

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' 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 statements of net position 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 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 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 School Assurance Group as of June 30, 2014 and 2013, 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.

Other Matter*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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 24, 2014

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, 2014 and 2013.

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, 2014 and 2013 resulted in increases to net position of approximately \$390,000 and \$441,000, 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, 2014, OSAG membership is comprised of 495 school districts.

OSAG Board of Trustees

- Michael Kellogg (Chairman) Superintendent - Kiowa School District
- Keith Weldon Superintendent - Calumet School District
- John Cox Superintendent - Peggs School District
- Glen Elliott Superintendent - Burlington School District
- Robert Trammell Superintendent - Snyder School District

FINANCIAL AND ACTIVITY HIGHLIGHTS

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

- Cole & Reed, P.C.

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.

**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):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Cash and cash equivalents	\$ 4,845,996	\$ 4,358,290	\$ 4,440,695
Receivables and other assets	511,973	332,087	279,274
Investments	<u>3,873,593</u>	<u>3,374,588</u>	<u>3,115,588</u>
Total Assets	<u>\$ 9,231,562</u>	<u>\$ 8,064,965</u>	<u>\$ 7,835,557</u>
LIABILITIES			
Due to members	\$ 214,118	\$ 152,534	\$ 143,075
Premiums received in advance	1,788,969	1,652,768	1,977,183
Other payables	729	1,410	1,264
Policy and contract claim reserves	<u>2,076,914</u>	<u>1,497,407</u>	<u>1,394,351</u>
Total Liabilities	4,080,730	3,304,119	3,515,873
NET POSITION			
Restricted	61,310	54,355	46,524
Unrestricted	<u>5,089,522</u>	<u>4,706,491</u>	<u>4,273,160</u>
Total Net Position	<u>5,150,832</u>	<u>4,760,846</u>	<u>4,319,684</u>
Total Liabilities and Net Position	<u>\$ 9,231,562</u>	<u>\$ 8,064,965</u>	<u>\$ 7,835,557</u>

**THE STATEMENTS OF NET POSITION AND THE STATEMENTS
OF REVENUES, EXPENSES AND CHANGES IN NET POSITION--Continued**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES			
Premium income	\$ 37,051,098	\$ 35,883,962	\$ 31,623,025
OPERATING EXPENSES			
Policy holders benefits, net	1,758,417	973,333	1,032,826
Insurance premiums	29,156,194	28,827,234	25,107,107
Claims administration fees	2,528,778	2,500,159	2,225,751
Marketing and general consulting fees	2,712,100	2,697,763	2,469,083
Other expenses	<u>547,282</u>	<u>493,025</u>	<u>500,824</u>
Total Operating Expenses	<u>36,702,771</u>	<u>35,491,514</u>	<u>31,335,591</u>
Operating Income	348,327	392,448	287,434
NET NONOPERATING REVENUE, net	<u>41,659</u>	<u>48,714</u>	<u>35,587</u>
CHANGE IN NET POSITION	389,986	441,162	323,021
NET POSITION AT BEGINNING OF YEAR	<u>4,760,846</u>	<u>4,319,684</u>	<u>3,996,663</u>
NET POSITION AT END OF YEAR	<u>\$ 5,150,832</u>	<u>\$ 4,760,846</u>	<u>\$ 4,319,684</u>

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, 2014 and 2013:

	2014	2013	2012
Cash provided by (used in)			
Operating activities	\$ 945,052	\$ 127,881	\$ 854,629
Noncapital financing activities	6,955	7,831	7,165
Investing activities	(464,301)	(218,117)	(968,458)
Net increase (decrease)			
in cash and cash equivalents	487,706	(82,405)	(106,664)
Cash and cash equivalents at beginning of year	4,358,290	4,440,695	4,547,359
Cash and cash equivalents at end of year	\$ 4,845,996	\$ 4,358,290	\$ 4,440,695

OSAG's overall liquidity increased during the year ended June 30, 2014, 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. During the year ended June 30, 2013, overall liquidity decreased primarily due to the net purchases of certificates of deposit of \$250,000. Cash transactions in operating activities are primarily related to receipts of member contributions for the years ended June 30, 2014 and 2013 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.

STATEMENTS OF NET POSITION

OKLAHOMA SCHOOL ASSURANCE GROUP

	June 30	
	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,845,996	\$ 4,358,290
Receivables:		
Due from CompSource Oklahoma	511,812	330,887
Investments:		
Money market mutual funds	404,183	404,183
Certificates of deposit	2,476,526	1,234,918
Other	161	1,200
TOTAL CURRENT ASSETS	<u>8,238,678</u>	<u>6,329,478</u>
 Certificates of deposit	 992,884	 1,735,487
TOTAL ASSETS	<u>9,231,562</u>	<u>8,064,965</u>
 LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Due to members	214,118	152,534
Premiums received in advance	1,788,969	1,652,768
Policy and contract claim reserves	817,467	605,283
Other payables	729	1,410
TOTAL CURRENT LIABILITIES	<u>2,821,283</u>	<u>2,411,995</u>
 Policy and contract claim reserves, net of current portion	 1,259,447	 892,124
TOTAL LIABILITIES	<u>4,080,730</u>	<u>3,304,119</u>
NET POSITION		
Unrestricted net position	5,089,522	4,706,491
Restricted expendable net position	61,310	54,355
TOTAL NET POSITION	<u>5,150,832</u>	<u>4,760,846</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 9,231,562</u>	<u>\$ 8,064,965</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

OKLAHOMA SCHOOL ASSURANCE GROUP

	Year Ended June 30	
	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Premium income	\$ 37,051,098	\$ 35,883,962
OPERATING EXPENSES		
Cost of stop-loss insurance	29,156,194	28,827,234
Claims administration fee	2,528,778	2,500,159
Marketing and general consulting fee	2,712,100	2,697,763
Policy holders benefits, net of stop-loss reimbursements	1,758,417	973,333
Professional services	296,616	279,702
Insurance expense	38,077	43,971
Membership services-seminars	1,097	2,323
Board meeting expenses	6,400	8,708
Conferences	5,157	12,220
Sponsorship fees	62,128	42,681
Postage and printing expense	18,872	12,609
Telephone	600	1,036
Office expenses	17,417	18,640
Safety services	54,475	26,759
Travel	14,023	13,410
Consulting fees	8,452	8,198
Other	23,968	22,768
TOTAL OPERATING EXPENSES	<u>36,702,771</u>	<u>35,491,514</u>
OPERATING INCOME	348,327	392,448
NONOPERATING REVENUES (EXPENSES)		
Interest income	34,704	40,883
Scholarship fundraising	14,080	13,369
Scholarship expense	(7,125)	(5,538)
NET NONOPERATING REVENUES	<u>41,659</u>	<u>48,714</u>
CHANGE IN NET POSITION	<u>389,986</u>	<u>441,162</u>
NET POSITION AT BEGINNING OF YEAR	<u>4,760,846</u>	<u>4,319,684</u>
NET POSITION AT END OF YEAR	<u>\$ 5,150,832</u>	<u>\$ 4,760,846</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA SCHOOL ASSURANCE GROUP

	Year Ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium income received	\$ 37,035,805	\$ 35,416,471
Cash received for claims covered by stop-loss insurance	4,074,245	3,904,875
Cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses	(34,945,035)	(34,518,035)
Benefit payments to policy holders	(4,971,787)	(4,489,023)
Refunds made of remaining 2011 and 2010 reserves, respectively, to qualifying members	(248,176)	(186,407)
NET CASH PROVIDED BY OPERATING ACTIVITIES	945,052	127,881
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions from scholarship fundraising	14,080	13,369
Cash payments on scholarship expense	(7,125)	(5,538)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	6,955	7,831
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of certificates of deposit	(499,005)	(259,000)
Interest income received	34,704	40,883
NET CASH USED IN INVESTING ACTIVITIES	(464,301)	(218,117)
CHANGE IN CASH AND CASH EQUIVALENTS	487,706	(82,405)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,358,290	4,440,695
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,845,996</u>	<u>\$ 4,358,290</u>

STATEMENTS OF CASH FLOWS--Continued

OKLAHOMA SCHOOL ASSURANCE GROUP

	Year Ended June 30	
	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 348,327	\$ 392,448
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(180,925)	(52,813)
Other assets	1,039	-
Other payables	(681)	146
Refunds and rebates owed to members	61,584	9,459
Premiums received in advance	136,201	(324,415)
Policy and contract claim reserves	<u>579,507</u>	<u>103,056</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 945,052</u>	<u>\$ 127,881</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

NOTE A--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 CompSource Oklahoma 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, 2014 and 2013, 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 CompSource Oklahoma. Each school district is responsible for its obligation under any contract entered into with OSAG.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES--
Continued

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.

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 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 CompSource Oklahoma 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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES--
Continued

Accounts Receivable--Continued: 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, 2014 and 2013 was not necessary.

Policy and Contract Claim Reserves: OSAG's liability for policy and contract claim 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 CompSource Oklahoma (see Note D). 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 E) do not have policy or contract claim reserves as all claims under this program have been ceded to CompSource Oklahoma.

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.

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.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by OSAG that are applicable to a future reporting period. At June 30, 2014 and 2013, OSAG has no deferred inflows of resources.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by OSAG that are applicable to a future reporting period. At June 30, 2014 and 2013, OSAG has no deferred outflows of resources.

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).

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

NOTE B--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, 2014, OSAG had cash on deposit with financial institutions of \$4,845,996, 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, 2014, OSAG had (A) \$3,469,410 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.

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, 2014, all of OSAG's investments were short-term liquid investments or certificate of deposits, of which \$2,476,526 mature in fiscal year 2015 and \$992,884 mature in 2016. Based on the outstanding maturity schedule of OSAG's certificates of deposit, these investments have limited interest rate risk.

NOTE C--POLICY AND CONTRACT CLAIM RESERVES

Policy and contract claim reserves provide for reported claims on a case-by-case basis and a provision for incurred but not reported claims. The liability is based on the estimated ultimate cost of settling all claims, including the effects of general economic conditions. 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 liability recorded and may do so in the near term.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

NOTE C--POLICY AND CONTRACT CLAIM RESERVES--Continued

The following reconciles the changes in aggregate claims liabilities for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Policy and contract claims reserves at beginning of year	\$ 1,497,407	\$ 1,394,351
Policy holder retention	1,758,417	973,333
Claims covered under stop-loss contracts	4,255,171	3,957,687
Benefit payments to policyholders	(4,971,787)	(4,489,023)
Refunds paid to qualifying members	(248,176)	(186,407)
Accrued refunds to qualifying members	<u>(214,118)</u>	<u>(152,534)</u>
Policy and contract claims reserves at end of year	<u>\$ 2,076,914</u>	<u>\$ 1,497,407</u>
Current portion of policy and contract claim reserves	<u>\$ 817,467</u>	<u>\$ 605,283</u>

At June 30, 2014 and 2013, total policy and contract claim reserves approximated the aggregate amount of unused member retention levels. The following is a summary of the liability by year:

	<u>2014</u>	<u>2013</u>
2014	\$ 1,109,090	\$ -
2013	483,522	554,692
2012	480,443	480,554
2011	-	461,626
2010 and prior	<u>3,859</u>	<u>535</u>
	<u>\$ 2,076,914</u>	<u>\$ 1,497,407</u>

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.

Unused retention refunded to qualifying members for the policy year ended June 30, 2010 totaled \$338,941. During the year ended June 30, 2013, qualifying members elected refunds totaling \$186,407, with the balance to be applied to premiums due July 1, 2013, or to satisfy subsequently incurred claims.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

NOTE D--STOP-LOSS INSURANCE

OSAG's Workers' Compensation Plan has contracted with CompSource Oklahoma 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 E--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 CompSource Oklahoma 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 CompSource Oklahoma 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 CompSource Oklahoma 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 CompSource Oklahoma using loss development factors and trend factors to incurred losses. If an individual member achieves a loss ratio less than 80%, that member is entitled to a 5% rebate of the premium paid. If the loss ratio is less than 70%, the member is entitled to a rebate of 10% of premium paid. Rebates will only be made to individual members if the group as a whole achieves a loss ratio less than 100% developed and trended above, eighteen months after inception of policy period. Rebates earned by members, which are due from CompSource Oklahoma, 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 CompSource Oklahoma and no liability was recorded at June 30, 2014.

NOTE F--CONTINGENCY

The insurance agreements with CompSource Oklahoma 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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA SCHOOL ASSURANCE GROUP

June 30, 2014

NOTE F--CONTINGENCY--Continued

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.