

**OKLAHOMA SCHOOLS PROPERTY  
AND CASUALTY COOPERATIVE**

FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION

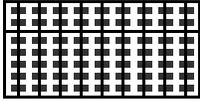
SEPTEMBER 30, 2013

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OKLAHOMA SCHOOLS PROPERTY AND  
CASUALTY COOPERATIVE

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Oklahoma Schools Property and Casualty Cooperative  
Oklahoma City, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Oklahoma Schools Property and Casualty Cooperative which comprise of the statement of financial position as of September 30, 2013, and the related statements of activities and cash flows for the fifteen month period then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. Generally Accepted Accounting Principles; 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 risk of material misstatement of the financial statements, either 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Schools Property and Casualty Cooperative as of September 30, 2013, and the results of their operations and their cash flows for the fifteen month period then ended in accordance with accounting principles generally accepted in the United States of America.

*Kend & Minney, PLLC*

March 18, 2014  
Oklahoma City, OK

**OKLAHOMA SCHOOLS PROPERTY AND CASUALTY COOPERATIVE**  
**STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2013**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 391,515
Accounts receivable	126,150
Prepaid service fees	74,795
Reinsurance recoverable	105,174
Prepaid insurance	<u>676,560</u>

**TOTAL CURRENT ASSETS** 1,374,194

**TOTAL ASSETS** \$1,374,194

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable - trade	\$ -
Unearned premium contributions	1,462,639
Reserve for claims	<u>744,276</u>

**TOTAL LIABILITIES** 2,206,915

**NET ASSETS**

Net assets – unrestricted (832,721)

**TOTAL LIABILITIES AND NET ASSETS** \$1,374,194

See accompanying notes to financial statements.

**OKLAHOMA SCHOOLS PROPERTY AND CASUALTY COOPERATIVE**

STATEMENT OF ACTIVITIES

FIFTEEN MONTHS ENDED SEPTEMBER 30, 2013

CHANGES IN UNRESTRICTED NET ASSETS:

Premium contributions	\$3,063,908
(Less) Reinsurance	<u>1,696,605</u>
Net premium contributions earned	<u>1,367,303</u>
Losses and loss adjustment expense	<u>1,456,175</u>
Net operating revenues	<u>(88,872)</u>
Other revenues	
Deductable revenues	9,349
Agent fees	<u>52,151</u>
Total other revenues	<u>61,500</u>
Total net revenues	(27,372)
Administrative Expenses:	
Third party administration	456,422
Policy service expense	247,645
Sponsorship fee	26,782
Agent fees	52,116
Legal expense	20,798
Board expense	5,098
Bank service charges	449
Miscellaneous	<u>7,081</u>
Total Administrative Expenses	<u>816,391</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>(843,763)</u>
NET ASSETS – BEGINNING OF PERIOD	<u>11,042</u>
NET ASSETS – END OF PERIOD	<u>\$ (832,721)</u>

See accompanying notes to financial statements.

**OKLAHOMA SCHOOLS PROPERTY AND CASUALTY COOPERATIVE**

STATEMENT OF CASH FLOWS

FIFTEEN MONTHS ENDED SEPTEMBER 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets \$ (843,763)  
Adjustments to reconcile changes in net assets to  
net cash provided by operating activities:

Changes in operating assets and liabilities:

Accounts receivable 2,194  
Deferred costs 5,981  
Prepaid service fees (74,795)  
Reinsurance recoverable 1,502,999  
Prepaid insurance (676,560)  
Accounts payable (192)  
Unearned premium contributions 1,311,578  
Reserves for claims (1,384,908)

NET CASH PROVIDED (USED) BY  
OPERATING ACTIVITIES

(157,466)

CASH FLOWS FROM INVESTING ACTIVITIES

-

CASH FLOWS FROM FINANCING ACTIVITIES

-

NET INCREASE (DECREASE) IN CASH  
AND CASH EQUIVALENTS

(157,466)

CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD

548,981

CASH AND CASH EQUIVALENTS - END OF PERIOD

\$ 391,515

See accompanying notes to financial statements.

**OKLAHOMA SCHOOLS PROPERTY AND CASUALTY COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*ORGANIZATION*

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

The Cooperative primarily provides property and general liability coverage to school districts in the State of Oklahoma. As of September 30, 2013 there were 44 school districts participating.

*BASIS OF PRESENTATION*

The Financial statements of the Cooperative have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

*PREMIUMS EARNED*

Premiums written are earned over the policy period in proportion to the amount of risk protection provided. Unearned premiums are that portion of premiums written which are applicable to the unexpired terms of the policy in force.

*FISCAL YEAR*

During the current period the Board of Directors elected to change the Cooperative's fiscal year-end from June 30 to September 30. As a result, they also elected to present the current financial statements for a fifteen month period.

*CASH AND CASH EQUIVALENTS*

Oklahoma Schools Property and Casualty Cooperative considers highly liquid investments with original maturities of three months or less to be cash equivalents.

*ACCOUNTS RECEIVABLE*

Oklahoma Schools Property and Casualty Cooperative considers all accounts receivable to be collectible.

**OKLAHOMA SCHOOLS PROPERTY AND CASUALTY COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*ESTIMATES*

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates. It is at least reasonably possible that the significant estimates used will change within the next year.

*INCOME TAXES*

Oklahoma Property and Casualty Cooperative is an exempt organization under Internal Revenue Service (IRS) Code Section 115. Therefore, no provision has been made in the financial statements for income taxes.

*REINSURANCE*

The Cooperative attempts to minimize member district funds held by optimizing the use of reinsurance. Amounts recoverable from reinsurers relating to paid claims and claims adjustment expenses are recorded as an asset and as a reduction in losses incurred. Estimated amounts recoverable from reinsurers that relate to the liabilities for unpaid losses and loss adjustment expenses are deducted from losses and loss adjustment expense reserves. Unearned premiums ceded are netted with direct unearned premiums.

*LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES*

Losses and loss adjustment expense reserves include reported unpaid losses using the past loss experience of the Cooperative. The Cooperative does not discount its losses and loss adjustment expense reserves.

Management believes that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred, including the effects of inflation and other societal and economic factors. The provision is necessarily an estimate and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences arising are recorded in the period in which they are determined.

**OKLAHOMA SCHOOLS PROPERTY AND CASUALTY COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

**NOTE 2 – REINSURANCE**

The Cooperative used reinsurance agreements brokered through AmWINS Special Risk Underwriters through June 30, 2013 to reduce its exposure to large losses on all types of insured events. Effective July 1, 2013, reinsurance is through Beecher Carlson and underwritten by Evanston Insurance Company. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Cooperative as direct insurer of the risks reinsured. The Cooperative does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The Cooperative remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. The current reinsurance coverage covers losses in excess of \$250,000 and up to \$750,000 for each occurrence per member.

**NOTE 3- CONTINGENCIES AND CREDIT RISK**

The Cooperative is subject to claims arising in the ordinary course of its operations. Management believes that the ultimate resolution of such matters will not materially impact its financial position or results of operations.

The Cooperative's cash is subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk of bank deposits. Oklahoma Property and Casualty Cooperative maintains cash balances at two banks. Accounts at a Federal Deposit Insurance Corporation (FDIC) member insured financial institution are insured up to \$250,000. On September 30, 2013, the Cooperative had \$98,528 in cash balances that was in excess of FDIC insured amounts.

**NOTE 4 – THIRD PARTY ADMINISTRATION**

The Cooperative is currently under a management agreement with a third party administrator to perform certain management services. Under the terms of the agreement, the TPA has the authority to supervise, administer, or cause to be administered all business functions of the Cooperative. In consideration of these services, the TPA is paid fees totaling 11% of direct written premiums paid by Cooperative policyholders. Total fees paid to the TPA were \$456,422 during the fifteen months ended September 30, 2013. During the fifteen month period, the management agreement was with Prism through December 31, 2012, and with Cannon Cochran Management Services, Inc., (CCMSI), from January 1, 2013 through September 30, 2013.

**NOTE 5– SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 18, 2014, which is the date the financial statements were available to be issued.