

*Audited Financial Statements*

**OKLAHOMA SCHOOLS  
INSURANCE GROUP**

**June 30, 2014**

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

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, 2014.

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>2014</u>	<u>2013</u>	<u>2012</u>
Member schools at beginning of year	323	372	440
Member schools lost during the year, net of additions	(5)	(49)	(68)
Total member schools, end of year	318	323	372
Member contributions	\$ 23,940,036	\$ 22,220,936	\$ 22,034,919
Member dividends	-	-	-

During the year ended June 30, 2014, net position increased \$3,554,959 and during the years ended June 30, 2013 and 2012, net position increased \$4,152 and decreased \$554,799, 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, 2014, 2013, and 2012 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 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, 2014, OSIG has 318 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
- Kent Shellenberger - Superintendent - Bethany Public Schools
- Dusty Ricks - Superintendent - Mid America Technology Center
- Brad Overton - Superintendent - Cordell Schools
- Shawn Hime - Superintendent - Enid Schools
- Jim Martin - Superintendent - Robin Hill 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
  - Susan Sullivan - Administrative Assistant
  - 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
  - Gabby Tweedy - Claims Assistant

##### Independent Adjusters

- Double Eagle Claims Investigation
- 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

<b>Coverage</b>	<b>Insurance Company</b>	<b>AM BEST Financial Rating</b>
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, 2014, 2013 or 2012. The following summarizes OSIG's assets, liabilities, and net position as of June 30, 2014, 2013, and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>			
Cash, cash equivalents, and investments	\$ 15,342,828	\$ 14,397,008	\$ 14,756,498
Reinsurance receivable	2,750,305	2,361,402	2,520,506
Other	<u>82,708</u>	<u>92,730</u>	<u>127,511</u>
TOTAL ASSETS	<u>\$ 18,175,841</u>	<u>\$ 16,851,140</u>	<u>\$ 17,404,515</u>
<b>LIABILITIES</b>			
Unpaid losses and loss adjustment expenses	\$ 6,327,170	\$ 8,153,912	\$ 8,231,143
Prepaid member contributions	819,335	1,247,619	1,690,494
Other	<u>54,511</u>	<u>29,743</u>	<u>67,164</u>
TOTAL LIABILITIES	<u>\$ 7,201,016</u>	<u>\$ 9,431,274</u>	<u>\$ 9,988,801</u>
<b>NET POSITION</b>			
Invested in capital assets	\$ 620	\$ -	\$ -
Unrestricted	<u>10,974,205</u>	<u>7,419,866</u>	<u>7,415,714</u>
TOTAL NET POSITION	<u>\$ 10,974,825</u>	<u>\$ 7,419,866</u>	<u>\$ 7,415,714</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, 2014, 2013, and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES			
Member contributions	\$ 23,940,036	\$ 22,220,936	\$ 22,034,919
OPERATING EXPENSES			
Losses and loss adjustment expenses	4,306,184	6,724,473	5,763,993
Insurance premiums	11,660,027	10,626,030	12,323,603
Agent commissions	2,391,631	2,222,094	2,203,492
Management fees	1,674,584	1,555,465	1,762,794
Claims administration fees	438,247	438,372	434,887
Other expenses	<u>313,704</u>	<u>282,862</u>	<u>298,060</u>
TOTAL OPERATING EXPENSES	<u>20,784,377</u>	<u>21,849,296</u>	<u>22,786,829</u>
OPERATING INCOME (LOSS)	3,155,659	371,640	(751,910)
NONOPERATING REVENUES (EXPENSES)			
Investment income	201,412	205,097	202,672
Net change in fair value of investments	<u>197,888</u>	<u>(572,585)</u>	<u>(5,561)</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>399,300</u>	<u>(367,488)</u>	<u>197,111</u>
CHANGE IN NET POSITION	3,554,959	4,152	(554,799)
NET POSITION AT BEGINNING OF YEAR	<u>7,419,866</u>	<u>7,415,714</u>	<u>7,970,513</u>
NET POSITION AT END OF YEAR	<u>\$ 10,974,825</u>	<u>\$ 7,419,866</u>	<u>\$ 7,415,714</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>2014</u>	<u>2013</u>	<u>2012</u>
CASH PROVIDED BY (USED IN):			
Operating activities	\$ 541,907	\$ 14,630	\$ 1,741,166
Financing activities	(759)	-	-
Investing activities	<u>(792,253)</u>	<u>(556,752)</u>	<u>(1,600,069)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(251,105)	(542,122)	141,097
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>2,375,154</u>	 <u>2,917,276</u>	 <u>2,776,179</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 2,124,049</u>	 <u>\$ 2,375,154</u>	 <u>\$ 2,917,276</u>

OSIG's overall liquidity decreased during the year ended June 30, 2014 with a net decrease to cash and cash equivalents of \$251,105. 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 year ended June 30, 2012 with a net increase to cash and cash equivalents of \$141,097. 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 used in financing activities relates to the purchases of capital assets. Cash provided by or used in investing activities relates to net purchases and sales of investments, offset by interest and dividend income received.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

OSIG had no significant capital asset activity and no debt administration activity during the years ended June 30, 2014, 2013, or 2012.



## 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, 2014 and 2013, 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, 2014 and 2013, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and loss development information, 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
September 16, 2014

STATEMENTS OF NET POSITION

OKLAHOMA SCHOOLS INSURANCE GROUP

	June 30	
	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,124,049	\$ 2,375,154
Investments	13,218,779	12,021,854
Reinsurance receivable	2,750,305	2,361,402
Accounts receivable	9,093	8,198
Interest receivable	46,500	47,236
Dividend receivable	18,552	23,188
Prepaid expenses	7,943	14,108
TOTAL CURRENT ASSETS	<u>18,175,221</u>	<u>16,851,140</u>
CAPITAL ASSETS, net	620	-
TOTAL ASSETS	<u>\$ 18,175,841</u>	<u>\$ 16,851,140</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Unpaid losses and loss adjustment expenses:		
Case reserves (less associated reinsurance recoverable of \$2,786,658 and \$5,953,955 at 2014 and 2013, respectively)	\$ 4,691,170	\$ 6,782,962
Accrued expenses	54,511	29,743
Prepaid member contributions	819,335	1,247,619
TOTAL CURRENT LIABILITIES	<u>5,565,016</u>	<u>8,060,324</u>
NON-CURRENT LIABILITIES		
Unpaid losses and loss adjustment expenses:		
Reserve for incurred losses not reported (less associated reinsurance recoverable of \$0 and \$1,050 at 2014 and 2013, respectively)	1,636,000	1,370,950
TOTAL LIABILITIES	<u>7,201,016</u>	<u>9,431,274</u>
NET POSITION		
Invested in capital assets	620	-
Unrestricted	10,974,205	7,419,866
TOTAL NET POSITION	<u>10,974,825</u>	<u>7,419,866</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 18,175,841</u>	<u>\$ 16,851,140</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

OKLAHOMA SCHOOLS INSURANCE GROUP

	Year Ended June 30	
	2014	2013
OPERATING REVENUES		
Member contributions	\$ 23,940,036	\$ 22,220,936
OPERATING EXPENSES		
Losses and loss adjustment expenses, net	4,306,184	6,724,473
Insurance premiums	11,660,027	10,626,030
Agent commissions	2,391,631	2,222,094
Management fees	1,674,584	1,555,465
Claims administration fees	438,247	438,372
Executive director expenses	95,117	92,846
Actuarial and accounting	82,395	83,246
Legal and professional	20,417	-
Other	115,775	106,770
TOTAL OPERATING EXPENSES	<u>20,784,377</u>	<u>21,849,296</u>
OPERATING INCOME	3,155,659	371,640
NONOPERATING REVENUES (EXPENSES)		
Investment income	201,412	205,097
Net change in the fair value of investments	197,888	(572,585)
NET NONOPERATING REVENUES (EXPENSES)	<u>399,300</u>	<u>(367,488)</u>
CHANGE IN NET POSITION	3,554,959	4,152
NET POSITION AT BEGINNING OF YEAR	<u>7,419,866</u>	<u>7,415,714</u>
NET POSITION AT END OF YEAR	<u>\$ 10,974,825</u>	<u>\$ 7,419,866</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA SCHOOLS INSURANCE GROUP

	Year Ended June 30	
	<u>2014</u>	<u>2013</u>
<b>OPERATING ACTIVITIES</b>		
Member contributions received	\$ 22,692,417	\$ 20,530,442
Prepaid member contributions received	819,335	1,247,619
Cash received from reinsurers	3,550,872	2,293,421
Cash payments for insurance premiums, claims, management and administrative fees, and other operating expenses	<u>(26,520,717)</u>	<u>(24,056,852)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	541,907	14,630
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	<u>(759)</u>	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(759)	-
<b>INVESTING ACTIVITIES</b>		
Purchases of investments, net	(999,037)	(755,217)
Interest and dividend income received	<u>206,784</u>	<u>198,465</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(792,253)</u>	<u>(556,752)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(251,105)	(542,122)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,375,154</u>	<u>2,917,276</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,124,049</u>	<u>\$ 2,375,154</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 3,155,659	\$ 371,640
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	139	-
Changes in assets and liabilities:		
Reinsurance receivable	(388,903)	159,104
Prepaid expenses	6,165	626
Accounts receivable	(895)	40,787
Accrued expenses	24,768	(37,421)
Prepaid member contributions	(428,284)	(442,875)
Unpaid losses and loss adjustment expenses - case reserves and incurred but not reported reserves	<u>(1,826,742)</u>	<u>(77,231)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 541,907</u>	<u>\$ 14,630</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

#### 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.

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.

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, 2014 and 2013 was not necessary.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

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

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, 2014 and 2013, 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, 2014 and 2013, 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

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

New Accounting Pronouncements Adopted in 2014: OSIG adopted the following new accounting pronouncements during the year ended June 30, 2014:

- Statement No. 66, *Technical Corrections - 2012; an Amendment of GASB Statements No. 10 and No. 62* ("GASB No. 66").

GASB No. 66 amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. The adoption of GASB No. 66 did not have an impact on OSIG's financial statements.

- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB No. 70").

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB No. 70 also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units and specifies information required to be disclosed by governments that extend and/or receive nonexchange financial guarantees. OSIG will only be required to apply the provisions of GASB No. 70 if it enters into such guarantee agreements, and it currently has not entered into any such agreements.

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has issued the following accounting pronouncement which will be effective to OSIG in the year ended June 30, 2015:

- Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69")

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

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, 2014 and 2013, OSIG had fully insured cash on deposits with financial institutions of approximately \$500,000. As of June 30, 2014, approximately \$1,778,000 of OSIG's bank balance of approximately \$2,278,000 (carrying amount of approximately \$2,124,000) was uninsured and uncollateralized and therefore exposed to custodial credit risk. 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.



NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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, 2014, OSIG held five non-negotiable certificates of deposit with an original maturity exceeding three months, totaling \$1,221,974. At June 30, 2013, OSIG held a non-negotiable certificate of deposit with an original maturity exceeding three months, totaling \$232,850. The certificates of deposit are 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. All investments are reported as current as the investments may be converted to cash at the discretion of management and the Board of Trustees. Of OSIG's bond portfolio, as of June 30, 2014 and 2013, \$999,294 and \$0, are invested in Federal Home Loan Discount Note mortgage-backed securities and are rated A-1+ by Standard & Poor's. The balance of the June 30, 2014 and 2013 mortgage-backed securities are in Federal Home Loan Bank mortgage-backed securities which total \$10,997,511 and \$11,789,004, respectively, and are rated AA+ by Standard & Poor's.

Fair value of investments as of June 30, 2014 and 2013 are as follows:

	2014	2013
Certificates of deposit	\$ 1,221,974	\$ 232,850
Mortgage-backed securities:		
Federal Home Loan Bank	10,997,511	11,789,004
Federal Home Loan Discount Note	999,294	-
Total	<u>\$ 13,218,779</u>	<u>\$ 12,021,854</u>

Maturities of investments as of June 30, 2014 are as follows:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 1,221,974	\$ -	\$ 1,003,374	\$ 218,600	\$ -
Mortgage-backed securities	11,996,805	-	2,999,514	5,743,034	3,254,257
Total	<u>\$ 13,218,779</u>	<u>\$ -</u>	<u>\$ 4,002,888</u>	<u>\$ 5,961,634</u>	<u>\$ 3,254,257</u>

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

Investment Type	Investment Maturities (in Years)				
	Fair Value	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	<u>\$ 12,021,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,176,778</u>	<u>\$ 7,845,076</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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, 2014 and 2013, 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% of member contributions for the years ended June 30, 2014 and 2013. Fees paid to Arthur J. Gallagher for the years ended June 30, 2014 and 2013 totaled approximately \$1,675,000 and \$1,555,000, respectively.

For the years ended June 30, 2014 and 2013, 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, 2014 and 2013 totaled approximately \$438,000. OSIG also pays a 10% commission to each member's insurance agent, which totaled approximately \$2,392,000 and \$2,222,000 for the years ended June 30, 2014 and 2013, respectively. 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 \$87,000 and \$85,000 during the years ended June 30, 2014 and 2013, respectively.

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, 2014 and 2013. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

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

At June 30, 2014 and 2013, the liability for unpaid losses and loss adjustment expenses excludes approximately \$2,787,000 and \$5,955,000, respectively, for individual and aggregate unpaid claims expected to be recoverable from excess carriers.

The following represents changes in the aggregate liability for OSIG:

	Year Ended June 30, 2014		
	Case Reserves	IBNR	Total
Net unpaid losses and loss adjustment expenses at beginning of year	\$ 6,782,962	\$ 1,370,950	\$ 8,153,912
Plus associated reinsurance receivable	<u>5,953,955</u>	<u>1,050</u>	<u>5,955,005</u>
Gross unpaid losses and loss adjustment expense at beginning of year	12,736,917	1,372,000	14,108,917
Incurred losses and loss adjustment expenses:			
Provision for insured events of the current year	4,575,000	1,220,000	5,795,000
Change in provision for insured events of prior years	<u>(532,816)</u>	<u>(956,000)</u>	<u>(1,488,816)</u>
Net incurred losses and loss adjustment expenses	4,042,184	264,000	4,306,184
Losses covered under excess insurance contracts	<u>771,428</u>	<u>-</u>	<u>771,428</u>
Gross incurred losses and loss adjustment expenses	4,813,612	264,000	5,077,612
Payments:			
Losses and loss adjustment expenses attributable to insured events of the current year	2,044,045	-	2,044,045
Losses and loss adjustment expenses attributable to insured events of prior years	<u>8,028,656</u>	<u>-</u>	<u>8,028,656</u>
Total payments	10,072,701	-	10,072,701
Associated reinsurance receivable	<u>2,786,658</u>	<u>-</u>	<u>2,786,658</u>
Unpaid losses and loss adjustment expenses at end of year, net of reinsurance receivable	<u>\$ 4,691,170</u>	<u>\$ 1,636,000</u>	<u>\$ 6,327,170</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

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

	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	<u>8,611,294</u>	<u>204,925</u>	<u>8,816,219</u>
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	<u>613,473</u>	<u>(1,850,000)</u>	<u>(1,236,527)</u>
Net incurred losses and loss adjustment expenses	7,771,473	(1,047,000)	6,724,473
Losses covered under excess insurance contracts	<u>(726,897)</u>	-	<u>(726,897)</u>
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	<u>5,885,452</u>	-	<u>5,885,452</u>
Total payments	8,936,021	-	8,936,021
Associated reinsurance receivable	<u>5,953,955</u>	<u>1,050</u>	<u>5,955,005</u>
Unpaid losses and loss adjustment expenses at end of year, net of reinsurance receivable	<u>\$ 6,782,962</u>	<u>\$ 1,370,950</u>	<u>\$ 8,153,912</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

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

The provision for unpaid losses and loss adjustment expenses decreased by approximately \$1,489,000 in 2014 due to favorable development on case basis reserves and less-than-anticipated incurred but not reported losses and loss adjustment expenses. As a result of changes in estimates of insured events in prior years, the provision for unpaid losses and loss adjustment expenses decreased by approximately \$1,237,000 in 2013 due to favorable development on case basis reserves and less-than-anticipated incurred but not reported losses and loss adjustment expenses. The liability for unpaid losses and loss adjustments expenses at June 30, 2014 and 2013 included approximately \$1,636,000 and \$1,371,000, respectively, for IBNR claims.

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.

Thresholds for the year ended June 30, 2014 and 2013 were as follows:

	Per	
<u>2014</u>	<u>Occurrence</u>	<u>Aggregate</u>
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	3,473,373
	Per	
<u>2013</u>	<u>Occurrence</u>	<u>Aggregate</u>
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

\* Property reinsurance per occurrence reimbursements is subject to a corridor deductible of \$1,400,000. 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 \$1,400,000 corridor deductible is satisfied.

^ 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. The 2013 corridor deductible was satisfied in 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

June 30, 2014

NOTE E--INSURANCE COVERAGE--Continued

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, 2014, there was a net increase in recoverable claims cost of approximately \$771,000. During the year ended June 30, 2013, there was a net reduction in recoverable claims cost of approximately \$727,000.

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.

## REQUIRED SUPPLEMENTARY INFORMATION--10-YEAR LOSS DEVELOPMENT

### OKLAHOMA SCHOOLS INSURANCE GROUP

The following table illustrates how OSIG's earned premium revenues and investment income (net of reinsurance) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by OSIG as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each of the fiscal year's earned premium revenues and investment revenues, net of costs for reinsurance.
- (2) This line shows each fiscal year's other administrative costs of OSIG including overhead and claims expense not allocable to individual claims.
- (3) This line shows OSIG's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each policy year.
- (6) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously reported.
- (7) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION--10-YEAR LOSS DEVELOPMENT--Continued

OKLAHOMA SCHOOLS INSURANCE GROUP

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
(1) Premiums and investment revenue, as originally reported at end of policy year:										
Earned	\$ 24,339,336	\$ 21,853,448	\$ 22,232,030	\$ 20,781,508	\$ 23,237,066	\$ 21,570,683	\$ 19,327,146	\$ 18,864,308	\$ 16,652,434	\$ 14,333,188
Ceded	11,660,027	10,626,030	12,323,603	10,552,876	10,594,509	8,983,518	6,981,758	7,009,487	5,959,324	5,796,507
Net earned	12,679,309	11,227,418	9,908,427	10,228,632	12,642,557	12,587,165	15,808,025	14,355,225	10,693,110	8,536,681
(2) Unallocated expenses, as originally reported at end of policy year	4,818,166	4,498,793	4,699,233	4,393,058	5,201,296	4,650,856	4,295,982	3,840,830	3,480,279	2,913,695
(3) Estimated losses and expenses, end of policy year:										
Incurred	5,919,500	8,073,854	8,778,575	23,038,065	18,060,860	19,097,079	32,273,560	8,872,777	6,070,108	4,308,289
Ceded	124,500	112,854	612,425	16,746,785	10,409,536	11,840,974	25,692,487	5,028,733	607,217	413,460
Net incurred	5,795,000	7,961,000	8,166,150	6,291,280	7,651,324	7,256,105	6,581,073	3,844,044	5,462,891	3,894,829
(4) Net paid (cumulative) as of:										
End of policy year	2,044,045	3,050,569	2,930,550	2,873,326	3,985,526	3,778,804	2,262,105	2,142,708	2,436,512	1,392,000
One year later		5,902,181	5,381,794	4,215,360	5,858,976	5,422,138	5,096,669	3,027,153	3,411,404	2,029,097
Two years later			5,949,150	4,736,117	5,780,460	6,420,644	5,854,959	3,355,204	3,884,408	2,212,123
Three years later				4,967,661	6,055,308	6,043,780	5,943,681	3,621,053	4,086,262	2,376,249
Four years later					6,059,982	6,282,073	6,004,868	3,999,022	4,310,543	2,385,381
Five years later						6,329,282	6,108,002	3,998,591	4,287,420	2,385,381
Six years later							6,108,002	4,092,956	4,303,779	2,374,300
Seven years later								4,092,956	4,323,069	2,373,993
Eight years later									4,323,069	2,374,302
Nine years later										2,374,302
(5) Reestimated ceded losses and expenses	124,500	1,111,227	2,162,228	24,262,549	13,230,756	11,018,478	23,650,099	6,028,421	696,218	556,993
(6) Reestimated net incurred losses and expenses:										
End of policy year	5,795,000	7,961,000	8,166,150	6,291,280	7,651,324	7,256,105	6,581,073	3,844,044	5,462,891	3,894,829
One year later		7,207,000	7,486,000	5,968,360	7,607,000	7,208,780	6,844,000	4,360,000	4,532,000	2,569,000
Two years later			6,700,000	5,437,360	6,399,460	7,365,000	6,715,538	3,785,494	4,696,924	2,489,384
Three years later				5,300,360	6,328,460	6,394,780	6,389,000	3,749,494	4,515,010	2,468,893
Four years later					6,187,460	6,416,780	6,235,868	4,020,385	4,377,010	2,392,993
Five years later						6,388,780	6,138,481	4,005,591	4,296,779	2,389,072
Six years later							6,108,002	4,092,956	4,308,779	2,375,892
Seven years later								4,092,956	4,323,069	2,374,993
Eight years later									4,323,069	2,374,302
Nine years later										2,374,302
(7) (Decrease) increase in estimated net incurred losses and expenses from end of policy year	-	(754,000)	(1,466,150)	(990,920)	(1,463,864)	(867,325)	(473,071)	248,912	(1,139,822)	(1,520,527)