

Oklahoma School Assurance Group

Financial Report
June 30, 2015

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RSM US LLP

Independent Auditor's Report

The Board of Trustees
Oklahoma School Assurance Group
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma School Assurance Group (OSAG), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma School Assurance Group as of June 30, 2015, and the changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Oklahoma School Assurance Group, as of and for the year ended June 30, 2014, were audited by other auditors, whose reported dated November 24, 2014, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not 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 principally 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.

RSM US LLP

Oklahoma City, Oklahoma
November 24, 2015

Oklahoma School Assurance Group

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the activities and financial performance of Oklahoma School Assurance Group (OSAG) provides an introduction to the financial statements for the years ending June 30, 2015 and 2014.

OSAG, established in June 1994, is an Interlocal Cooperation Act Agency of schools offering membership to public and vocational technical school districts in Oklahoma with the mission of providing efficient and economical workers' compensation services to its members.

Financial and Activity Highlights

Our operations for the years ended June 30, 2015 and 2014 resulted in increases to net position of approximately \$412,000 and \$390,000, respectively. These increases are a result of tight budget practices and investment management.

The school superintendents who preside over the OSAG program have played an integral part in the formation and critical decisions of OSAG. All member schools have a voice in OSAG, since this is a school owned program, run by its peers and solely in business to serve Oklahoma schools.

OSAG is an inter-local and operates under the open meeting act similar to school districts. OSAG is a member of various educational organizations and pays sponsorship to those organizations for membership. As of June 30, 2015, OSAG membership is comprised of 496 school districts.

OSAG Board of Trustees:

- John Cox (Chairman) Superintendent—Peggs School District
- Keith Weldon Superintendent—Calumet School District
- Glen Elliott Superintendent—Burlington School District
- Robert Trammell Superintendent—Snyder School District
- Tony Potts Superintendent—Stringtown Public Schools

OSAG Administrative Director:

- Jack Dryden

OSAG Program Administration:

- The Beckman Company

OSAG Claims Administration:

- Consolidated Benefits Resources

OSAG Accounting Firm

- Wedel Rahill & Associates

OSAG Auditing Firm

- RSM US LLP

OSAG Mission Statement: To provide efficient and economical workers' compensation services to Oklahoma public schools.

Overview of the Financial Statements and Financial Analysis

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 OSAG as a whole.

These statements include all assets and liabilities using the accrual basis of accounting. All of the revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

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

Oklahoma School Assurance Group

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis (Continued)

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position: The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report OSAG's net position and how it has changed. Net position, the difference between assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure OSAG's financial health or position.

The following summarizes OSAG's assets, liabilities and net position as of June 30 (OSAG has no deferred outflows or inflows):

	2015	2014	2013
Assets			
Cash and cash equivalents	\$ 9,510,083	\$ 4,845,996	\$ 4,358,290
Receivables and other assets	364,224	511,973	332,087
Investments	3,375,744	3,873,593	3,374,588
Total assets	\$ 13,250,051	\$ 9,231,562	\$ 8,064,965
Liabilities			
Due to members	\$ 541,766	\$ 214,118	\$ 152,534
Premiums received in advance	1,845,241	1,788,969	1,652,768
Other payables	765	729	1,410
Policy and contract retention reserves	5,299,388	2,076,914	1,497,407
Total liabilities	7,687,160	4,080,730	3,304,119
Net Position			
Restricted	5,492,277	61,310	54,355
Unrestricted	70,614	5,089,522	4,706,491
Total net position	5,562,891	5,150,832	4,760,846
Total liabilities and net position	\$ 13,250,051	\$ 9,231,562	\$ 8,064,965

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

	2015	2014	2013
Operating Revenues:			
Premium income	\$ 38,834,240	\$ 37,051,098	\$ 35,883,962
Operating Expenses:			
Policy holders benefits, net	5,423,429	1,758,417	973,333
Insurance premiums	27,263,123	29,156,194	28,827,234
Claims administration fees	2,532,846	2,528,778	2,500,159
Marketing and general consulting fees	2,717,793	2,712,100	2,697,763
Other expenses	529,390	547,282	493,025
Total operating expenses	38,466,581	36,702,771	35,491,514
Operating income	367,659	348,327	392,448
Net nonoperating revenue	44,400	41,659	48,714
Change in net position	412,059	389,986	441,162
Net Position, beginning of year	5,150,832	4,760,846	4,319,684
Net Position, end of year	\$ 5,562,891	\$ 5,150,832	\$ 4,760,846

Oklahoma School Assurance Group

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis (Continued)

All of OSAG's operating revenue is related to the receipt of member contributions from OSAG's member school districts. OSAG's operating expenses primarily relate to claims losses, the costs associated with insurance premiums, the costs to process claims, and the costs of marketing OSAG to new entities. The net nonoperating revenue is primarily comprised of income earned on investments and net scholarship activities.

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. This statement also aids 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 OSAG's cash flows for the years ended June 30, 2015 and 2014:

	2015	2014	2013
Cash Provided by (Used In)			
Operating activities	\$ 4,121,687	\$ 945,052	\$ 127,881
Noncapital financing activities	9,304	6,955	7,831
Investing activities	533,096	(464,301)	(218,117)
Net increase (decrease) in cash and cash equivalents	4,664,087	487,706	(82,405)
Cash and Cash Equivalents, beginning of year	4,845,996	4,358,290	4,440,695
Cash and Cash Equivalents, end of year	<u>\$ 9,510,083</u>	<u>\$ 4,845,996</u>	<u>\$ 4,358,290</u>

OSAG's overall liquidity increased during the year ended June 30, 2015, primarily due to an increase in premium income received of approximately \$1,641,000, a decrease in cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses of approximately \$1,866,000, increases in benefits paid to policy holders of approximately \$333,000, and net sales of certificates of deposit of approximately \$498,000. During the year ended June 30, 2014, overall liquidity increased primarily due to an increase in premium income received of approximately \$1,619,000 which was offset by cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses of approximately \$427,000, benefits paid to policy holders of approximately \$483,000, and net purchases of certificates of deposit of approximately \$499,000. Cash transactions in operating activities are primarily related to receipts of member contributions for the years ended June 30, 2015 and 2014 and for the prepayment of member contributions for fiscal years 2015 and 2014, offset by insurance and management disbursements of OSAG. Cash provided by investing activities relates to proceeds from the sale or maturity of investments and income earned on investments. Cash provided by investing activities relates to maturities of investments which were reinvested into the operating sweep account.

Capital Asset and Debt Administration

OSAG had no capital asset and debt administration activity during the years ended June 30, 2015, 2014, or 2013.

Economic Factors and Premium Rates

OSAG's management considered many factors when developing the annual operating budget for the fiscal year ending June 30, 2016.

The budget for the fiscal year ending June 30, 2016, was developed based upon the following key assumptions:

- Premium contributions are based upon the cost of excess insurance quoted by CompSource Mutual plus administrative costs.
- Investment income is projected to be approximately 1.0 percent of the market value of total investments.
- Reinsurance premiums are expected to remain consistent with current levels.

Oklahoma School Assurance Group

Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,510,083	\$ 4,845,996
Receivables:		
Due from CompSource Oklahoma	364,224	511,812
Investments:		
Money market mutual funds	404,183	404,183
Certificates of deposit	1,237,484	2,476,526
Other assets	151	161
Total current assets	11,516,125	8,238,678
Certificates of deposit	1,733,926	992,884
Total assets	\$ 13,250,051	\$ 9,231,562
Liabilities and Net Position		
Liabilities		
Current Liabilities		
Due to members	\$ 541,766	\$ 214,118
Premiums received in advance	1,845,241	1,788,969
Policy and contract retention reserves	1,718,674	817,467
Other payables	765	729
Total current liabilities	4,106,446	2,821,283
Policy and contract retention reserves, net of current portion	3,580,714	1,259,447
Total Liabilities	7,687,160	4,080,730
Net Position		
Unrestricted net position	5,492,277	5,089,522
Restricted expendable net position	70,614	61,310
Total net position	5,562,891	5,150,832
Total liabilities and net position	\$ 13,250,051	\$ 9,231,562

See Notes to Financial Statements.

Oklahoma School Assurance Group

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014**

	2015	2014
Operating Revenues:		
Premium income	\$ 38,834,240	\$ 37,051,098
Operating Expenses:		
Cost of stop-loss insurance	27,263,123	29,156,194
Claims administration fee	2,532,846	2,528,778
Marketing and general consulting fee	2,717,793	2,712,100
Policy holders benefits, net of stop-loss reimbursements	5,423,429	1,758,417
Professional services	296,617	296,616
Insurance expense	41,845	38,077
Membership services-seminars	13,307	1,097
Board meeting expenses	11,748	6,400
Conferences	14,168	5,157
Sponsorship fees	47,918	62,128
Postage and printing expense	10,795	18,872
Telephone	600	600
Office expenses	17,104	17,417
Safety services	28,733	54,475
Travel	11,045	14,023
Consulting fees	12,694	8,452
Other	22,816	23,968
Total operating expenses	38,466,581	36,702,771
Operating income	367,659	348,327
Nonoperating Revenues (Expenses):		
Interest income	35,096	34,704
Scholarship fundraising	16,554	14,080
Scholarship expense	(7,250)	(7,125)
Net nonoperating revenues	44,400	41,659
Change in net position	412,059	389,986
Net Position, beginning of year	5,150,832	4,760,846
Net Position, end of year	\$ 5,562,891	\$ 5,150,832

See Notes to Financial Statements.

Oklahoma School Assurance Group

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Premium income received	\$ 38,676,404	\$ 37,035,805
Cash received for claims covered by stop-loss insurance	3,723,381	4,074,245
Cash payments for stop-loss insurance, claims, marketing and general administrative fees and other operating expenses	(32,728,116)	(34,945,035)
Benefit payments to policy holders	(5,305,300)	(4,971,787)
Refunds made of remaining 2012 and 2011 reserves, respectively, to qualifying members	(244,682)	(248,176)
Net cash provided by operating activities	4,121,687	945,052
Cash Flows From Noncapital Financing Activities		
Contributions from scholarship fundraising	16,554	14,080
Cash payments on scholarship expense	(7,250)	(7,125)
Net cash provided by noncapital financing activities	9,304	6,955
Cash Flows From Investing Activities		
Net (purchases) sales of certificates of deposit	498,000	(499,005)
Interest income received	35,096	34,704
Net cash provided by (used in) investing activities	533,096	(464,301)
Change in cash and cash equivalents	4,664,087	487,706
Cash and Cash Equivalents, beginning of year	4,845,996	4,358,290
Cash and Cash Equivalents, end of year	<u>\$ 9,510,083</u>	<u>\$ 4,845,996</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 367,659	\$ 348,327
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	147,588	(180,925)
Other assets	10	1,039
Other payables	36	(681)
Refunds and rebates owed to members	327,648	61,584
Premiums received in advance	56,272	136,201
Policy and contract retention reserves	3,222,474	579,507
Net cash provided by operating activities	\$ 4,121,687	\$ 945,052

See Notes to Financial Statements.

Oklahoma School Assurance Group

Notes To Financial Statements

Note 1. Summary of Significant Accounting and Reporting Policies

Organization: Oklahoma School Assurance Group (OSAG) was established by an agreement with an effective date of June 1, 1994, and a duration of fifty years, unless sooner dissolved or extended. OSAG is an Interlocal Cooperation Act Agency of schools offering membership to Oklahoma public and vocational technical school districts with the mission of providing efficient and economical workers' compensation services to its members.

OSAG has created a Workers' Compensation Plan Fund and an Operating Fund. The purpose of the Workers' Compensation Plan Fund is to provide workers' compensation coverage through CompSoure Mutual to participating school districts in the state of Oklahoma as required by the Oklahoma Workers' Compensation Act. One basic insurance plan exists for covered employee claims of participating school districts. Covered employees include management, teachers, volunteers, and other full and part-time employees. The purpose of the Operating Fund is to provide management to the Workers' Compensation Plan Fund. For financial statement presentation purposes, the two funds have been combined with all inter-fund activity eliminated.

All affairs of OSAG are governed by a Board of Trustees elected by and from its members. Trustee responsibilities include reviewing and ensuring compliance with OSAG's policies and services as contemplated in its establishing agreement. For the years ended June 30, 2015 and 2014, the Board of Trustees contracted with Consolidated Benefits Resources to be the third party administrator responsible for claims processing and management for OSAG members, and The Beckman Company to serve as the marketing agent and professional insurance consultant. Fees payable to Consolidated Benefits Resources and The Beckman Company are determined on a member-by-member basis at the time the risk is underwritten.

Title to all assets acquired by OSAG is vested in it. In the event of termination, such property shall belong to the then members of OSAG in equal shares. Each participating school district 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 the service agreement with CompSoure Mutual. Each school district is responsible for its obligation under any contract entered into with OSAG.

Financial statement presentation: OSAG's financial statements are presented in accordance with requirements of the Governmental Accounting Standards Board (GASB) specific to enterprise fund activities. Under these requirements, OSAG 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, OSAG is considered a special-purpose government engaged only in business-type activities. Accordingly, OSAG'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.

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

Oklahoma School Assurance Group

Notes To Financial Statements

Note 1. Summary of Significant Accounting and Reporting Policies (Continued)

Revenue recognition: Insurance contracts with member school districts are for a one year period beginning July 1 through June 30. Premiums 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. Each school district's premium is based on its loss history for the last five years with the last three years having greater significance. Premiums received in advance are amounts received in excess of amounts due and for which coverage has not yet been provided.

Each premium includes an amount designated to cover administrative expenses of OSAG, which is determined annually by the Board of Trustees.

Cash, cash equivalents and other deposits: OSAG considers all demand deposit accounts and investments with original maturities of 90 days or less, excluding money market mutual funds held in OSAG's investment portfolio, to be cash equivalents. As circumstances dictate, amounts in each fund's main checking account are swept into interest-bearing accounts that are insured or collateralized by U.S. government securities. Non-negotiable certificates of deposit with original maturities of 90 days or more are classified as investments for financial reporting purposes.

Investments: OSAG reports most types of investments at fair value in the statements of net position and reports all investment income, including changes in fair value of investments, as revenue in the statements of revenues, expenses, and changes in net position.

Investments are classified as current and noncurrent consistent with the contractual maturities of investments that mature within a year and greater than a year, respectively. OSAG's investments can be liquidated and converted into cash based on management's determination; however, penalties may be incurred with an early redemption.

Accounts receivable: Accounts receivable consist of amounts due from CompSoure Mutual for claim payments in excess of specified retention levels. Accounts receivable are recorded net of estimated uncollectible amounts. OSAG determines its allowance for accounts receivable by considering a number of factors, including length of time accounts receivable are past due and the previous payment history. OSAG writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the operating expenses.

Based on historical information, coupled with a review of the current status of existing receivables, management of OSAG determined that an allowance for doubtful accounts at June 30, 2015 and 2014 was not necessary.

Policy and contract retention reserves: OSAG's liability for policy and contract retention reserves is generally limited to the prior three policy periods. Each individual member's liability is limited to its specific retention level (amount set aside each policy period to pay claims of member employees) for each policy period. Actual member claims in excess of the retention level for a policy period are covered by a stop-loss insurance agreement with CompSoure Mutual (see Note 4). Unused retention for a policy period accrues to the benefit of the specific member upon expiration of the three year period. Each member with unused retention may elect a refund or receive a credit toward the following year's premium. Subsequent qualifying claims for a policy period in which the member's unused retention was either refunded or applied as a credit is the sole liability of the member. Policy contracts under the first dollar coverage program (see Note 5) do not have policy or contract retention reserves as all claims under this program have been ceded to CompSoure Mutual.

Oklahoma School Assurance Group

Notes To Financial Statements

Note 1. Summary of Significant Accounting and Reporting Policies (Continued)

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

Net position: OSAG's net assets are classified as follows.

Unrestricted: Unrestricted net position represent resources derived from member premiums. These resources are used for transactions relating to the operations of OSAG and may be used at the discretion of the Board of Trustees to meet current expenses.

Restricted expendable net position: Restricted expendable net position are derived from funds raised for the Gene Keith Scholarship. These resources are used for a scholarship awarded annually by OSAG.

Insurance premiums: Insurance premiums, which are determined on a member-by-member basis and include contribution for fees and excess insurance premiums, are recognized as income ratably over the terms of the policies.

Income tax status: OSAG is a public entity organized under the laws of the state of Oklahoma. The income it earns in the exercise of its essential government function and which accrues to political subdivisions of the state of Oklahoma is exempt from federal income taxes under Internal Revenue Code Section 115(a).

New accounting pronouncements not yet adopted: The GASB has issued two new accounting pronouncements which will be effective in fiscal year ended June 30, 2016. A description of the new accounting pronouncements are described below:

GASB Statement No. 72, *Fair Value Measurement and Applications* (GASB No. 72) addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 76) identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

OSAG is currently evaluating the impact that these new standards will have on its financial statements.

Oklahoma School Assurance Group

Notes To Financial Statements

Note 2. Deposits and Investments

Custodial credit risk: Custodial credit risk is the risk that in the event of bank failure, OSAG will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized. Investments are exposed to custodial credit risk if they are uninsured, are not registered in OSAG's name, or are held by a counterparty or the counterparty's trust department but not in OSAG's name. OSAG does not have a written policy for custodial credit risk. However, OSAG's management requires that all of its cash deposits and investments be covered by federal deposit insurance or fully collateralized by U.S. government securities. As of June 30, 2015, OSAG had cash on deposit with financial institutions of \$9,510,083, which is either insured via federal deposit insurance, or swept into sweep accounts, which are collateralized with U.S. Treasuries. Also, as of June 30, 2015, OSAG had (A) \$2,971,410 of certificates of deposit, which are insured via federal deposit insurance, and (B) \$404,183 of money market investments, which are primarily invested in U.S. Federal Agencies and U.S. Treasury obligations and held in OSAG's name.

Credit risk: As all of OSAG's investments are insured via federal deposit insurance or invested in funds backed by U.S. obligations, none of OSAG's deposits are considered to have any credit risk.

Interest rate risk: Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. Although it does not have a written policy to address interest rate risk, OSAG's management and Board of Trustees monitor its investment performance on an ongoing basis to limit OSAG's interest rate risk. As of June 30, 2015, all of OSAG's investments were short-term liquid investments or certificate of deposits, of which \$489,000 mature in fiscal year 2016 and \$2,237,410 mature in 2017 and 2018. Based on the outstanding maturity schedule of OSAG's certificates of deposit, these investments have limited interest rate risk.

Concentration of credit risk: OSAG's investments in certificates of deposit are held with twelve separate financial institutions each holding 7 percent of total investments and are fully covered by federal deposit insurance. The money market investment holds 12 percent of total investments is invested in American Funds Money Market Fund.

Note 3. Policy and Contract Retention Reserves

Policy and contract retention reserves provide for reported claims on a case-by-case basis. Policy and contract retention reserves not required to settle claims will be returned to the member or used to reduce future premium costs of the member.

The following reconciles the changes in aggregate policy and contract retention liabilities for the years ended June 30, 2015 and 2014:

	2015	2014
Policy and contract retention reserves at beginning of year	\$ 2,076,914	\$ 1,497,407
Policy holder retention	5,423,429	1,758,417
Claims covered under stop-loss contracts	3,575,793	4,255,171
Benefit payments to policyholders	(5,305,300)	(4,971,787)
Refunds paid to qualifying members	(244,682)	(248,176)
Accrued refunds to qualifying members	(226,766)	(214,118)
Policy and contract retention reserves at end of year	<u>\$ 5,299,388</u>	<u>\$ 2,076,914</u>
Current portion of policy and contract retention reserves	<u>\$ 1,718,674</u>	<u>\$ 817,467</u>

Oklahoma School Assurance Group

Notes To Financial Statements

Note 3. Policy and Contract Retention Reserves (Continued)

At June 30, 2015 and 2014, total policy and contract retention reserves approximated the aggregate amount of unused member retention levels. The following is a summary of the liability by year:

	2015	2014
2015	\$ 3,991,854	\$ -
2014	829,942	1,109,090
2013	465,187	483,522
2012	6,508	480,443
2011	-	-
2010 and prior	5,897	3,859
	<u>\$ 5,299,388</u>	<u>\$ 2,076,914</u>

Unused retention refunded to qualifying members for the policy year ended June 30, 2012 totaled \$471,448. During the year ended June 30, 2015, qualifying members elected refunds totaling \$244,682, with the balance to be applied to premiums due July 1, 2015, or to satisfy subsequently incurred claims.

Unused retention refunded to qualifying members for the policy year ended June 30, 2011 totaled \$462,294. During the year ended June 30, 2014, qualifying members elected refunds totaling \$248,176, with the balance to be applied to premiums due July 1, 2014, or to satisfy subsequently incurred claims.

Note 4. Stop-Loss Insurance

OSAG's Workers' Compensation Plan has contracted with CompSoure Mutual to provide coverage within a policy period when an individual member's claims exceed its specific retention level. As outlined in the stop-loss agreement, each individual member's liability for claim losses is limited to his or her respective retention level for the specific policy period.

Note 5. First Dollar Coverage

First dollar coverage insurance became available to group members on July 1, 2002. Under the first dollar coverage program, premiums are calculated each year, and CompSoure Mutual places an initial amount in escrow in the name of OSAG in order to fund a claims payment account for the first dollar coverage group. OSAG, through Consolidated Benefits Resources, bills CompSoure Mutual on a monthly basis for claim payments made in the preceding month. All monies remaining in escrow and not utilized by OSAG will be returned to CompSoure Mutual upon request.

First dollar coverage groups are eligible for performance rebates based upon loss performance ratios. The loss performance ratios are calculated eighteen months after the inception date of each policy. The calculation is made by CompSoure Mutual using loss development factors and trend factors to incurred losses. If an individual member achieves a loss ratio less than 80 percent, that member is entitled to a 5 percent rebate of the premium paid. If the loss ratio is less than 70 percent, the member is entitled to a rebate of 10 percent of premium paid. Rebates will only be made to individual members if the group as a whole achieves a loss ratio less than 100 percent developed and trended above, eighteen months after inception of policy period. Rebates earned by members, which are due from CompSoure Mutual, are considered agency transactions with any amounts received by OSAG being owed to OSAG members who participated in the first dollar coverage program. In the current year, OSAG did not receive any rebates from CompSoure Mutual and no liability was recorded at June 30, 2015.

Oklahoma School Assurance Group

Notes To Financial Statements

Note 6. Contingency

The insurance agreements with CompSoure Mutual minimize losses that could arise from excess workers' compensation claims or those of an unusual nature. Although the ceding of insurance does not discharge OSAG from its primary responsibility to its member school districts, the insurance company that provides the stop-loss coverage assumes the related liability when an individual member's claims exceed its specific retention level within a policy period.

For accounting purposes, it is the practice of the original insurer, to the extent of the coverage ceded, to treat such risks as though they are not liable. Failure of the stop-loss carrier to honor its obligation could result in losses to OSAG. OSAG's management evaluates the financial condition of its carrier to minimize its exposure to significant losses and believes the carrier presently used is financially sound and will be able to meet its contractual obligations.

