

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**OKLAHOMA SCHOOLS RISK
MANAGEMENT TRUST**

JUNE 30, 2017 and 2016

C O N T E N T S

INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
NOTES TO FINANCIAL STATEMENTS	14
SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Supplemental Information	26
Schedule of Historical Claims Development	27



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

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Schools Risk Management Trust

We have audited the accompanying financial statements of the Oklahoma Schools Risk Management Trust ("OSRMT" or the "Trust") which comprise the Statements of Net Position as of June 30, 2017 and 2016, and the related Statements of Revenues, Expenses and Changes in Net Position 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 Trust'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 Trust'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.

INDEPENDENT AUDITORS' REPORT - CONTINUED

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Oklahoma Schools Risk Management Trust as of June 30, 2017 and 2016, and the results of its operations and 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.

Supplemental Information-Management Discussion and Analysis

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Emphasis of Matter

As discussed in the Notes to Financial Statements, Oklahoma Schools Risk Management Trust adopted a change in accounting method related to the valuation of the liability for unpaid losses. These liabilities are now valued at their net present value based upon an interest rate which is expected to approximate the investment earnings over the payout period. Accordingly, an adjustment has been made to Net Position as of June 30, 2015 to reflect this accounting change. Our opinion is not modified with respect to this matter.

As discussed in the Notes to Financial Statements, the liabilities for unpaid losses and loss adjustment expenses in the accompanying financial statements are based upon evaluations by the Trust's independent actuary. Management believes that these estimates are reasonable. However, these estimates are subject to change and the changes can be material in relation to the financial statements taken as a whole. No assurance can be given that the actual losses will not be more or less than the current estimate. Our opinion is not modified with respect to this matter.

December 7, 2017

Shaw, Terman, Bette & Company P.A.

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS

This annual report consists of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. Along with the notes, they provide detailed financial information concerning Oklahoma Schools Risk Management Trust ("OSRMT" or the "Trust"). This section, the Management's Discussion and Analysis, is intended to provide an overview of the Oklahoma Schools Risk Management Trust's financial condition, results of operations, and other key information.

Using this Annual Report

OSRMT is a public entity self-insurance pool that provides property and casualty coverage to its participating members. Membership is open to all school districts and career techs in the state of Oklahoma. This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the financial activities of OSRMT. These are followed by the Statement of Cash Flows, which presents detailed information about the changes in OSRMT's cash position during the year.

Financial Overview

This annual statement consists of three parts - Management's Discussion and Analysis, the basic financial statements, and required supplemental information. The basic financial statements provide both long-term and short-term information about OSRMT's financial status. OSRMT uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by OSRMT, which also includes any potential unrecoverable reinsurance claims. The three basic financial statements are presented as follows:

- **Statement of Net Position** - This statement presents information reflecting OSRMT's assets, liabilities, and net position.
- **Statement of Revenues, Expenses and Changes in Net Position** - This statement reflects the operating and nonoperating revenue for the previous two fiscal years. Operating revenue consists primarily of member contributions with the major sources of operating expenses being claims and claims adjustment expense, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income and changes in the fair value of investments.
- **Statement of Cash Flows** - This statement is presented on the indirect method of reporting and reflects cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Financial Overview - Continued

In OSRMT's financial position, it is important to recognize the mission of OSRMT. From a financial perspective, OSRMT's general objectives are to formulate, develop, and administer, on behalf of the members, a program of coverages that are broad in scope at a competitive cost. As of June 30, 2017, 2016 and 2015, 152, 179 and 187 educational institutions, respectively, within the State of Oklahoma participate in OSRMT.

OSRMT is a member of the School Leaders Risk Management Association. This affiliation gives each OSRMT member access to a broad range of expertly written white papers as well as checklists provided to assist school district members in accomplishing internal audits of many federally mandated programs as well as ensuring that the district is maintaining proper standards and records.

The OSRMT Board of Trustees is selected from the ranks of elected school board members, school superintendents, and school business managers of member districts. OSRMT feels members are best embodied by a diverse board allowing for each member to be fairly represented.

Condensed Financial Information

The Statement of Net Position reports OSRMT's net position and how it has changed. Net position is the difference between OSRMT's assets and liabilities and is one way to measure OSRMT's financial health or position. Over time, increases and decreases in OSRMT's net position is an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash and investments	\$ 634,753	\$ 1,177,290	\$ 1,426,692
Reserve contributions receivable	82,460	284,657	571,438
Prepaid insurance and other assets	<u>4,434,669</u>	<u>3,216,787</u>	<u>3,197,250</u>
Total current assets	\$ <u>5,151,882</u>	\$ <u>4,678,734</u>	\$ <u>5,195,380</u>
Unpaid losses and loss adjustment expenses	\$ 5,464,872	\$ 8,430,108	\$ 4,611,841
Reinsurance recoverable	(2,826,035)	(5,824,462)	(1,914,715)
Advance contributions	639,464	177,722	360,521
Other liabilities	<u>1,822,042</u>	<u>1,675,776</u>	<u>1,898,437</u>
Total liabilities	\$ <u>5,100,343</u>	\$ <u>4,459,144</u>	\$ <u>4,956,084</u>
Net position	\$ <u>51,539</u>	\$ <u>219,590</u>	\$ <u>239,296</u>

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The following table shows the major components of income from operations for the current year, compared to the prior two years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues			
Member contributions	\$ 12,954,984	\$ 13,379,064	\$ 12,047,229
Other income	<u>59,767</u>	<u>293,425</u>	<u>18,421</u>
Net revenue before member reserve/ initiation contribution	\$ 13,014,751	\$ 13,672,489	\$ 12,065,650
Expenses			
Provision for claims	\$ 4,723,396	\$ 5,189,021	\$ 4,864,522
Reinsurance expense	5,498,984	5,725,316	5,225,151
Administrative expenses	<u>2,990,668</u>	<u>2,904,009</u>	<u>2,728,430</u>
Total expenses	\$ 13,213,048	\$ 13,818,346	\$ 12,818,103
Net income (loss) before member reserve/initiation contribution	\$ (198,297)	\$ (145,857)	\$ (752,453)
Member reserve/initiation contribution	30,246	126,151	226,195
Total Increase (Decrease) in Net Position	\$ (<u>168,051</u>)	\$ (<u>19,706</u>)	\$ (<u>526,258</u>)

Total provision for claims, as noted above, is dependent on many factors and will change from year to year based on these factors.

In addition to net position, when assessing the overall health of OSRMT, the reader needs to consider nonfinancial factors, such as the legal climate in the state, the general state of the financial markets, and the level of loss prevention undertaken by OSRMT and its members.

Condensed Financial Highlights

- Overall, the OSRMT's net position decreased by \$19,706 from \$239,296 in 2015 to \$219,590 in 2016 and decreased by \$168,051 to \$51,539 in 2017.
- Member contributions increased by \$1,331,835 from \$12,047,229 in 2015 to \$13,379,064 in 2016 and decreased by \$424,081 to \$12,954,983 in 2017.

Oklahoma Schools Risk Management Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Condensed Financial Highlights - Continued

- Administrative expenses increased by \$175,579 from \$2,728,430 to \$2,904,009 in 2016 and increased by \$86,659 to \$2,990,668 in 2017.
- Incurred claims and claims adjustment expenses, net of reinsurance recoveries were \$4,723,396, \$5,189,021 and \$4,864,522 for the years ended June 30, 2017, 2016 and 2015, respectively. The change is related to the number of open and closed claims and loss experience. Incurred claims and claims adjustment expenses vary from year to year as they are driven by many factors outside OSRMT's control.

Economic Factors

The provision for claim payments is expected to be consistent with historical trends and we are unaware of any economic events or legislative events that would have a significant impact on the operations of OSRMT.

This financial report is intended to provide our members and regulators with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact The Sandner Group Insurance Program Managers.

**FINANCIAL STATEMENTS &
NOTES TO FINANCIAL STATEMENTS**

Oklahoma Schools Risk Management Trust

STATEMENTS OF NET POSITION

ASSETS

	June 30,	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 552,071	\$ 900,655
Investment in securities	82,682	276,635
Contributions receivable	2,046,130	2,022,159
Reserve contributions receivable	82,460	284,657
Accrued interest receivable	453	3,024
Deferred expenses	52,355	42,852
Reinsurance recoverable on paid losses	106,240	-
Prepaid expenses and other current assets	2,335,731	1,148,752
Total current assets	<u>5,258,122</u>	<u>4,678,734</u>
Total assets	<u>\$ 5,258,122</u>	<u>\$ 4,678,734</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Unpaid losses and loss adjustment expenses

Gross	\$ 4,742,597	\$ 7,601,500
Reinsurance recoverable on unpaid losses	(2,719,795)	(5,824,462)
Net	<u>2,022,802</u>	<u>1,777,038</u>

Advance contributions	639,464	177,722
Unearned contributions	1,553,928	1,459,550
Accounts payable and accrued expenses	268,114	216,226
Total current liabilities	<u>4,484,308</u>	<u>3,630,536</u>

NONCURRENT LIABILITIES

Unpaid losses and loss adjustment expenses

Gross	722,275	828,608
Reinsurance recoverable on unpaid losses	-	-
Net	<u>722,275</u>	<u>828,608</u>
Total noncurrent liabilities	<u>722,275</u>	<u>828,608</u>

Total liabilities	5,206,583	4,459,144
--------------------------	-----------	-----------

NET POSITION, UNRESTRICTED

Total liabilities and net position	<u>\$ 5,258,122</u>	<u>\$ 4,678,734</u>
---	---------------------	---------------------

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Years Ended June 30,	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Contributions earned	\$ 12,954,984	\$ 13,379,064
Other operating revenues	25,307	135,876
	<u>12,980,291</u>	<u>13,514,940</u>
OPERATING EXPENSES		
Losses and loss adjustment expenses	4,723,396	4,843,445
Reinsurance expense	5,498,984	5,725,316
Program administration fees	921,927	819,427
Member acquisition costs	1,859,863	1,795,395
Other expenses	208,878	289,187
	<u>13,213,048</u>	<u>13,472,770</u>
OPERATING INCOME (LOSS)	<u>(232,757)</u>	<u>42,170</u>
NON OPERATING INCOME		
Net investment income	59,767	(52,151)
	<u>59,767</u>	<u>(52,151)</u>
MEMBER RESERVE CONTRIBUTION	<u>4,939</u>	<u>(9,725)</u>
INCREASE (DECREASE) IN NET POSITION	(168,051)	(19,706)
Net position - beginning of year (as restated at June 30, 2015)	<u>219,590</u>	<u>239,296</u>
NET POSITION - END OF YEAR	<u>\$ 51,539</u>	<u>\$ 219,590</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions collected	\$ 13,512,440	\$ 13,858,976
Excess insurance premiums paid	(5,498,984)	(5,725,316)
Loss and loss adjustment payments	(4,690,205)	(5,280,501)
Other expenses paid	<u>(4,135,262)</u>	<u>(3,334,143)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(812,011)</u>	<u>(480,984)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(3,035,054)	(2,542,881)
Proceeds from sales of investment securities	3,254,131	3,239,010
Investment income collected	<u>37,214</u>	<u>71,954</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>256,291</u>	<u>768,083</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Member reserve contributions	<u>207,136</u>	<u>277,056</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>207,136</u>	<u>277,056</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(348,584)	564,155
Cash and cash equivalents - beginning of year	<u>900,655</u>	<u>336,500</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u><u>552,071</u></u>	\$ <u><u>900,655</u></u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

STATEMENTS OF CASH FLOWS - CONTINUED

	For the Years Ended	
	June 30,	
	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income (loss)	\$ (232,757)	\$ 42,170
Adjustments to reconcile operating income to net cash used in operating activities:		
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Contributions receivable	(23,971)	194,894
Deferred expenses	(9,503)	4,183
Reinsurance recoverable on paid losses	(106,240)	-
Prepaid expenses and other assets	(1,186,979)	(225,291)
Increase (decrease) in liabilities		
Unpaid losses and loss adjustment expenses	139,431	(91,481)
Advance contributions	461,742	(182,799)
Unearned contributions	94,378	(13,635)
Accounts payable and accrued expenses	51,888	(209,025)
NET CASH USED IN OPERATING ACTIVITIES	<u>(812,011)</u>	<u>(480,984)</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - ORGANIZATION OF TRUST

The Oklahoma Schools Risk Management Trust (“OSRMT” or the “Trust”) is a cooperative association of public school districts established on June 17, 2009. Approval was obtained from the Office of Attorney General, State of Oklahoma through the Interlocal Cooperative Agreement - Oklahoma Schools Risk Management Trust Agreement - (AG #ICA-09-003). The Trust was established as a group self-insurance program to indemnify each member for covered property/casualty losses as an alternative to insurance coverage from a commercial insurance carrier.

Members are required to make annual contributions as determined by the Board of Trustees. Such contributions are intended to cover estimated loss payments and related costs and administrative and operational expenses. Public school districts joining the Trust must remain members for a minimum of one plan period unless terminated by the Board of Trustees. Subsequent to this initial term, a member may withdraw its membership at the end of any plan period.

In the event of dissolution of OSRMT, surplus funds developed that are not needed to pay claims and other expenses of OSRMT would be distributed to members, past and current, in accordance with the by-laws as determined by the Board of Trustees.

The Trust is comprised of 152 Oklahoma public school districts as of June 30, 2017 and 179 districts as of June 30, 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America, governmental accounting standards and prevailing practices within the insurance industry. Except as otherwise noted, the Trust 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.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Earnings

Investment earnings, including changes in fair value of investments, are recognized as nonoperating revenue in the Statements of Revenues, Expenses and Changes in Net Position.

Contributions Receivable

Contributions receivable are stated at net invoice amounts. Collectibility of balances is 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.

Reserve Contribution Receivable

The Trust recorded a reserve contribution receivable and a member reserve contribution when a member joined the Trust on or before June 30, 2015. The total required reserve contribution is computed at 24 percent of the member's first year contribution and is billed to the member over a 24-month period. The total reserve contribution is recognized as income in the first year of membership. Amounts are stated at net amounts expected to be collected as estimated by management. At June 30, 2017 and 2016, management has recorded an allowance for doubtful accounts of approximately \$-0- and \$3,800, respectively.

Initiation Contributions

The Trust records an initiation contribution receivable and a member initiation contribution when a member joins the Trust after June 30, 2015. The total required initiation contribution is computed at 24 percent of the member's first year contribution and is billed to the member over a 24-month period. The total initiation contribution is recognized as income in the first year of membership. Amounts are stated at net amounts expected to be collected as estimated by management. At June 30, 2017 and 2016, management has recorded an allowance for doubtful accounts of approximately \$700 and \$3,400, respectively.

Contributions

Contributions are earned on a straight-line basis over the coverage period. The portion of the contribution that will be earned in the future is deferred and reported as unearned contribution. Contributions received prior to the beginning of a coverage year are reported as advance contributions.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prepaid Expenses and Other Assets

Reinsurance premiums are recognized as expenses over the related coverage period. Certain payments reflect costs applicable to future activities. Those payments are recorded as prepaid expenses when paid and expensed when appropriate.

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 Trust's losses as prepared by the Trust's independent actuary. The liability for unpaid losses and loss adjustment expenses has been discounted for the time value of money.

Contribution Deficiency

Anticipated investment income is considered in determining if a contribution deficiency exists and no such deficiency exists.

Income Tax Exemption

The Oklahoma Schools Risk Management Trust, including The Trust, 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 Net Position and Statements of Revenues, Expenses and Changes in Net Position, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Fair Value Measurements

U.S. Generally Accepted Accounting Principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs in valuation techniques used to measure fair value. The hierarchy gives the highest priority to

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value Measurements - Continued

unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below

Level 1 - Inputs are unadjusted quoted prices for identical assets in active markets.

Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in active markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Inputs are unobservable and based on management estimate.

NOTE 3 - FAIR VALUE MEASUREMENTS

Assets recorded at fair value, as discussed above, on a recurring basis are summarized below:

	June 30, 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ <u>6,815</u>	\$ <u> --</u>	\$ <u> --</u>	\$ <u>6,815</u>
Debt securities	\$ <u> --</u>	\$ <u>75,867</u>	\$ <u> --</u>	\$ <u>75,867</u>
	June 30, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ <u>56,021</u>	\$ <u> --</u>	\$ <u> --</u>	\$ <u>56,021</u>
Debt securities	\$ <u> --</u>	\$ <u>220,614</u>	\$ <u> --</u>	\$ <u>220,614</u>

The Trust did not have any Level 3 assets at any point during the years ended June 30, 2017 and 2016. There were no transfers between Level 1 and Level 2 during the years ended June 30, 2017 and 2016.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale are stated at their estimated fair market value and consist of the following as of:

	<u>June 30, 2017</u>			
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
Corporate bonds	\$ 75,955	\$ 75,867	\$ 366	\$(454)
Equity securities	<u>6,043</u>	<u>6,815</u>	<u>772</u>	<u>(--)</u>
	<u>\$ 81,998</u>	<u>\$ 82,682</u>	<u>\$ 1,138</u>	<u>\$(454)</u>
	<u>June 30, 2016</u>			
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
Corporate bonds	\$ 101,078	\$ 102,254	\$ 1,286	\$(110)
Municipal bonds	<u>118,347</u>	<u>118,360</u>	<u>588</u>	<u>(575)</u>
	<u>219,425</u>	<u>220,614</u>	<u>1,874</u>	<u>(685)</u>
Equity securities	<u>57,360</u>	<u>56,021</u>	<u>3,581</u>	<u>(4,920)</u>
	<u>\$ 276,785</u>	<u>\$ 276,635</u>	<u>\$ 5,455</u>	<u>\$(5,605)</u>

The amortized cost and estimated market value of investment securities available-for-sale as of June 30, 2017 and 2016, respectively, by contractual maturity, are shown below. In some instances, actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE - CONTINUED

	June 30, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
Corporate bonds	\$ 60,506	\$ (454)	\$ --	\$ (--)	\$ 60,506	\$ (454)

	June 30, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
Corporate bonds	\$ 26,328	\$ (110)	\$ --	\$ (--)	\$ 26,328	\$ (110)
Municipal bonds	--	(--)	63,879	(575)	63,879	(575)
	<u>\$ 26,328</u>	<u>\$ (110)</u>	<u>\$ 63,879</u>	<u>\$ (575)</u>	<u>\$ 90,207</u>	<u>\$ (685)</u>

The Trust's investment in marketable securities consists primarily of Corporate Bonds. The four securities with unrealized losses were caused primarily by increases in interest rates. The severity of the impairment (ranging from minimal to 1%) is consistent with the general trend in debt securities. The Trust has evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Trust's intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Trust does not consider these investments to be other-than-temporarily impaired at June 30, 2017 or June 30, 2016, respectively.

NOTE 5 - REINSURANCE

The Trust has purchased reinsurance for protection against losses in excess of the applicable retention. Reinsurance contracts do not relieve the Trust from its obligations to members. Failure of reinsurers to honor their obligations could result in losses to the Trust.

Accordingly, the Trust evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurers' insolvency. As of June 30, 2017 and 2016, reinsurance recoverable on unpaid losses and loss adjustment expenses of approximately \$2,720,000 and \$5,824,000, respectively, were associated with a single reinsurance carrier and deducted from reserves.

The Trust has obtained the following reinsurance for the 2016/2017 and 2015/2016 program years:

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 5 - REINSURANCE - CONTINUED

The Trust obtained property-specific reinsurance with limits of up to \$750,000,000 any one loss occurrence for June 30, 2017 and \$750,000,000 any one loss occurrence for June 30, 2016, \$250,000,000 for flood coverage, and \$250,000,000 for earth movement.

The Trust obtained property aggregate excess of loss reinsurance with limits up to \$2,000,000 to limit its aggregate retention under the property excess of loss coverage.

The Trust obtained general liability and automobile liability excess of loss reinsurance for limits up to \$2,000,000 on a per member district, per occurrence or claim made, per line of business basis. The coverage is subject to an annual aggregate combined single limit of \$2,000,000 per member district in respect to general liability, as per the primary plans of coverage.

The Trust obtained equipment breakdown reinsurance coverage up to \$100,000,000.

The Trust obtained school board legal liability (E&O) reinsurance coverage for limits up to \$2,000,000.

The Trust obtained cyber liability coverage up to \$1,000,000.

NOTE 6 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses are based upon an evaluation of the Trust's losses as prepared by the Trust's independent actuary. This evaluation of the Trust's losses is a significant estimate which is subject to change and the change can be material in relation to the financial statements taken as a whole. This estimate includes an estimated provision for incurred but not reported losses (IBNR) as well as trending of reported losses. For the years ended June 30, 2017 and 2016, the IBNR totaled approximately \$1,015,000 and \$1,107,000, respectively. For the years ended June 30, 2017 and 2016, the liability for unpaid losses and loss adjustment expenses has been discounted to its net present value in the accompanying financial statements. The reserves were discounted utilizing loss payout patterns provided by management at a discount rate of 3.5%, which management expects to approximate the investment earnings over the payout periods. The unpaid losses and loss adjustment expenses were discounted by approximately \$180,000 at June 30, 2017 and \$55,000 at June 30, 2016, net of the effects of discounting the reinsurance recoverable on unpaid losses.

The independent actuary provided a range of losses as of June 30, 2017, of approximately \$2,723,000 to \$3,331,000 (undiscounted). The losses recorded were approximately \$2,819,000 (undiscounted). This creates further uncertainty as to the ultimate level of losses for the year ended June 30, 2017. As of June 30, 2016, losses were recorded at the actuary's point estimate (undiscounted). No range was provided.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 6 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

At June 30, 2017 and 2016, unpaid losses and loss adjustment expenses are shown net of reinsurance recoverables on unpaid losses and loss adjustment expenses of approximately \$2,720,000 and \$5,824,000, respectively. The losses and loss adjustment expenses are net of the effect of changes in recoveries recognized under the reinsurance contracts referred to in Note 5.

Any increase or decrease in the estimate of ultimate incurred losses and loss adjustment expenses as compared to the prior year will result in a direct increase or decrease in the current year's operating income.

At June 30, 2017 and 2016, losses and loss adjustment expenses included approximately \$816,000 and \$576,000, respectively, of service fees. A portion of these fees are for loss control in addition to the claims administration fees. However, the contract does not have a breakdown of what portion are for loss control services.

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

	<u>2017</u>	<u>2016</u>
Balance at June 30,	\$ 8,430,108	\$ 4,411,841
Less reinsurance recoverable on unpaid loss and loss adjustment expenses	<u>5,824,462</u>	<u>1,914,715</u>
Net balance at June 30,	<u>2,605,646</u>	<u>2,497,126</u>
Incurred related to:		
Current period	4,274,454	5,260,620
Prior periods	<u>448,942</u>	<u>(417,175)</u>
Total incurred	<u>4,723,396</u>	<u>4,843,445</u>
Paid related to:		
Current period	2,728,234	3,688,856
Prior periods	<u>1,855,731</u>	<u>1,046,069</u>
Total paid	<u>4,583,965</u>	<u>4,734,925</u>
Net balance at June 30,	2,745,077	2,605,646
Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	<u>2,719,795</u>	<u>5,824,462</u>
Balance at June 30,	\$ <u>5,464,872</u>	\$ <u>8,430,108</u>

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 7 - ROYALTY AGREEMENT/RELATED PARTY TRANSACTIONS

The Trust has a royalty agreement with Oklahoma State School Boards Association (“OSSBA”). The agreement grants the Trust the exclusive right and license to use the OSSBA name and logo in connection with the marketing and administration of the insurance programs offered by the Trust. At June 30, 2017 and 2016, royalty expense totaled approximately \$252,000 and \$234,000, respectively, of which approximately \$56,000 and \$37,000, remained payable at June 30, 2017 and 2016, respectively,

NOTE 8 - LOSS PORTFOLIO TRANSFER

Effective May 30, 2016, the Trust and the Oklahoma Schools Property and Casualty Cooperative (“OSPCC”) executed a loss portfolio transfer. OSPCC 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 OSPCC’s losses as prepared by an independent claims auditor.

NOTE 9 - CONCENTRATIONS

All members who participate in the Trust are school districts and vocational technical school districts within the State of Oklahoma.

The Trust maintains cash in demand deposit accounts with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits.

NOTE 10 - UNCERTAINTIES

The Trust’s investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Trust.

NOTE 11 - ACCOUNTING AND REPORTING CHANGE

During the year ended June 30, 2017, the Trust adopted a change in accounting method related to the valuation of the liability for unpaid losses. These liabilities are now valued at their net present value based upon the payout pattern provided by management and an interest rate which is expected to approximate the investment earnings over the payout period.

Oklahoma Schools Risk Management Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE 11 - ACCOUNTING AND REPORTING CHANGE - CONTINUED

As a result of this change in accounting method, the beginning net position in the earliest period presented has been restated. This is summarized as follows:

Net Position at July 1, 2015, as previously reported	\$ 116,569
Effect of adoption of discounting reserves	<u>122,727</u>
Net Position at July 1, 2015, as restated	\$ <u>239,296</u>

NOTE 12 - SUBSEQUENT EVENTS

Management considered subsequent events through December 7, 2017, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



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

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

**Board of Trustees
Oklahoma Schools Risk Management Trust**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Historical Claims Development is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

December 7, 2017

Oklahoma State School Boards Association Sponsored
Oklahoma Schools Risk Management Trust

Schedule of Historical Claims Development
June 30, 2017

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
(1) Contribution and investment revenue:								
Earned contributions and Investment revenue	\$ 610,708	\$ 1,288,637	\$ 4,099,170	\$ 6,850,616	\$ 9,471,424	\$ 12,065,650	\$ 13,326,913	\$ 13,014,751
Ceded contributions	397,646	733,377	1,740,221	3,036,243	3,890,212	5,225,151	5,725,316	5,498,984
Net Contribution and investment revenue	213,062	555,260	2,358,949	3,814,373	5,581,212	6,840,499	7,601,597	7,515,766
(2) Estimated claims and expenses - End of accident year:								
Paid and reserve, including reinsurance	135,375	572,179	1,166,706	1,298,135	3,016,754	3,330,792	4,681,107	3,458,668
ULAE (admin)	20,169	53,599	165,882	306,064	377,029	431,007	575,741	815,786
Net incurred	155,544	625,778	1,332,588	1,604,199	3,393,783	3,761,799	5,256,848	4,274,454
(3) Net paid (cumulative):								
End of accident year	82,853	439,534	1,156,733	1,219,818	2,327,484	2,381,462	3,688,856	2,728,234
One year later	243,897	654,024	1,364,207	2,030,094	3,649,622	3,341,830	5,019,299	-
Two years later	243,897	654,024	1,681,808	2,218,474	3,782,282	3,615,803	-	-
Three years later	243,897	654,024	1,706,323	2,282,423	3,992,266	-	-	-
Three years later	243,897	654,024	1,839,888	2,410,684	-	-	-	-
Four years later	243,897	654,024	1,938,003	-	-	-	-	-
Five years later	243,897	654,024	-	-	-	-	-	-
Six years later	243,897	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-
(4) Estimated ceded claims and expenses	-	255,006	710,115	6,876,229	1,071,893	1,276,745	7,475,711	1,847,033
(5) Estimated net incurred claims and expenses:								
End of accident year	155,544	625,778	1,332,588	1,604,199	3,393,783	3,761,799	5,256,848	4,274,454
One year later	243,897	654,024	1,715,911	2,312,479	4,225,732	4,000,944	5,715,655	-
Two years later	243,897	654,024	1,805,876	2,339,726	3,978,493	3,857,089	-	-
Three years later	243,897	654,024	1,843,688	2,379,628	4,130,127	-	-	-
Three years later	243,897	654,024	1,925,031	2,418,798	-	-	-	-
Four years later	243,897	654,024	1,938,023	-	-	-	-	-
Five years later	243,897	654,003	-	-	-	-	-	-
Six years later	243,897	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-
(6) Increase in estimated net incurred claims and expenses from end of accident year	88,353	28,225	605,435	814,599	736,344	95,291	458,806	-