

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**OKLAHOMA SCHOOLS PROPERTY
AND CASUALTY COOPERATIVE**

SEPTEMBER 30, 2016 and 2015

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Shores, Tagman, Butler & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Schools Property and Casualty Cooperative

We have audited the accompanying financial statements of the Oklahoma Schools Property and Casualty Cooperative (the "Cooperative") which comprise the Statements of Financial Position as of September 30, 2016 and 2015, and the related Statements of Operations and Changes in Fund Balance and of Cash Flows for the years then ended, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative'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 Cooperative'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 opinions.

INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Schools Property and Casualty Cooperative as of September 30, 2016 and 2015, and the results of its operations and changes in fund balance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming the Cooperative will continue as a going concern. As discussed in the Notes to Financial Statements, the Cooperative has ceased writing policies effective May 15, 2014. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

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

Shawn Tsjman, Butler & Company, P.A.

December 16, 2016

Oklahoma Schools Property and Casualty Cooperative

STATEMENTS OF FINANCIAL POSITION

ASSETS

	September 30,	
	2016	2015
Cash and cash equivalents	\$ 28,919	\$ 374,524
Total cash and cash equivalents	<u>28,919</u>	<u>374,524</u>
Supplemental contributions receivable	1,419	317,431
Accounts receivable	<u>--</u>	<u>19,957</u>
	\$ <u>30,338</u>	\$ <u>711,912</u>

LIABILITIES AND FUND BALANCE

Unpaid losses and loss adjustment expenses		
Gross	\$ --	\$ 374,737
Reinsurance recoverable on unpaid losses	<u>--</u>	<u>--</u>
Net	<u>--</u>	<u>374,737</u>
Miscellaneous liabilities	494	5,003
Accrued collection expenses	<u>--</u>	<u>171,637</u>
	<u>494</u>	<u>176,640</u>
Fund balance	<u>29,844</u>	<u>160,535</u>
	\$ <u>30,338</u>	\$ <u>711,912</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Property and Casualty Cooperative

STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCE

	Years Ended September 30,	
	2016	2015
REVENUES		
Other income	\$ 51,365	\$ 79,114
	<u>51,365</u>	<u>79,114</u>
EXPENSES		
Losses and loss adjustment expenses	14,682	(26,975)
Program administration fees	24,000	24,000
Other expenses	92,009	24,866
	<u>130,691</u>	<u>21,891</u>
NET (LOSS) INCOME BEFORE SUPPLEMENTAL CONTRIBUTIONS	(79,326)	57,223
SUPPLEMENTAL CONTRIBUTIONS	(<u>51,365</u>)	(<u>79,114</u>)
NET LOSS AFTER SUPPLEMENTAL CONTRIBUTIONS	(130,691)	(21,891)
Fund balance - beginning of year	<u>160,535</u>	<u>182,426</u>
FUND BALANCE - END OF YEAR	\$ <u>29,844</u>	\$ <u>160,535</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Property and Casualty Cooperative

STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (130,691)	\$(21,891)
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Supplemental contributions receivable	316,012	609,739
Accounts receivable	19,957	(8,576)
Increase (decrease) in liabilities:		
Unpaid losses and loss adjustment expenses	(374,737)	(373,931)
Miscellaneous liabilities	(4,509)	539
Accrued collection expenses	(171,637)	(3,363)
NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES	<u>(345,605)</u>	<u>202,517</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(345,605)	202,517
Cash and cash equivalents at beginning of year	<u>374,524</u>	<u>172,007</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>28,919</u>	\$ <u>374,524</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

NOTE 1 - ORGANIZATION OF TRUST

Oklahoma Schools Property and Casualty Cooperative (the “Cooperative”) was formed and received a letter of approval from the Office of the Attorney General, State of Oklahoma April 1, 2010. The Cooperative is classified as an Interlocal Cooperation Entity.

The Cooperative primarily provides property and general liability coverage to school districts in the State of Oklahoma. All policies were cancelled as of May 15, 2014. See further discussion in Note 9.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and reporting policies of the Cooperative conform to accounting principles generally accepted in the United States of America and prevailing practices within the insurance industry. Except as otherwise noted, the Cooperative carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash and cash equivalents include only cash in checking, savings or money market accounts, and other depository instruments with maturities of three months or less at the time of acquisition.

Accounts Receivable

Contributions receivable are stated at net invoice amounts. Collectibility of balances are reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. Management has determined amounts are collectible and no allowance for doubtful accounts is required.

Contributions

Contributions are earned on a straight-line basis over the coverage period.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses includes the estimated costs of investigating and settling all claims incurred as of the balance sheet date as well as an estimate for claims that occurred as of the balance sheet date but have not been reported. Such amounts are determined on the basis of an evaluation of the Cooperative's losses as prepared by an independent actuary for the year ended September 30, 2015. The liability for unpaid losses and loss adjustment expenses has not been discounted for the time value of money. There is no liability for unpaid losses and loss adjustment expenses as of September 30, 2016, as the Cooperative executed a loss portfolio transfer and assumption agreement. The reserves assumed are based on an evaluation of the Cooperative's losses as prepared by an independent claims auditor. See Notes 4 and 9 for further discussion.

Income Tax Exemption

The Oklahoma Schools Property and Casualty Cooperative is a governmental entity and, thus, is exempt from Federal income taxes under Internal Revenue Code Section 115.

Management 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 the reported amounts in the Statements of Financial Position and Statements of Operations and Changes in Fund Balance, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

NOTE 3 - REINSURANCE

The Cooperative used reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance contracts do not relieve the Cooperative from its obligations to members. Failure of the reinsurance carriers to honor their obligations could result in losses to the Cooperative. Accordingly, the Cooperative evaluates the financial condition of their reinsurance carriers to minimize its exposure to significant losses from reinsurer insolvency.

Property reinsurance coverage exists that covers losses in excess of \$150,000 and up to \$150,000,000 for each occurrence per member for the 2010 through 2014 program years.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2016 and 2015

NOTE 3 - REINSURANCE - CONTINUED

Liability reinsurance coverage exists that covers losses in excess of \$250,000 and up to \$750,000 for each occurrence per member for the 2010 through 2014 program years.

As of September 30, 2016 and 2015, there were no reinsurance recoverables on paid or unpaid losses.

During the year ended September 30, 2016, the Cooperative entered into a loss portfolio transfer. See Note 4 for further discussion.

NOTE 4 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Effective May 30, 2016, the Cooperative and Oklahoma Schools Risk Management Trust (“OSRMT”) executed a loss portfolio transfer. The Cooperative transferred the handling of all existing open and future new claims to OSRMT. OSRMT assumed the claims liabilities for \$225,000 plus the amount of outstanding reserve, which totaled approximately \$121,000. The reserves at May 30, 2016 were management’s best estimate, and were based on an evaluation of the Cooperative’s losses as prepared by an independent claims auditor.

Unpaid losses and loss adjustment expenses are based upon an evaluation of the Cooperative’s losses as prepared by the Cooperative’s independent actuary for the year ended September 30, 2015. These evaluations of the Cooperative’s losses are significant estimates which are subject to change and the change can be material in relation to the financial statements taken as a whole. These estimates includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. There was an IBNR provision for September 30, 2015 of approximately \$250,000. Unpaid losses and loss adjustment expenses have not been discounted for the time value of money.

During the years ended September 30, 2016 and 2015, the Cooperative experienced no change in the recoveries recognized under these reinsurance contracts.

At September 30, 2016 and 2015, losses and loss adjustment expenses included approximately \$24,000 and \$43,000, respectively, of claims administration fees.

Activity in the liability for unpaid losses and loss adjustment expenses is summarized by type of contract as follows:

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2016 and 2015

NOTE 4 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

	<u>Liability</u>	
	<u>2016</u>	<u>2015</u>
Balance at September 30	\$ 374,737	\$ 762,131
Less reinsurance recoverable on unpaid loss and loss adjustment expenses	<u> --</u>	<u> 13,463</u>
Net balance at September 30	<u> 374,737</u>	<u> 748,668</u>
Incurred related to:		
Current period	--	--
Prior period	<u> 14,682</u>	<u> (26,975)</u>
Total incurred	<u> 14,682</u>	<u> (26,975)</u>
Paid related to:		
Current period	--	--
Prior period	<u> 389,419</u>	<u> 346,956</u>
Total paid	<u> 389,419</u>	<u> 346,956</u>
Net balance at September 30	--	<u> 374,737</u>
Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	<u> --</u>	<u> --</u>
Balance at September 30	<u> --</u>	<u> 374,737</u>

NOTE 5 - THIRD PARTY ADMINISTRATION

The Cooperative is currently under a management agreement with The Sandner Group - Insurance Program Managers Inc. (“TSG”) to perform certain management services. Under the terms of the agreement, TSG has the authority to supervise, administer, or cause to be administered all business functions of the Cooperative. In consideration of these services, TSG is paid a fee of \$2,000 a month. Total fees paid to TSG were \$24,000 and \$24,000 during the years ended September 30, 2016 and 2015, respectively.

NOTE 6 - CONCENTRATIONS

All members who participate in the Cooperative are school districts within the State of Oklahoma.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2016 and 2015

NOTE 6 - CONCENTRATIONS - CONTINUED

The Cooperative believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it may be impractical to insure all deposits throughout the year. As a result, the Cooperative evaluates each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 7 - MEMBER INDEMNIFICATION

The Cooperative has entered into an agreement with each participating member to provide property and casualty coverages for the participating members. The Cooperative is responsible for the payment of all covered claims that fall within the joint loss fund. The Cooperative shall adopt policies and procedures for responding to overpayments and underpayments, if any.

NOTE 8 - SUPPLEMENTAL CONTRIBUTIONS RECEIVABLE

Gross supplemental contributions receivable in the amount of \$1,400,000 were assessed by the Cooperative in August 2014. The members are required to pay the supplemental contributions over three years and have been billed for all three installments as of September 30, 2016. The supplemental contributions receivable amount on the balance sheet as of September 30, 2016 is the gross supplemental contributions of approximately \$1,400,000 less the amounts collected and returned.

During the period ended September 30, 2016, the Cooperative wrote-off approximately \$202,000 of supplemental contributions receivable. Management believes all of the remaining supplemental contributions will ultimately be collected. Therefore, no allowance for the uncollected supplemental contributions receivable is considered necessary as of September 30, 2016 and 2015.

NOTE 9 - GOING CONCERN

Effective May 15, 2014, the Cooperative ceased writing policies. The Cooperative has executed a loss portfolio transfer and assumption agreement. In exchange for a premium, the Cooperative has transferred its liabilities to another self insured group. Management plans to dissolve the Cooperative effective December 31, 2016 and return all excess funds to members. Accordingly, the Cooperative, upon liquidation of all of its assets and satisfaction of its outstanding liabilities, will not continue as a going concern

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2016 and 2015

NOTE 10 - SUBSEQUENT EVENTS

Management considered subsequent events through December 16, 2016, the date the financial statements were available to be issued.

Management plans to dissolve the Cooperative effective December 31, 2016 and return all excess funds to members.