

Oklahoma School Assurance Group

Financial Report
June 30, 2016 and 2015

Contents

Independent auditor's report	1-2
Management's discussion and analysis	3-6
Financial statements	
Statements of net position	7
Statements of revenues, expenses and changes in net position	8
Statements of cash flows	9
Notes to financial statements	10-16



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 statements of net position as of June 30, 2016 and 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016 and 2015, 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.

RSM US LLP

Oklahoma City, Oklahoma
November 28, 2016

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, 2016 and 2015.

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, 2016 and 2015 resulted in increases to net position of approximately \$402,000 and \$412,000, 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, 2016, OSAG membership is comprised of 499 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):

	2016	2015	2014
Assets:			
Cash and cash equivalents	\$ 6,049,248	\$ 9,510,083	\$ 4,845,996
Receivables and other assets	682,353	364,224	511,973
Investments	10,090,616	3,375,744	3,873,593
Total assets	\$ 16,822,217	\$ 13,250,051	\$ 9,231,562
Liabilities:			
Due to members	\$ 474,142	\$ 541,766	\$ 214,118
Premiums received in advance	1,284,400	1,845,241	1,788,969
Other payables	584	765	729
Policy and contract retention reserves	9,098,547	5,299,388	2,076,914
Total liabilities	10,857,673	7,687,160	4,080,730
Net position:			
Unrestricted	5,884,427	5,492,277	61,310
Restricted	80,117	70,614	5,089,522
Total net position	5,964,544	5,562,891	5,150,832
Total liabilities and net position	\$ 16,822,217	\$ 13,250,051	\$ 9,231,562

Oklahoma School Assurance Group

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis (Continued)

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

	2016	2015	2014
Operating revenues:			
Premium income	\$ 38,659,783	\$ 38,834,240	\$ 37,051,098
Operating expenses:			
Policy holders benefits, net	8,499,860	5,423,429	1,758,417
Insurance premiums	24,436,021	27,263,123	29,156,194
Claims administration fees	2,401,669	2,532,846	2,528,778
Marketing and general consulting fees	2,471,642	2,717,793	2,712,100
Other expenses	521,612	529,390	547,282
Total operating expenses	<u>38,330,804</u>	<u>38,466,581</u>	<u>36,702,771</u>
Operating income	328,979	367,659	348,327
Net nonoperating revenue	<u>72,674</u>	<u>44,400</u>	<u>41,659</u>
Change in net position	401,653	412,059	389,986
Net position, beginning of year	5,562,891	5,150,832	4,760,846
Net position, end of year	<u>\$ 5,964,544</u>	<u>\$ 5,562,891</u>	<u>\$ 5,150,832</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:

	2016	2015	2014
Cash provided by (used in):			
Operating activities	\$ 3,181,514	\$ 4,121,687	\$ 945,052
Noncapital financing activities	9,503	9,304	6,955
Investing activities	<u>(6,651,852)</u>	<u>533,096</u>	<u>(464,301)</u>
Net increase (decrease) in cash and cash equivalents	(3,460,835)	4,664,087	487,706
Cash and cash equivalents, beginning of year	9,510,083	4,845,996	4,358,290
Cash and cash equivalents, end of year	<u>\$ 6,049,248</u>	<u>\$ 9,510,083</u>	<u>\$ 4,845,996</u>

Oklahoma School Assurance Group

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis (Continued)

OSAG's overall liquidity decreased during the year ended June 30, 2016, primarily due to an increase in investments held. OSAG purchased additional investments during the year in order to earn a better return on funds held. Cash from operations decreased slightly from prior year due to higher benefit payments to policy holders which was offset by lower cost of stop loss insurance. During the year ended June 30, 2015, overall liquidity increased 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. Cash transactions in operating activities are primarily related to receipts of member contributions for the years ended June 30, 2016 and 2015 and for the prepayment of member contributions for fiscal years 2016 and 2015, 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 other investments.

Capital Asset and Debt Administration

OSAG had no capital asset and debt administration activity during the years ended June 30, 2016, 2015, or 2014.

Economic Factors and Premium Rates

OSAG's management considered many factors when developing the annual operating budget for the fiscal year ending June 30, 2017.

The budget for the fiscal year ending June 30, 2017, 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 0.91 percent of the market value of total investments.
- Reinsurance premiums are expected to decrease approximately 27 percent from current levels.

Oklahoma School Assurance Group

Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,049,248	\$ 9,510,083
Receivables:		
Due from CompSource Oklahoma	682,197	364,224
Investments	8,196,065	1,641,667
Other assets	156	151
Total current assets	14,927,666	11,516,125
Investments	1,894,551	1,733,926
Total assets	\$ 16,822,217	\$ 13,250,051
Liabilities and Net Position		
Current liabilities:		
Due to members	\$ 474,142	\$ 541,766
Premiums received in advance	1,284,400	1,845,241
Policy and contract retention reserves	3,179,050	1,718,674
Other payables	584	765
Total current liabilities	4,938,176	4,106,446
Policy and contract retention reserves, net of current portion	5,919,497	3,580,714
Total liabilities	10,857,673	7,687,160
Net position:		
Unrestricted net position	5,884,427	5,492,277
Restricted expendable net position	80,117	70,614
Total net position	5,964,544	5,562,891
Total liabilities and net position	\$ 16,822,217	\$ 13,250,051

See notes to financial statements.

Oklahoma School Assurance Group

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015**

	2016	2015
Operating revenues:		
Premium income	\$ 38,659,783	\$ 38,834,240
Operating expenses:		
Cost of stop-loss insurance	24,436,021	27,263,123
Claims administration fee	2,401,669	2,532,846
Marketing and general consulting fee	2,471,642	2,717,793
Policy holders benefits, net of stop-loss reimbursements	8,499,860	5,423,429
Professional services	305,256	296,617
Insurance expense	42,096	41,845
Membership services-seminars	17,126	13,307
Board meeting expenses	909	11,748
Conferences	525	14,168
Sponsorship fees	60,836	47,918
Postage and printing expense	16,464	10,795
Telephone	1,739	600
Office expenses	23,971	17,104
Safety services	-	28,733
Travel	3,778	11,045
Consulting fees	10,935	12,694
Other	37,977	22,816
Total operating expenses	38,330,804	38,466,581
Operating income	328,979	367,659
Nonoperating revenues (expenses):		
Investment income	63,171	35,096
Scholarship fundraising	17,776	16,554
Scholarship expense	(8,273)	(7,250)
Net nonoperating revenues	72,674	44,400
Change in net position	401,653	412,059
Net position, beginning of year	5,562,891	5,150,832
Net position, end of year	\$ 5,964,544	\$ 5,562,891

See notes to financial statements.

Oklahoma School Assurance Group

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Premium income received	\$ 37,822,171	\$ 38,676,404
Cash received for claims covered by stop-loss insurance	5,303,689	3,723,381
Cash payments for stop-loss insurance, claims, marketing and general administrative fees and other operating expenses	(29,831,125)	(32,728,116)
Benefit payments to policy holders	(9,851,007)	(5,305,300)
Refunds made of remaining 2013 and 2012 reserves, respectively, to qualifying members	(262,214)	(244,682)
Net cash provided by operating activities	3,181,514	4,121,687
Cash flows from noncapital financing activities:		
Contributions from scholarship fundraising	17,776	16,554
Cash payments on scholarship expense	(8,273)	(7,250)
Net cash provided by noncapital financing activities	9,503	9,304
Cash flows from investing activities:		
Proceeds from sales and maturity of investments	1,645,583	3,224,457
Purchases of investments	(8,331,784)	(2,726,457)
Investment income received	34,349	35,096
Net cash provided by (used in) investing activities	(6,651,852)	533,096
Change in cash and cash equivalents	(3,460,835)	4,664,087
Cash and cash equivalents, beginning of year	9,510,083	4,845,996
Cash and cash equivalents, end of year	\$ 6,049,248	\$ 9,510,083
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 328,979	\$ 367,659
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(317,973)	147,588
Other assets	(5)	10
Other payables	(181)	36
Refunds and rebates owed to members	(67,624)	327,648
Premiums received in advance	(560,841)	56,272
Policy and contract retention reserves	3,799,159	3,222,474
Net cash provided by operating activities	\$ 3,181,514	\$ 4,121,687
Supplemental information:		
Net unrealized investment gains on investments	\$ 39,106	\$ -

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 CompSource Mutual Insurance Company (CompSource 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, 2016 and 2015, 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 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. All investments with no stated maturity are considered current. 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 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, 2016 and 2015 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 CompSource 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 CompSource 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 administrative 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).

Recently adopted accounting pronouncements: Effective July 1, 2015, the OSAG implemented GASB Statement No. 72, *Fair Value Measurement and Application* – GASB No. 72 was issued in February 2015, and addresses issues related to fair value measurements. 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. See Note 2 for expanded disclosures.

Effective July 1, 2015, the OSAG implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – GASB No. 76 was issued in June 2015, and was issued to identify 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*.

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, 2016, OSAG had cash on deposit with financial institutions of approximately \$6,039,000, 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, 2016, OSAG had approximately (A) \$3,133,000 of certificates of deposit, which are insured via federal deposit insurance, (B) \$5,875,000 of U.S. Government securities-based money market mutual funds, which are primarily invested in U.S. Federal Agencies and U.S. Treasury obligations and held in OSAG's name, and (C) \$1,012,000 in a pooled investment program, which is primarily invested in United States Government agencies or sponsored entities. Approximately \$71,000 in funds held for the Gene Keith Scholarship are invested in exchange traded funds based on an allocation approved by the board with an additional \$10,000 cash on deposit with financial institutions covered by federal deposit insurance or fully collateralized by U.S. government securities.

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, 2016, all of OSAG's investments were short-term liquid investments or certificate of deposits, of which \$1,238,500 mature in fiscal year 2017 and \$492,526 mature in fiscal year 2018.

Concentration of credit risk: OSAG's investments in certificates of deposit are held with thirteen separate financial institutions holding a total of approximately 31 percent of total investments and are fully covered by federal deposit insurance. OSAG has no individual investments in any issuer exceeding 5 percent of total investments.

Fair value hierarchy: OSAG categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, and other market corroborated inputs; Level 3 inputs are significant unobservable inputs. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Oklahoma School Assurance Group

Notes To Financial Statements

Note 2. Deposits and Investments (Continued)

Investments at fair value consist of the following at June 30:

	2016			Total
	Level 1	Level 2	Level 3	
Certificates of deposit (brokered)	\$ -	\$ 1,402,041	\$ -	\$ 1,402,041
Mutual funds	70,978	-	-	70,978
U.S. Government securities-based mutual funds	5,874,663	-	-	5,874,663
Total investments by fair value level	<u>\$ 5,945,641</u>	<u>\$ 1,402,041</u>	<u>\$ -</u>	7,347,682
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				1,730,010
Investments measured at net asset value (NAV):				
Pooled investment funds				<u>1,012,924</u>
Total investments				<u>\$ 10,090,616</u>
	2015			Total
	Level 1	Level 2	Level 3	
Money market fund	<u>\$ 404,167</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 404,167
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				<u>2,971,410</u>
Total investments				<u>\$ 3,375,577</u>

Money market, mutual funds and U.S. Government securities based mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Certificates of deposits (brokered) are classified in Level 2 of the fair value hierarchy are valued using observable inputs from active or inactive markets for the exact or similar securities. Certificates of deposits (non-brokered) are measured at amortized cost. Pooled investment funds consist solely of one fund invested in an array of direct obligation bonds of the United States Government, its agencies, instrumentalities or sponsored entities. This fund is valued using the net asset value (NAV) of the pool. OSAG has no unfunded commitments related to this investment type. Shares are redeemable weekly at the NAV at the time of redemption.

Oklahoma School Assurance Group

Notes To Financial Statements

Note 2. Deposits and Investments (Continued)

Maturities of investments as of June 30, 2016 and 2015 are as follows:

Investment Type	2016		
	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
Certificates of deposit	\$ 3,132,051	\$ 1,237,500	\$ 1,894,551

Investment Type	2015		
	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
Certificates of deposit	\$ 2,971,426	\$ 1,237,500	\$ 1,733,926

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, 2016 and 2015:

	2016	2015
Policy and contract retention reserves at beginning of year	\$ 5,299,388	\$ 2,076,914
Policy holder retention	8,499,860	5,423,429
Claims covered under stop-loss contracts	5,621,662	3,575,793
Benefit payments to policyholders	(9,851,007)	(5,305,300)
Refunds paid to qualifying members	(262,214)	(244,682)
Accrued refunds to qualifying members	(209,142)	(226,766)
Policy and contract retention reserves at end of year	\$ 9,098,547	\$ 5,299,388
Current portion of policy and contract retention reserves	\$ 3,179,050	\$ 1,718,674

At June 30, 2016 and 2015, 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:

	2016	2015
2016	\$ 5,684,813	\$ -
2015	2,616,486	3,991,854
2014	793,190	829,942
2013	-	465,187
2012	2,175	6,508
2011 and prior	1,883	5,897
	\$ 9,098,547	\$ 5,299,388

Oklahoma School Assurance Group

Notes To Financial Statements

Note 3. Policy and Contract Retention Reserves (Continued)

Unused retention refunded to qualifying members for the policy year ended June 30, 2013 totaled \$471,357. During the year ended June 30, 2016, qualifying members elected refunds totaling \$262,214, with the balance to be applied to premiums due July 1, 2016, or to satisfy subsequently incurred claims.

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.

Note 4. Stop-Loss Insurance

OSAG's Workers' Compensation Plan has contracted with CompSource 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 CompSource 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 CompSource 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 CompSource 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 CompSource 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 CompSource 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 CompSource Mutual and no liability was recorded at June 30, 2016. First dollar coverage was discontinued for all new policies effective July 1, 2015.

Note 6. Contingency

The insurance agreements with CompSource 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.

