss of membership over the last three years. OSRMT will aggressively market the program to increase membership and to maintain a competitive marketplace for public schools.

The Board of Trustees approved a rate increase for the year ending June 30, 2021. The Board of Trustees also approved classifying a portion of the above increase as reserve (capital) contribution which carries no associated commissions, royalties, or other fees. Additionally, management has worked to reduce administrative expenses as a percentage of contributions. For the years ending June 30, 2020 and 2019 administrative expenses have decreased from approximately 20% of contributions to 28% of contributions, respectively. Management will continue to work to lower these expenses. Going forward, it is anticipated that there will be contributions charged to address any deficit in the net position.

NOTE 12 - SUBSEQUENT EVENTS

Management considered subsequent events through December 15, 2020, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



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

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Trustees
Oklahoma Schools Risk Management Trust

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Historical Claims Development is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

December 15, 2020

Oklahoma State School Boards Association Sponsored
Oklahoma Schools Risk Management Trust

Schedule of Historical Claims Development
June 30, 2020

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
(1) Contribution and investment revenue:										
Earned contributions and investment revenue	\$ 1,288,637	\$ 4,099,170	\$ 6,850,616	\$ 9,471,424	\$ 12,065,650	\$ 13,326,913	\$ 13,014,751	\$ 14,653,113	\$ 11,238,248	\$ 7,657,871
Ceded contributions	733,377	1,740,221	3,036,243	3,890,212	5,225,151	5,725,316	5,498,984	6,476,795	5,525,807	4,721,237
Net Contribution and investment revenue	555,260	2,358,949	3,814,373	5,581,212	6,840,499	7,601,597	7,515,767	8,176,318	5,712,441	2,936,634
(2) Estimated claims and expenses - End of accident year:										
Paid and reserve, including reinsurance	572,179	1,166,706	1,298,135	3,016,754	3,330,792	4,681,107	3,443,005	3,202,461	3,832,026	1,297,085
ULAE (admin)	53,599	165,882	306,064	377,029	431,007	575,741	815,786	887,707	577,291	313,455
Net incurred	625,778	1,332,588	1,604,199	3,393,783	3,761,799	5,256,848	4,258,791	4,090,168	4,409,317	1,610,540
(3) Net paid (cumulative):										
End of accident year	439,534	1,156,733	1,219,818	2,327,484	2,381,462	3,688,856	2,712,571	2,065,843	2,037,137	1,074,567
One year later	654,024	1,364,207	2,030,094	3,649,622	3,341,830	5,018,740	4,200,268	3,154,660	3,730,352	
Two years later	654,024	1,681,808	2,218,474	3,782,282	3,557,303	5,771,663	4,419,352	3,402,103		
Three years later	654,024	1,706,323	2,282,423	3,970,891	3,617,507	6,347,070	4,597,269			
Four years later	654,024	1,839,888	2,410,684	4,003,449	3,830,998	6,366,136				
Five years later	654,024	1,938,003	2,411,782	4,015,556	3,973,107					
Six years later	653,024	1,938,003	2,411,782	4,052,304						
Seven years later	653,024	1,938,003	2,411,782							
Eight years later	653,024	1,938,023								
Nine years later	653,024									
(4) Estimated ceded claims and expenses	254,985	710,136	6,876,192	1,071,935	1,228,415	8,418,937	4,246,496	360,003	1,620,904	870,215
(5) Estimated net incurred claims and expenses:										
End of accident year	625,778	1,332,588	1,604,199	3,393,783	3,761,799	5,256,848	4,258,791	4,090,168	4,409,317	1,610,540
One year later	654,024	1,715,911	2,312,479	4,225,732	4,000,944	5,715,096	4,691,136	3,840,645	4,299,333	
Two years later	654,024	1,805,876	2,339,726	3,978,493	3,798,589	6,260,110	4,841,551	3,719,230		
Three years later	654,024	1,843,688	2,379,628	4,116,752	3,936,023	6,542,334	4,839,405			
Four years later	654,024	1,925,031	2,418,798	4,067,076	4,012,721	6,803,666				
Five years later	654,024	1,938,023	2,416,540	4,058,659	4,119,865					
Six years later	654,003	1,938,003	2,411,782	4,080,184						
Seven years later	653,024	1,938,003	2,411,782							
Eight years later	653,024	1,938,003								
Nine years later	653,024									
(6) Increase in estimated net incurred claims and expenses from end of accident year	27,246	605,415	807,583	686,401	358,066	1,546,818	580,614	(370,938)	(109,984)	-



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STATEMENT OF ACTUARIAL OPINION
OKLAHOMA SCHOOLS RISK MANAGEMENT TRUST
 As of June 30, 2020

IDENTIFICATION

I, Natasha Dimitrienko, am a Principal for Oliver Wyman Actuarial Consulting, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to perform the actuarial opinion contained herein. I am also a Fellow of the Casualty Actuarial Society.

SCOPE

Oklahoma Schools Risk Management Trust (OSRMT or the Company) is a self-insurance trust established in 2009 providing various property and casualty coverage needs of Oklahoma School Districts. Effective November 1, 2015 the State of Oklahoma requires an actuarial opinion to certify the amount and adequacy of reserves for loss and loss adjustment expenses, including amounts for Incurred But Not Reported (IBNR) claims, and the adequacy of premiums. This opinion provides an estimate of OSRMT's liability related to these exposures.

I have examined the actuarial assumptions and methods used in determining reserves listed in the table below, as shown in the Financial Statements as prepared for filing with the state regulatory officials, as of June 30, 2020.

Unpaid losses and loss adjustment expenses	3,935,761
Reinsurance recoverable on unpaid losses	(1,441,014)
Net unpaid losses and loss adjustment expenses	2,494,747

The earned member contributions (i.e. premiums) for the year ending June 30, 2020 are \$7,646,104 per Page 11 of the Financial Statements.

In forming my opinion of the loss and loss adjustment expense reserves, I relied upon data prepared by OSRMT and The Sandner Group, which is the OSRMT's administrators. I evaluated that data for reasonableness and consistency.

OPINION

In my opinion, giving consideration to the issues herein, the amounts identified above:

- A. meet the requirements of the self-insurance laws of Oklahoma;

- B. are consistent with reserves computed in accordance with accepted loss reserving standards and principles;
- C. make reasonable provision, in the aggregate, for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements. However, the premiums are inadequate as exhibited by the Net Position being \$(2,413,624) per Page 11 of the Financial Statements.

RELEVANT COMMENTS

A. Risk of Material Adverse Deviation

The greatest risks to the OSRMT's loss reserve adequacy are associated with adverse development on large claims. However, the excess reinsurance mitigates this risk. A general risk is the lack of diversification, since all policies are related to exposure in the state of Oklahoma. I believe that these and potential other risks and uncertainties, including the uncertainty related to the potential impact of the COVID-19 pandemic, could result in material adverse deviation in the loss and loss adjustment expense reserves. In consideration of the use of this opinion for purposes of solvency monitoring, I consider \$250,000 to be material for the Company, calculated as 10% of the net loss and loss adjustment expense reserves.

B. Other Disclosures

There are no additional disclosures.

C. Reinsurance

We assume that all reinsurance is valid and fully collectible.

D. IRIS Ratios

Not applicable.

E. Methods and Assumptions

There are no changes to methods or assumptions.

F. Additional Comments

Unpaid loss and loss adjustment expense reserves are subject to inherent uncertainty due to the variability of fortuitous outcomes of contingent events which may affect loss and loss adjustment expense costs. In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expenses, it is necessary to project future loss and loss adjustment expense emergence and payments. It is virtually certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that this will not occur.

I have neither examined the assets of the Company nor formed any opinion as to the value or validity of the assets. My review was limited to the items noted in the scope paragraph and did not include an analysis of any income statement or other balance sheet items. My opinion that the reserves make a reasonable provision in the aggregate for the unpaid loss and loss adjustment expense obligations of the Company presumes that these reserves are backed by valid assets and that these assets reflect suitably scheduled maturities and/or sufficient liquidity to meet cash flow requirements.

This statement of opinion is intended solely for the use of, and only to be relied upon, the Company and the State of Oklahoma.

An actuarial report and underlying work papers supporting the findings expressed in this Statement of Actuarial Opinion are being provided to the Company to be retained for a period of seven years at its administrative offices and available for regulatory examination.

Natasha Dimitrienko

Natasha Dimitrienko
Fellow, Casualty Actuarial Society
Member of the American Academy of Actuaries
Oliver Wyman Actuarial Consulting, Inc.

December 24, 2020

STATEMENT OF ACTUARIAL OPINION
OKLAHOMA SCHOOLS RISK MANAGEMENT TRUST
As of June 30, 2020

IDENTIFICATION

I, Natasha Dimitrienko, am a Principal for Oliver Wyman Actuarial Consulting, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to perform the actuarial opinion contained herein. I am also a Fellow of the Casualty Actuarial Society.

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OPINION

In my opinion, giving consideration to the issues herein, the amounts identified above:

- A. meet the requirements of the self-insurance laws of Oklahoma;

- B. are consistent with reserves computed in accordance with accepted loss reserving standards and principles;
- C. make reasonable provision, in the aggregate, for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements. However, the premiums are inadequate as exhibited by the Net Position being \$(2,413,624) per Page 11 of the Financial Statements.

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B. Other Disclosures

There are no additional disclosures.

C. Reinsurance

We assume that all reinsurance is valid and fully collectible.

D. IRIS Ratios

Not applicable.

E. Methods and Assumptions

There are no changes to methods or assumptions.

F. Additional Comments

Unpaid loss and loss adjustment expense reserves are subject to inherent uncertainty due to the variability of fortuitous outcomes of contingent events which may affect loss and loss adjustment expense costs. In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expenses, it is necessary to project future loss and loss adjustment expense emergence and payments. It is virtually certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that this will not occur.

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This statement of opinion is intended solely for the use of, and only to be relied upon, the Company and the State of Oklahoma.

An actuarial report and underlying work papers supporting the findings expressed in this Statement of Actuarial Opinion are being provided to the Company to be retained for a period of seven years at its administrative offices and available for regulatory examination.

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December 24, 2020