

Audited Financial Statements

**OKLAHOMA SCHOOLS
INSURANCE GROUP**

June 30, 2013

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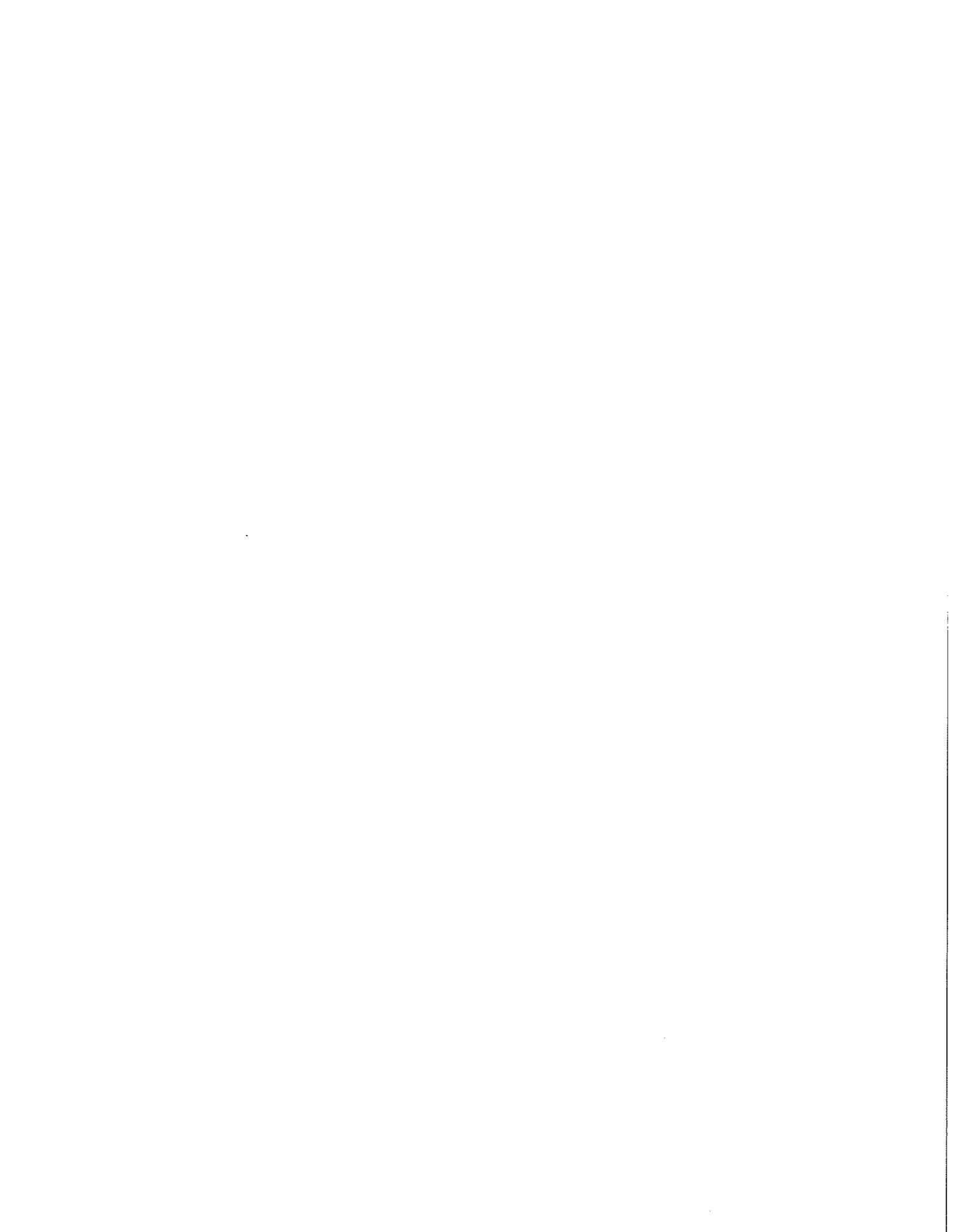
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**OKLAHOMA
INSURANCE DEPARTMENT
FINANCIAL DIVISION**



COLE + REED PC

MEMBER OF THE FIDELITY & BOND ASSOCIATION



OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

Management’s Discussion and Analysis i

AUDITED FINANCIAL STATEMENTS

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OKLAHOMA SCHOOLS INSURANCE GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the activities and financial performance of Oklahoma Schools Insurance Group ("OSIG") provides an introduction to the financial statements for the year ending June 30, 2013.

OSIG, established in July 2001, is an Inter-local Cooperation Act Agency of schools offering membership to public school districts in Oklahoma with a mission to provide quality, cost effective, risk management products and services to its member school districts.

FINANCIAL AND ACTIVITY HIGHLIGHTS

<u>Program years ending June 30,</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Member schools at beginning of year	372	440	435
Member schools lost during the year, net of additions	(49)	(68)	5
Total member schools, end of year	323	372	440
Member contributions	\$ 22,220,936	\$ 22,034,919	\$ 20,593,247
Member dividends	-	-	-

During the year ended June 30, 2013, net position increased \$4,152 and during the years ended June 30, 2012 and 2011, net position decreased \$554,799 and \$799,607, respectively, before any membership dividends. These changes are a direct result of claim experience, the benefit of excess insurance policies protecting against large claim losses, and investment income. In years ended June 30, 2013, 2012, and 2011 OSIG declared \$0 dividends to the members.

The school superintendents who serve on the OSIG Board of Trustees have played an integral part in the formation and critical decisions of OSIG. All member schools have a voice in OSIG. It is a school-owned program, run by its members and in business solely to serve Oklahoma schools.

OSIG operates under the open meeting act similar to school districts. OSIG has several committees comprised of school superintendents from the Board of Trustees and welcomes anyone who wants to serve on those committees. In addition to the property and casualty insurance program available to OSIG members, OSIG now offers on-line training programs in the areas of child safety and child sexual abuse prevention and various employment practices liability issues to its member schools. Additional services may be added in the future. As of June 30, 2013, OSIG has 323 member school districts.

OKLAHOMA SCHOOLS INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL AND ACTIVITY HIGHLIGHTS (Continued)

Board of Trustees

- Lloyd Snow - Superintendent - Sand Springs Public Schools
- Terry Davidson - Superintendent - Comanche Public Schools
- Penny Haynes - Superintendent - Allen Bowden Public Schools
- Kent Shellenberger - Superintendent - Bethany Public Schools
- Dusty Ricks - Superintendent - Mid America Technology Center
- Brad Overton - Superintendent - Cordell Schools
- Shawn Hime - Superintendent - Enid Schools

Executive Director

- David Martin

Program Administrator

- Arthur J. Gallagher Risk Management Services, Inc.
 - Wally Bryce - National Vice President Business Development
 - Jay Eshelman - Area President
 - Michelle Pruitt, CIC - Program Administrator
 - Jennifer McKenzie - Program Sr. Account Manager
 - Roger Johnson - Independent Loss Control Consultant
 - Marty Martin - Independent Loss Control Consultant

Claims Administrator

- Alternative Service Concepts, LLC
 - Richard Hall - Liability Claims Adjuster
 - Glen Bynum - Property Claims Adjuster
 - Celeste Coats - Claims Assistant

Independent Adjusters

- Liability Adjuster - Ray Kincade - Double Eagle Claims Investigation
- Property Adjuster - James Scalett - Townsend Claims Service

Accounting and Assurance Services

- Hogan and Taylor, L.L.P. (Accounting services)
- Cole & Reed, P.C. (Assurance services)

OKLAHOMA SCHOOLS INSURANCE GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL AND ACTIVITY HIGHLIGHTS (Continued)

Insurance Coverage & Carriers

Coverage	Insurance Company	AM BEST Financial Rating
Buildings & Contents	Travelers Indemnity Co.	A++ XV
Automobile Physical Damage	Travelers Indemnity Co	A++ XV
Boiler & Machinery	Travelers Prop & Casualty	A++ XV
General Liability	United Educators Ins Co	A VIII
Automobile Liability	United Educators Ins Co	A VIII
Educators Legal Liability	United Educators Ins Co	A VIII
Umbrella Liability	United Educators Ins Co	A VIII
School Violent Act Protection	Self Funded	Not Applicable
Crime and Cyber Liability	Self Funded	Not Applicable

Mission Statement

"The mission of Oklahoma Schools Insurance Group (OSIG) is to provide quality, cost effective, risk management products and services to member schools."

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of Management's Discussion and Analysis (this part), the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. These statements provide financial information on OSIG as a whole.

These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. Capital assets are capitalized and depreciated over their useful lives.

This financial report is designed to provide member school districts, creditors, and suppliers with a general overview of OSIG's finances.

OKLAHOMA SCHOOLS INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

THE STATEMENTS OF NET POSITION

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report OSIG's net position and how it has changed over the stated period. Net position, the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources, is one measure of OSIG's financial health or position. OSIG has no deferred outflows or inflows at June 30, 2013, 2012 or 2011. The following summarizes OSIG's assets, liabilities, and net position as of June 30, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Cash, cash equivalents, and investments	\$ 14,397,008	\$ 14,756,498	\$ 12,863,435
Reinsurance receivable	2,361,402	2,520,506	410,326
Other	<u>92,730</u>	<u>127,511</u>	<u>2,030,880</u>
TOTAL ASSETS	<u>\$ 16,851,140</u>	<u>\$ 17,404,515</u>	<u>\$ 15,304,641</u>
LIABILITIES			
Unpaid losses and loss adjustment expenses	\$ 8,153,912	\$ 8,231,143	\$ 6,483,377
Prepaid member contributions	1,247,619	1,690,494	814,687
Dividends payable to members	-	-	-
Other	<u>29,743</u>	<u>67,164</u>	<u>36,064</u>
TOTAL LIABILITIES	<u>\$ 9,431,274</u>	<u>\$ 9,988,801</u>	<u>\$ 7,334,128</u>
NET POSITION			
Invested in capital assets	\$ -	\$ -	\$ -
Unrestricted	<u>7,419,866</u>	<u>7,415,714</u>	<u>7,970,513</u>
TOTAL NET POSITION	<u>\$ 7,419,866</u>	<u>\$ 7,415,714</u>	<u>\$ 7,970,513</u>

OKLAHOMA SCHOOLS INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

THE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The following summarizes OSIG's Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUES			
Member contributions	\$ 22,220,936	\$ 22,034,919	\$ 20,593,247
OPERATING EXPENSES			
Losses and loss adjustment expenses	6,724,473	5,763,993	6,635,181
Insurance premiums	10,626,030	12,323,603	10,552,876
Agent commissions	2,222,094	2,203,492	2,059,325
Management fees	1,555,465	1,762,794	1,647,460
Claims administration fees	438,372	434,887	348,534
Other expenses	<u>282,862</u>	<u>298,060</u>	<u>337,739</u>
TOTAL OPERATING EXPENSES	<u>21,849,296</u>	<u>22,786,829</u>	<u>21,581,115</u>
OPERATING INCOME (LOSS)	371,640	(751,910)	(987,868)
NONOPERATING REVENUES (EXPENSES)			
Investment income	205,097	202,672	188,261
Net change in fair value of investments	<u>(572,585)</u>	<u>(5,561)</u>	<u>-</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(367,488)</u>	<u>197,111</u>	<u>188,261</u>
CHANGE IN NET POSITION			
BEFORE MEMBERSHIP DIVIDENDS	4,152	(554,799)	(799,607)
MEMBERSHIP DIVIDENDS	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	4,152	(554,799)	(799,607)
NET POSITION AT BEGINNING OF YEAR	<u>7,415,714</u>	<u>7,970,513</u>	<u>8,770,120</u>
NET POSITION AT END OF YEAR	<u>\$ 7,419,866</u>	<u>\$ 7,415,714</u>	<u>\$ 7,970,513</u>

All of OSIG's operating revenue is related to the receipt of member contributions from OSIG's member school districts. OSIG's operating expenses primarily relate to insurance premiums, claims losses and loss adjustment expenses, agent commissions, management fees, and claims administration fees. The nonoperating revenues are comprised of investment income and the net change in fair value of investments.

OKLAHOMA SCHOOLS INSURANCE GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

THE STATEMENTS OF CASH FLOWS

The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. These statements also aid in the assessment of an entity's ability to generate future cash flows, ability to meet obligations as they come due, and needs for external financing. The following summarizes OSIG's cash flows for the year ended June 30:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash provided by (used in):			
Operating activities	\$ 14,630	\$ 1,741,166	\$ (2,941,205)
Investing activities	(556,752)	(1,600,069)	5,291,373
Financing activities	<u>-</u>	<u>-</u>	<u>(1,109,980)</u>
Net increase (decrease) in cash and cash equivalents	(542,122)	141,097	1,240,188
Cash and cash equivalents at beginning of year	<u>2,917,276</u>	<u>2,776,179</u>	<u>1,535,991</u>
Cash and cash equivalents at end of year	<u>\$ 2,375,154</u>	<u>\$ 2,917,276</u>	<u>\$ 2,776,179</u>

OSIG's overall liquidity decreased during the year ended June 30, 2013 with a net decrease to cash and cash equivalents of (\$542,122). OSIG's overall liquidity increased during the years ended June 30, 2012 and 2011 with a net increase to cash and cash equivalents of \$141,097 and \$1,240,188, respectively. The cash provided by or used in operating activities is primarily related to receipts of member contributions, offset by the payment of claims, insurance premiums, and management expenses. Cash provided by or used in investing activities relates to net purchases and sales of investments, offset by interest and dividend income received. Cash used in financing activities relates to distributions paid to members.

CAPITAL ASSET AND DEBT ADMINISTRATION

OSIG had no capital asset or debt administration activity during the years ended June 30, 2013, 2012, or 2011.

Independent Auditors' Report

The Board of Trustees
Oklahoma Schools Insurance Group

Report on the Financial Statements

We have audited the accompanying statements of net position of Oklahoma Schools Insurance Group as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditors consider 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Schools Insurance Group as of June 30, 2013 and 2012, and the 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.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2013, Oklahoma Schools Insurance Group adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 who 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 supplementary 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.

Management has omitted loss development information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 1, 2013

STATEMENTS OF NET POSITION

OKLAHOMA SCHOOLS INSURANCE GROUP

	June 30	
	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,375,154	\$ 2,917,276
Investments	12,021,854	11,839,222
Reinsurance receivable	2,361,402	2,520,506
Accounts receivable	8,198	48,985
Interest receivable	47,236	35,542
Dividend receivable	23,188	28,250
Prepaid expenses	14,108	14,734
TOTAL CURRENT ASSETS	<u>16,851,140</u>	<u>17,404,515</u>
CAPITAL ASSETS, net	-	-
TOTAL ASSETS	<u>\$ 16,851,140</u>	<u>\$ 17,404,515</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Unpaid losses and loss adjustment expenses:		
Case reserves (less associated reinsurance recoverable of \$5,953,955 and \$8,611,294 at 2013 and 2012, respectively)	\$ 6,782,962	\$ 6,017,068
Accrued expenses	29,743	67,164
Prepaid member contributions	1,247,619	1,690,494
TOTAL CURRENT LIABILITIES	<u>8,060,324</u>	<u>7,774,726</u>
NON-CURRENT LIABILITIES		
Unpaid losses and loss adjustment expenses:		
Reserve for incurred losses not reported (less associated reinsurance recoverable of \$1,050 and \$204,925 at 2013 and 2012, respectively)	1,370,950	2,214,075
TOTAL LIABILITIES	<u>9,431,274</u>	<u>9,988,801</u>
NET POSITION		
Invested in capital assets	-	-
Unrestricted	7,419,866	7,415,714
TOTAL NET POSITION	<u>7,419,866</u>	<u>7,415,714</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 16,851,140</u>	<u>\$ 17,404,515</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

OKLAHOMA SCHOOLS INSURANCE GROUP

	Year Ended June 30	
	2013	2012
OPERATING REVENUES		
Member contributions	\$ 22,220,936	\$ 22,034,919
OPERATING EXPENSES		
Losses and loss adjustment expenses, net	6,724,473	5,763,993
Insurance premiums	10,626,030	12,323,603
Agent commissions	2,222,094	2,203,492
Management fees	1,555,465	1,762,794
Claims administration fees	438,372	434,887
Executive director expenses	92,846	92,826
Actuarial and accounting	83,246	67,050
Other	106,770	138,184
TOTAL OPERATING EXPENSES	<u>21,849,296</u>	<u>22,786,829</u>
OPERATING INCOME (LOSS)	371,640	(751,910)
NONOPERATING REVENUES (EXPENSES)		
Investment income	205,097	202,672
Net change in the fair value of investments	<u>(572,585)</u>	<u>(5,561)</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(367,488)</u>	<u>197,111</u>
CHANGE IN NET POSITION	4,152	(554,799)
NET POSITION AT BEGINNING OF YEAR	<u>7,415,714</u>	<u>7,970,513</u>
NET POSITION AT END OF YEAR	<u>\$ 7,419,866</u>	<u>\$ 7,415,714</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA SCHOOLS INSURANCE GROUP

	Year Ended June 30	
	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Member contributions received	\$ 20,530,442	\$ 21,220,232
Prepaid member contributions received	1,247,619	1,690,494
Cash received from reinsurers	2,293,421	17,153,537
Cash payments for insurance premiums, claims, management and administrative fees, and other operating expenses	<u>(24,056,852)</u>	<u>(38,323,097)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,630	1,741,166
INVESTING ACTIVITIES		
Sales (purchases) of investments, net	(755,217)	(1,751,966)
Interest and dividend income received	198,465	151,897
NET CASH USED IN INVESTING ACTIVITIES	<u>(556,752)</u>	<u>(1,600,069)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(542,122)	141,097
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,917,276</u>	<u>2,776,179</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,375,154</u>	<u>\$ 2,917,276</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 371,640	\$ (751,910)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Reinsurance receivable	159,104	(2,110,180)
Prepaid expenses	626	1,997,568
Accounts receivable	40,787	(48,985)
Accrued expenses	(37,421)	31,100
Prepaid member contributions	(442,875)	875,807
Unpaid losses and loss adjustment expenses - case reserves and incurred but not reported reserves	<u>(77,231)</u>	<u>1,747,766</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 14,630</u>	<u>\$ 1,741,166</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Oklahoma Schools Insurance Group ("OSIG") was established by an agreement with an effective date of July 1, 2001, and a duration of fifty years, unless sooner dissolved or extended. OSIG is an Interlocal Cooperation Act Agency of schools offering membership to public school districts in Oklahoma with a mission to provide quality, cost effective, risk management products and services to its members.

OSIG is governed by a seven member Board of Trustees elected by and from representatives of its members. Trustee responsibilities include reviewing and ensuring compliance with OSIG's policies and services as contemplated in its establishing agreement and by-laws. Title to all assets acquired by OSIG is vested in it. Each participating member pays for all costs, premiums or other fees attributable to its respective participation in any plan, policy, or service created in the establishing agreement and is responsible for its obligation under any contract entered into with OSIG. In the event of dissolution of OSIG, the funds and other assets not necessary to pay claims or the expenses of OSIG are to be distributed to the members in accordance with the by-laws as determined by the Board of Trustees.

Financial Statement Presentation: OSIG's financial statements are presented in accordance with the requirements of Governmental Accounting Standards Board ("GASB"). Under these requirements, OSIG is required to present a statement of net position classified between current and noncurrent assets and liabilities, a statement of revenues, expenses, and changes in net position, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

Basis of Accounting: For financial reporting purposes, OSIG is considered a special-purpose government entity engaged only in business-type activities. Accordingly, OSIG's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. OSIG has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. OSIG has elected to not apply FASB pronouncements issued after the applicable date.

Cash, Cash Equivalents and Other Deposits: OSIG considers all demand deposit accounts and investments with original maturities of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments: Investments, which include certificates of deposit and mortgage-backed securities obligations, are reported at fair value. Fair value is the last reported sales price at current exchange rates on a national exchange, as available, or estimated fair value as provided by the investment manager. All investments are reported as current as the investments may be converted to cash at the discretion of management and the Board of Trustees.

Allowance for Doubtful Accounts: Based on a review of the current status of existing receivables, OSIG's management determined that an allowance for doubtful accounts for reinsurance receivables at June 30, 2013 and 2012 was not necessary.

Unpaid Losses and Loss Adjustment Expenses: The provision for unpaid losses and loss adjustment expenses includes the estimated costs of investigating and settling all claims incurred as of the date of the statements of net position. Such amounts include estimates for case reserves and incurred but not reported ("IBNR") claims and are determined on the basis of claims adjusters' evaluations and independent actuarial estimates. Unpaid losses and loss adjustment expenses are reported net of amounts that are expected to be recovered from excess carriers. Unpaid losses and loss adjustment expenses are not discounted for expected investment rates of return.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by OSIG that are applicable to a future reporting period. At June 30, 2013 and 2012, OSIG has no deferred inflows of resources.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by OSIG that are applicable to a future reporting period. At June 30, 2013 and 2012, OSIG has no deferred outflows of resources.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes: OSIG is a public entity organized under the laws of the state of Oklahoma and, as such, is considered to be an instrumentality of a political subdivision exempt from federal income taxes under Internal Revenue Code Section 115.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Revenue Recognition: Insurance contracts with members are for a one year period beginning July 1 through June 30. Member contributions are determined on a member-by-member basis and are due at the beginning of each contract period and are recognized as revenue over the period of the contract. OSIG's program administrator calculates each member's contribution using base rates provided by OSIG's insurance carriers and factors to include underwriting considerations, administrative expenses, claims adjustment expenses, and agent commissions. Prepaid member contributions are amounts received for which coverage has not yet been provided.

Classification of Revenues: OSIG has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute OSIG's principal ongoing operations, such as member contributions. Nonoperating revenues consist of other revenue sources that are defined as nonoperating revenues, such as investment income.

Changes in Accounting Principles: For the year ended June 30, 2013, OSIG adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*: GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB No. 62 did not have an impact on OSIG's net position, activities or cash flows, or its financial statement presentation.

For the year ended June 30, 2013, OSIG adopted Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*: GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement required OSIG to make changes in its financial statement presentation.

For the year ended June 30, 2013, OSIG adopted Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. OSIG did not have any previously reported assets and liabilities requiring reclassification to deferred outflows/inflows of resources. As a result, the 2013 and 2012 statements of net position do not report any deferred outflows/inflows of resources.

Reclassifications: Certain amounts in the 2012 financial statements have been reclassified to conform to current year presentation, which had no impact to total net position.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of bank failure, OSIG's deposits may not be returned to it. OSIG does not have a deposit policy for custodial credit risk. As of June 30, 2013 and 2012, OSIG had fully insured cash on deposits with financial institutions of approximately \$500,000 and \$2,917,000, respectively. As of June 30, 2013, approximately \$2,046,000 of OSIG's bank balance of approximately \$2,546,000 (carrying amount of approximately \$2,375,000) was uninsured and uncollateralized and therefore exposed to custodial credit risk. As of June 30, 2012, no deposits were uninsured.

Custodial Credit Risk - Investments: For an investment, custodial credit risk is the risk that OSIG will not be able to recover the value of its investments that are in the possession of its safekeeping custodians. All of OSIG's investments are held by its agent in OSIG's name. Accordingly, no investments are subject to custodial credit risk. At June 30, 2013, OSIG held a non-negotiable certificate of deposit with an original maturity exceeding three months, totaling \$232,850. The certificate of deposit is fully insured by Federal Deposit Insurance.

Credit Risk: OSIG's mortgage-backed securities may contain provisions that they are callable before maturity at the option of the issuer with call dates of less than one year. OSIG assumes all investments will be held to their stated maturity regardless of any call or prepayment provisions. Of OSIG's bond portfolio, as of June 30, 2013 and 2012, \$0 and \$844,878, respectively, is not rated by Standard & Poor's (Farmer Mac Discount Note). The balance of the June 30, 2013 and 2012 mortgage-backed securities are in Fannie Mae, Freddie Mac, or Federal Home Loan Bank mortgage backed securities which total \$11,789,004 and \$10,994,344, respectively, and are rated AA+ by Standard & Poor's.

Fair value of investments as of June 30, 2013 and 2012 are as follows:

	2013	2012
Certificates of deposit	\$ 232,850	\$ -
Mortgage-backed securities:		
Fannie Mae	-	1,994,212
Farmer Mac Discount Note	-	844,878
Freddie Mac	-	999,123
Federal Home Loan Bank	11,789,004	8,001,009
Total	<u>\$ 12,021,854</u>	<u>\$ 11,839,222</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Maturities of investments as of June 30, 2013 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 232,850	\$ -	\$ -	\$ -	\$ 232,850
Mortgage-backed securities	11,789,004	-	-	4,176,778	7,612,226
Total	\$ 12,021,854	\$ -	\$ -	\$ 4,176,778	\$ 7,845,076

Maturities of investments as of June 30, 2012 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Mortgage-backed securities	\$ 11,839,222	\$ 844,878	\$ -	\$ 6,007,267	\$ 4,987,077
Total	\$ 11,839,222	\$ 844,878	\$ -	\$ 6,007,267	\$ 4,987,077

Interest Rate Risk: OSIG does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The majority of OSIG's investments are in mortgage-backed securities which are subject to risks associated with rising interest rates.

NOTE C--ADMINISTRATIVE AND OTHER COSTS

For the years ended June 30, 2013 and 2012, the Board of Trustees contracted with Arthur J. Gallagher Risk Management Services ("Arthur J. Gallagher") to serve as the program administrator. Under the terms of the contract with Arthur J. Gallagher, OSIG agreed to pay Arthur J. Gallagher a fee equal to 7% and 8% of member contributions for the years ended June 30, 2013 and 2012, respectively. Fees paid to Arthur J. Gallagher for the years ended June 30, 2013 and 2012 totaled approximately \$1,555,000 and \$1,763,000, respectively.

For the years ended June 30, 2013 and 2012, the Board of Trustees contracted with Alternative Service Concepts LLC ("ASC") to be the third party administrator responsible for claims processing. Fees paid to ASC for the years ended June 30, 2013 and 2012 totaled approximately \$438,000 and \$435,000, respectively. OSIG also pays a 10% commission to each member's insurance agent, which totaled approximately \$2,222,000 and \$2,203,000 for the years ended June 30, 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE C--ADMINISTRATIVE AND OTHER COSTS--Continued

Additionally, OSIG contracted with David Martin to serve as OSIG's Executive Director. Payments to David Martin for services rendered under the contract were approximately \$85,000 during the years ended June 30, 2013 and 2012.

NOTE D--UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The coverage offered by OSIG is on an occurrence basis except educators' legal liability, which is afforded to members on a claims made basis. The liability for unpaid losses and loss adjustment expenses is estimated, based upon an evaluation of reported claims and an estimate for incurred but not reported claims ("IBNR"). The IBNR reserve estimates expenses related to incidents which have already occurred, but have not yet been reported as a claim, and expected future development of claims already reported. The estimate is based on a study performed by an independent actuarial service with actual claims data as of June 30, 2013 and 2012. The accuracy of these estimates cannot be determined prior to the ultimate settlement of each claim. Accordingly, the ultimate cost of settling these claims may vary significantly from the liabilities recorded at year end, and may do so in the near term.

There is substantial liability for any additional reported claims that could be incurred by OSIG up to the maximum liability as defined under its excess insurance contracts.

At June 30, 2013 and 2012, the liability for unpaid losses and loss adjustment expenses excludes approximately \$5,955,000 and \$8,816,000, respectively, for individual and aggregate unpaid claims expected to be recoverable from excess carriers.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE D--UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES--Continued

The following represents changes in the aggregate liability for OSIG:

	Year Ended June 30, 2013		
	Case Reserves	IBNR	Total
Net unpaid losses and loss adjustment expenses at beginning of year	\$ 6,017,068	\$ 2,214,075	\$ 8,231,143
Plus associated reinsurance receivable	8,611,294	204,925	8,816,219
Gross unpaid losses and loss adjustment expense at beginning of year	14,628,362	2,419,000	17,047,362
Incurred losses and loss adjustment expenses:			
Provision for insured events of the current year	7,158,000	803,000	7,961,000
Change in provision for insured events of prior years	613,473	(1,850,000)	(1,236,527)
Net incurred losses and loss adjustment expenses	7,771,473	(1,047,000)	6,724,473
Losses covered under excess insurance contracts	(726,897)	-	(726,897)
Gross incurred losses and loss adjustment expenses	7,044,576	(1,047,000)	5,997,576
Payments:			
Losses and loss adjustment expenses attributable to insured events of the current year	3,050,569	-	3,050,569
Losses and loss adjustment expenses attributable to insured events of prior years	5,885,452	-	5,885,452
Total payments	8,936,021	-	8,936,021
Associated reinsurance receivable	5,953,955	1,050	5,955,005
Unpaid losses and loss adjustment expenses at end of year, net of reinsurance receivable	\$ 6,782,962	\$ 1,370,950	\$ 8,153,912

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE D--UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES--Continued

	Year Ended June 30, 2012		
	Case Reserves	IBNR	Total
Net unpaid losses and loss adjustment expenses at beginning of year	\$ 4,546,021	\$ 1,937,356	\$ 6,483,377
Plus associated reinsurance receivable	17,496,459	292,644	17,789,103
Gross unpaid losses and loss adjustment expense at beginning of year	22,042,480	2,230,000	24,272,480
Incurred losses and loss adjustment expenses:			
Provision for insured events of the current year	6,776,075	1,390,075	8,166,150
Change in provision for insured events of prior years	(996,157)	(1,406,000)	(2,402,157)
Net incurred losses and loss adjustment expenses	5,779,918	(15,925)	5,763,993
Losses covered under excess insurance contracts	10,085,908	204,925	10,290,833
Gross incurred losses and loss adjustment expenses	15,865,826	189,000	16,054,826
Payments:			
Losses and loss adjustment expenses attributable to insured events of the current year	2,946,928	-	2,946,928
Losses and loss adjustment expenses attributable to insured events of prior years	20,333,016	-	20,333,016
Total payments	23,279,944	-	23,279,944
Associated reinsurance receivable	8,611,294	204,925	8,816,219
Unpaid losses and loss adjustment expenses at end of year, net of reinsurance receivable	\$ 6,017,068	\$ 2,214,075	\$ 8,231,143

NOTE E--INSURANCE COVERAGE

OSIG provides its members with property damage, automobile damage, general liability, auto liability, professional liability, boiler and machinery, school violent act protection, and crime and cyber liability coverages. Claims have historically been paid with funding from the annual member contributions, with claims in excess of specified thresholds covered by stop-loss insurance coverage.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2013

NOTE E--INSURANCE COVERAGE--Continued

Thresholds for the year ended June 30, 2013 and 2012 were as follows:

2013	Per Occurrence	Aggregate
Property and automobile damage	\$ 250,000 *	N/A
Property and automobile damage - windstorm/hail	250,000 *	N/A
General, automobile, and professional liability	100,000	2,788,172
2012	Per Occurrence	Aggregate
Property and automobile damage	\$ 250,000 ^	N/A
Property and automobile damage - windstorm/hail	250,000 ^	N/A
General, automobile, and professional liability	100,000	3,416,075

* Property reinsurance per occurrence reimbursements is subject to a corridor deductible of \$2,400,000. Each claim in excess of \$250,000 first must satisfy the \$250,000 per occurrence threshold with amounts over \$250,000 applied toward the corridor deductible. No amounts are due under the stop-loss agreement until the \$2,400,000 corridor deductible is satisfied.

^ Property reinsurance per occurrence reimbursements is subject to a corridor deductible of \$2,700,000. Each claim in excess of \$250,000 first must satisfy the \$250,000 per occurrence threshold with amounts over \$250,000 applied toward the corridor deductible. No amounts are due under the stop-loss agreement until the \$2,700,000 corridor deductible is satisfied.

These stop-loss contracts do not relieve OSIG from its obligation to its members.

Stop-loss insurance was not utilized for either the boiler and machinery or crime coverage. Boiler and machinery coverage was provided through the purchase of an insurance contract with a portion of member contributions. The boiler and machinery insurance contract had a required deductible per claim of \$1,000, which was passed through to the member filing the claim. Crime coverage is self insured by OSIG, with a maximum limit on each claim of \$10,000, and deductibles per claim of \$1,000.

During the year ended June 30, 2013, there was a net reduction in recoverable claims cost of approximately \$727,000. Stop-loss insurance contracts provided approximately \$10,291,000 in recoverable claims cost for the year ended June 30, 2012.

NOTE F--COMMITMENTS AND CONTINGENCIES

As discussed in Note E, OSIG utilizes stop-loss and boiler and machinery insurance contracts to minimize its exposure on certain types of claims. Failure of the insurance carrier to honor its obligation under the insurance agreements could result in losses to OSIG. OSIG's management evaluates the financial condition of its insurance carriers to minimize its exposure to significant losses and believes the carriers presently used are financially sound and will be able to meet their contractual obligations. OSIG, through Arthur J. Gallagher, only places coverage with companies rated A-VII or better by A.M. Best, an industry standard rating company.



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