

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2016 AND 2015**

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**  
**BOARD OF DIRECTORS**

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Phil Wentz – Chair  
Tigard-Tualatin Facilities Manager

Debbie Laszlo – Vice Chair  
Redmond 2J Regional Risk/Benefits Manager

Adam Stewart  
Hillsboro Chief Financial Officer

Mike Schofield  
Gresham-Barlow CFO

Brett Yancey  
Director of Business Operations Springfield 19

Craig Prewitt  
Board Chair Phoenix-Talent

John Rexford  
High Desert ESD Superintendent

Sharla Andersen  
Director of Contracts & Risk Central Oregon CC

Marie Knight  
Vernonia Fiscal Assistant and Safety Coordinator

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

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## **James Marta & Company LLP**

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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### **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Oregon School Boards Association  
Property and Casualty Coverage for Education  
Salem, Oregon

#### **Report on the Financial Statements**

We have audited the accompanying Statement of Financial Position, the related Statement of Activities, and the Statement of Cash Flows and of Oregon School Boards Association Property and Casualty Coverage for Education (PACE) as of and for the years ending June 30, 2016 and 2015 and notes to the financial statements, which collectively comprise OSBA Property and Casualty Coverage for Education Trust's basic financial statements as listed in the table of contents.

#### **Managements Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

## **Opinion**

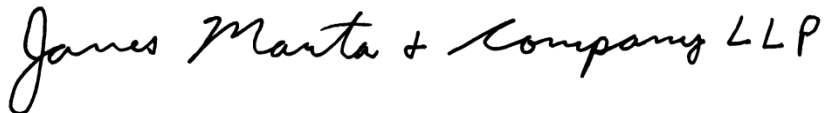
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon School Boards Association Property and Casualty Coverage for Education (PACE) as of June 30, 2016 and 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PACE's basic financial statements. The Claims Development Information and the Graphical Summary of Claims are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Claims Development Information and the Graphical Summary of Claims are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
October 28, 2016

## **FINANCIAL SECTION**

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**STATEMENT OF FINANCIAL POSTION**

**JUNE 30, 2016 AND 2015**

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	<u>2016</u>	<u>2015</u>
<b>ASSETS:</b>		
Current Assets:		
Cash	\$ 2,399,584	\$ 2,367,516
Accounts receivable	1,180,986	815,336
Prepaid expenses	18,837	17,544
Total Current Assets	<u>3,599,407</u>	<u>3,200,396</u>
Non Current Assets:		
Investments	<u>55,299,718</u>	<u>50,418,970</u>
Total Assets	<u>58,899,125</u>	<u>53,619,366</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	154,999	150,398
Unearned revenue	1,124,804	302,040
Claims payable - current portion	8,056,741	9,303,406
Total Current Liability	<u>9,336,544</u>	<u>9,755,844</u>
Non Current Liabilities		
Claims payable	<u>11,828,404</u>	<u>12,548,573</u>
Total Liabilities	<u>21,164,948</u>	<u>22,304,417</u>
<b>NET ASSETS</b>		
Total Net Assets	<u>\$ 37,734,177</u>	<u>\$ 31,314,949</u>

The accompanying notes are an integral part of these financial statements.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**STATEMENT OF ACTIVITIES**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>REVENUES:</b>		
Member contributions	\$ 31,934,445	\$ 31,151,517
Miscellaneous / Other Income	15,175	11,300
Total Revenues	31,949,620	31,162,817
 <b>EXPENSES:</b>		
Underwriting Expenses:		
Claims expense	11,179,858	11,403,100
Insurance premiums	9,129,962	8,834,246
Local agent commissions	2,405,030	2,415,991
Broker fees	110,000	110,000
 Operating Expenses:		
Contract fees - SDAO	1,829,500	1,633,000
Contract fees - OSBA	804,214	862,651
Operating expenses	633,396	650,977
Total Expenses	26,091,960	25,909,965
Operating Income (Loss)	5,857,660	5,252,852
 <b>NONOPERATING REVENUES</b>		
Investment income	561,568	1,546,468
 <b>CHANGE IN NET ASSETS</b>	6,419,228	6,799,320
 <b>NET ASSETS, BEGINNING</b>	31,314,949	24,515,629
 <b>NET ASSETS, ENDING</b>	\$ 37,734,177	\$ 31,314,949

The accompanying notes are an integral part of these financial statements.



**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**STATEMENT OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
<b>Cash Flow From Operating Activities</b>		
Cash received from members	\$ 32,853,679	\$ 30,752,736
Cash paid for claims	(13,593,637)	(8,956,716)
Cash paid for insurance premiums	(9,129,962)	(8,834,246)
Cash paid for other underwriting expenses	(2,515,030)	(2,525,991)
Cash paid for operating expenses	(3,263,802)	(3,198,357)
<b>Net Cash Flows Provided (Used) by Operating Activities</b>	4,351,248	7,237,426
<b>Cash Flows From by Investing Activities</b>		
Investment income received	561,566	1,546,466
Purchase of investments	(9,000,000)	(23,000,000)
Sale of investments	4,119,252	14,661,873
<b>Net Cash Flow Provided (Used) by Investing Activities</b>	(4,319,182)	(6,791,661)
Net Increase (Decrease) in Cash	32,068	445,767
<b>Beginning Cash and Equivalents</b>	2,367,516	1,921,749
<b>Ending Cash and Equivalents</b>	\$ 2,399,584	\$ 2,367,516
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows</b>		
<b>Provided by Operating Activities</b>		
Operating income (loss)	5,857,660	5,252,852
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows		
Provided by Operating Activities		
(Increase) Decrease in:		
Account receivable	(365,650)	(484,725)
Prepaid expenses	(1,293)	4,036
Increase (Decrease) in:		
Accounts payable	4,601	(55,765)
Unearned revenue	822,764	(532,566)
Claims liabilities	(1,966,834)	3,053,594
<b>Net Cash Flows Provided by Operating Activities</b>	\$ 4,351,248	\$ 7,237,426
<b>Noncash Investing and Financing Activities</b>		
Unrealized gain/(loss) on investments	\$ (734,111)	\$ 1,382,117

The accompanying notes are an integral part of these financial statements.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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**1. ORGANIZATION AND OPERATIONS**

**A. Organization**

The Oregon School Boards Association Property and Casualty Coverage for Education Trust (“Trust”), is a component unit of Oregon School Boards Association (OSBA), a nonprofit organization. The Trust was formed effective July 1, 2006 and offers property and casualty coverage to school districts.

The self-insurance pool provides for the first \$666,700 of each general liability and auto liability claim Effective 7/1/2013; the Trust went to a \$5 million property SIR with a \$5 million aggregate policy.

**B. Membership**

Members must be an Oregon School District, Education Service District, or Community College which is a member of the OSBA, a Charter School per SB 100 (1999 Oregon Laws Charter 200) that is sponsored by a participating member of the Trust or a district who purchases coverage from the OSBA-PACE excess carrier. Currently, there are 300 members in the PACE program.

**C. Admission and Withdrawal of Members**

Admission

Under the Trust’s Agreement, new members must complete a written application, receive resolution to admit by the governing board of the Trust, and receive written acceptance of membership from the Trust.

Withdrawal

Status as a member will be continuous unless terminated by the member of the Trust. Each member shall continue its membership for an initial period of not less than one full fund year. A member may withdraw prior to the end of one full fund year upon six months written notice to the Trust. Participants may withdraw at any time upon submitting a six months written notice to the Trust.

**D. Reporting Entity**

The Trust’s reporting entity includes all activities (operations of its officers and Board of Directors as they relate to the Authority) considered to be part of (controlled by or dependent on) the Trust. This includes financial activity relating to all of the membership years of the Trust.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been rendered. Liabilities for reserves for open claims and claims incurred but not reported have been recorded in the Trust's financial statements.

**B. Cash and Cash Equivalents**

For purposes of the statements of financial position and cash flows, the Trust considers all demand deposits and their investment in the State of Oregon Local Government Investment Pool as cash equivalents.

**C. Statement of Cash Flows**

The Trust considers interest on investments to be nonoperating revenue; therefore, investment income is presented in the investing section of the Statement of Cash Flows.

**D. Receivables**

Accounts receivable represent amounts of reinsurance due on claims, contributions due and amounts due on services provided. Due to the nature of the receivables and the likelihood of collection, no provision for uncollectible accounts has been made.

**E. Investments**

Investments are stated at fair value. Fair value is the amount at which an investment could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an investment, that amount is used as the fair value. Accordingly, unrealized gains or losses are recorded for the increase or decrease in the fair value of assets from the beginning of the year to the end of the year.

**F. Unearned Revenue/Prepaid Expenses**

The policy year-end for the programs is June 30th. As such, certain revenues are treated as unearned and certain expenses as prepaid. This is to reflect a proper matching of revenues and expenses for the fiscal year-end financial statements.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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**G. Premiums**

Premiums are taken into income as earned over the term of related insurance policies. Policies are generally written for the annual period from July 1 through June 30. As of June 30, 2016 and 2015, the Trust held unearned premiums in the amount of \$1,124,804 and \$302,040, respectively.

**H. Claims and Claims Adjustment Expenses**

Each program establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

**I. Restricted Surplus**

The Trust's policy is to return surplus of the Trust to members once the unrestricted surplus reaches \$9 million. The Trust is required to annually evaluate the amount of the surplus available to distribute to its members. State law requires the Trust to maintain a surplus equal to 25% of net contributions. See note 7 for current year surplus.

**J. Income Taxes**

The Trust is tax exempt for federal and state taxes under Internal Revenue Code Section 115.

**K. Contribution Income**

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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**K. Contribution Income (continued)**

Revenues mainly consist of premium contributions from members. Member contributions are recognized as revenues in the period for which insurance protection is provided. Contribution development is performed by staff and the Board of Directors based on the particular characteristics of the members. Contribution income consists of payments from members that are planned to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, and operating expenses. The activities of the Trust consist solely of risk management programs and claims management activities related to the coverages described above. The reporting entity does not include any other component units within the criterion prescribed by Generally Accepted Accounting Policies (GAAP).

**L. Unallocated Loss Adjustment Expense (ULAE)**

The liability for ULAE includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim.

**M. Management Estimates**

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are described elsewhere in this report.

**3. CASH AND INVESTMENTS**

**A. Cash and Cash Equivalents**

The Trust has the following cash and cash equivalents:

	<u>2016</u>	<u>2015</u>
Demand Deposits with Financial Institutions	\$ 2,340,450	\$ 1,266,421
Local Government Investment Pool	59,134	1,101,095
Total	<u>\$ 2,399,584</u>	<u>\$ 2,367,516</u>

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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**A. Cash and Cash Equivalents (continued)**

*Custodial Credit Risk - Deposits*

This is the risk that in the event of a bank failure, the Trust's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Trust's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

*Local Government Investment Pool*

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool (LGIP) is part. Participation by local governments is voluntary. At June 30, 2016, the carrying value of the position in the Oregon State Treasurer's Short-Term Investment Pool approximates fair value. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is comingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP. The LGIP is not rated as to credit quality.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015 are as follows:

	In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
<b>LGIP Balance, June 30, 2016</b>				
<b>Total</b>	<u>\$ 47,162</u>	<u>\$ 11,972</u>	<u>\$ -</u>	<u>\$ 59,134</u>
<b>LGIP balance, June 30, 2015</b>				
<b>Total</b>	<u>\$ 878,180</u>	<u>\$ 222,915</u>	<u>\$ -</u>	<u>\$ 1,101,095</u>

**B. Investments**

As of June 30, 2016, The Trust had the following investments held in a managed portfolio:

	<u>Amount</u>	<u>Percentage</u>
Large CAP US Equity Fund	\$ 6,050,685	10.94%
Defensive US Equity Fund	2,790,079	5.05%
Small CAP US Equity Fund	2,198,569	3.98%
International Equity Fund	5,378,390	9.73%
Global Equity Plus Fund	5,573,996	10.08%
Core BD Fund	33,307,999	60.23%
Total	<u>\$ 55,299,718</u>	<u>100%</u>

*Investment Objectives*

- a. To assure the safety of principal.
- b. To retain liquidity to meet projected or unexpected cash needs.
- c. To attain the best possible total return (yield and market appreciation) while retaining liquidity and minimizing risk.
- d. To comply with the provisions of Chapter 294 of Oregon Revised Statutes.

*Investment Securities and Diversification*

*Acceptable Investments:*

1. Federally insured certificates of deposits, savings accounts, and money market funds that invest in government backed securities.
2. Bank repurchase agreements, banker acceptances, and commercial paper.
3. United States Treasury Bills and United States Government Securities that are backed by full faith of the United States Government.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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4. Investment grade (BBB) or better individual corporate or municipal bonds.
5. Exchange traded funds.
6. Open end and closed-end mutual funds.
7. Equities of Corporations listed on the New York Stock Exchange (NYSE),
8. American Stock Exchange (AMEX), and large and medium capitalization companies listed on National Association of Securities Dealers Exchange (NASDAQ).
9. Master Limited Partnerships (MLPs).
10. Real Estate Investment Trusts (REITs)

*Portfolio Diversification:*

To support the stated investment objectives, the Trust's funds will be diversified to sufficiently minimize risk as well as to assure adequate liquidity and marketability of the invested funds.

- a. In order to minimize the risk of large losses in individual security positions, the portfolio will be constructed to attain extensive diversification in both equity and fixed income investments with no material concentration of plan assets in any single security or industry group with the exception of U.S. Government and Agency obligations.
- b. Economic Sectors: It is expected that the equity component of the portfolio will reflect a broad economic sector diversification.

Asset Category	Preferred Allocation	Target Range
Equities	40%	20 - 50%
Bonds/Fixed Income	55%	30 - 70%
Cash/Equivalents	5%	0 - 20%



**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date</u>		
		<u>Using Quoted Prices</u>		
		In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>				
Equity Mutual Funds	\$ 55,299,718	\$ 55,299,718	-	-
Total Investments	<u>\$ 55,299,718</u>	<u>\$ 55,299,718</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>June 30, 2015</u>				
Equity Mutual Funds	\$ 50,418,970	\$ 50,418,970	-	-
Total Investments	<u>\$ 50,418,970</u>	<u>\$ 50,418,970</u>	<u>\$ -</u>	<u>\$ -</u>

All assets have been valued using a market approach. Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. There were no changes in the valuation techniques and related inputs.

**4. ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Contributions Receivable	\$ 2,902	\$ 4,275
Reinsurance Receivable	1,114,003	432,201
Other Receivables	<u>64,081</u>	<u>378,860</u>
Total	<u>\$ 1,180,986</u>	<u>\$ 815,336</u>

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**5. CLAIMS LIABILITIES**

The Trust has established a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The liability is based on an actuarial study of the program prepared by the Trust's consulting actuary. The liability for unpaid claims and claims adjustment expenses have been discounted and reflects a reduction for future interest income which will be available to meet the Trust's claims payment obligations. The following represents changes in those aggregate liabilities for the Trust during fiscal years ended:

	2016	2015
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 21,851,979	\$ 18,798,385
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	10,088,527	12,885,086
Changes in provision for insured events of prior fiscal years	1,168,334	(1,615,088)
Changes in provision for ULAE	(77,003)	133,102
Total incurred claims and claim adjustment expenses	11,179,858	11,403,100
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	1,976,009	3,647,251
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	11,170,682	4,702,255
Total payments	13,146,691	8,349,506
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 19,885,145	\$ 21,851,979
Current portion	\$ 8,056,741	\$ 9,303,406
Noncurrent portion	11,828,404	12,548,573
	\$ 19,885,145	\$ 21,851,979

As of June 30, 2016 and 2015, \$20,564,899 and \$22,032,278 of unpaid claims and claim adjustment expenses were presented at their net present value of \$19,885,145 and \$21,851,979 using an interest rate of 2.5%.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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**6. CLAIMS AND ADMINISTRATIVE SERVICE AGREEMENTS**

The Trust receives professional insurance management and support services from Special Districts Association of Oregon (SDAO). The expense for services provided under contract during the years ended June 30, 2016 and 2015 were \$1,829,500 and \$1,633,000, respectively.

The Trust also receives pre-loss legal, administration and support services from Oregon School Boards Association. The expense for these services provided under contract during the years ended June 30, 2016 and 2015 were \$804,214 and \$862,651, respectively.

**7. RESTRICTED SURPLUS**

Restricted surplus balances for June 30, 2016 and 2015 are calculated as follows:

	<u>2016</u>	<u>2015</u>
Member Premiums	\$ 31,934,445	\$ 31,151,517
Premiums Paid	<u>9,129,962</u>	<u>8,834,246</u>
Net Contributions	22,804,483	22,317,271
State Restricted Percentage (25%)	<u>0.25</u>	<u>0.25</u>
Restricted Surplus	<u>\$ 5,701,121</u>	<u>\$ 5,579,318</u>

The amounts the Trust returned in surplus equity during the years ended June 30, 2016 and 2015 were \$0. Upon inception of the Trust, the Special Districts Insurance Services Trust (SDIS) School District Program's operations and members were transferred to the Trust. An agreement exists between SDIS and the Trust stating that SDIS will annually identify and transfer balances of retained net assets deemed prudent from the SDIS School District Program to the Trust. The Trust will then distribute this surplus to remaining members of the School District Program.

**8. SUBSEQUENT EVENTS**

The Trust's management evaluated its fiscal year 2015-16 financial statements for subsequent events through October 28, 2016, the date the financial statements were available to be issued. Management issued the following statement:

## **SUPPLEMENTARY INFORMATION**

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**

**CLAIMS DEVELOPMENT INFORMATION**

**JUNE 30, 2016**

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The tables on the following pages illustrate each program's earned revenues and investment income compared to related costs of loss and other expenses assumed by the program as of the end of the year. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's a) gross earned contributions revenue and investment revenue, b) the amount of contributions revenue ceded to reinsurers, and c) the amount of net earned contributions revenue and investment revenue.
2. This line shows each fiscal year's other operating costs including overhead and claims expense not allocable to individual claims.
3. This line shows the total of each policy year's a) gross incurred claims and allocated claim adjustment expense (both paid and accrued); b) the loss assumed by excess insurers or reinsurers, and c) the net amount of incurred claims and allocated claim adjustment expenses as originally reported at the end of the year.
4. This section shows the cumulative amounts paid by policy year as of the end of each fiscal year.
5. This line discloses the reestimated amount for losses assumed by excess insurers or reinsurers based on the information available as of the end of the current year.
6. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As the data for individual policy years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION  
CLAIMS DEVELOPMENT INFORMATION**

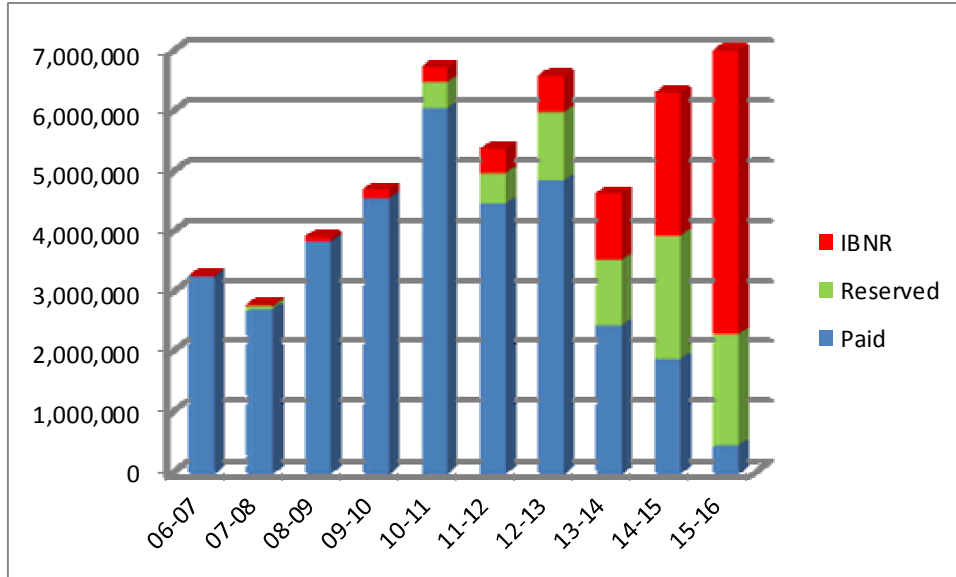
**JUNE 30, 2016**

	<u>Fiscal and Policy Year Ended</u>									
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
1. Required contribution and investment revenue:										
Gross Contribution	\$ 18,910,185	\$ 19,605,616	\$ 19,271,908	\$ 21,091,358	\$ 21,447,082	\$ 23,283,466	\$ 25,873,315	\$ 30,289,039	\$ 31,151,517	\$ 31,934,445
Investment Earnings During Policy Period	367,411	326,911	225,817	191,180	186,112	201,151	170,790	996,896	438,688	167,357
Investment Earnings Subsequent to Policy Period	1,046,572	664,284	341,454	454,773	331,156	412,493	688,622	495,931	(2,735)	-
Ceded	7,391,527	7,719,386	7,357,443	8,749,917	8,272,053	8,912,189	10,194,871	8,002,527	8,834,245	9,129,962
Net earned	12,932,641	12,877,426	12,481,736	12,987,394	13,692,297	14,984,921	16,537,855	23,779,339	22,753,225	22,971,840
2. Unallocated expenses	3,657,068	3,868,864	4,039,229	3,837,330	3,963,466	4,236,418	4,587,603	4,858,459	5,672,618	5,832,902
3. Estimated incurred claims and expense, end of policy year:										
Incurred	9,753,795	12,697,383	11,953,338	7,499,289	9,594,723	20,734,769	13,158,564	11,144,669	17,873,761	10,736,025
Ceded	4,438,710	5,249,852	4,480,142	547,688	1,474,652	9,952,507	3,431,557	695,957	4,988,675	686,421
Net incurred	5,315,085	7,447,531	7,473,195	6,951,601	8,120,071	10,782,262	9,727,007	10,448,712	12,885,086	10,049,604
4. Paid (cumulative) as of:										
End of policy year	2,425,953	2,392,299	2,400,469	2,422,022	2,523,715	2,456,908	2,736,713	3,871,921	3,647,253	1,945,190
One Year Later	3,362,061	4,181,102	4,486,092	3,587,382	4,547,504	5,107,369	4,302,387	5,741,652	9,633,712	
Two Years Later	4,256,461	4,435,524	5,814,817	4,837,784	6,830,482	6,770,370	5,203,757	7,446,169		
Three Years Later	4,437,829	5,038,741	7,063,847	6,812,782	8,338,548	7,726,003	7,652,556			
Four Years Later	4,577,337	5,761,299	7,220,140	7,343,657	8,827,953	8,244,413				
Five Years Later	4,996,145	6,000,231	7,408,325	7,343,296	9,070,147					
Six Years Later	5,596,741	6,027,073	7,479,649	7,340,960						
Seven Years Later	5,670,018	6,106,373	7,478,849							
Eight Years Later	5,768,375	6,377,125								
Nine Years Later	5,859,619									
5. Reestimated ceded claims and expenses	6,633,467	10,364,325	8,917,395	1,198,265	1,349,163	13,632,429	4,281,361	158,819	7,658,899	-
6. Reestimated net incurred claims and expenses:										
End of policy year	5,315,085	7,447,531	7,473,195	6,951,601	8,120,070	10,782,262	9,727,007	10,448,712	12,885,086	10,049,604
One Year Later	5,986,631	6,712,582	7,603,378	7,238,274	10,195,296	11,148,758	9,656,663	10,368,345	14,044,716	
Two Years Later	5,634,666	6,050,323	7,819,023	8,311,028	10,171,115	9,462,118	8,700,516	9,990,599		
Three Years Later	5,090,818	6,387,440	8,099,854	8,258,817	10,059,158	9,319,173	9,290,522			
Four Years Later	5,088,730	6,546,748	7,871,394	7,794,064	9,690,057	9,116,935				
Five Years Later	5,514,899	6,624,801	7,743,497	7,596,404	9,771,684					
Six Years Later	5,736,825	6,704,423	7,572,297	7,486,759						
Seven Years Later	5,788,958	6,795,455	7,548,172							
Eight Years Later	5,853,500	6,453,098								
Nine Years Later	5,869,029									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	<u>\$ 553,944</u>	<u>\$ (994,433)</u>	<u>\$ 74,977</u>	<u>\$ 535,158</u>	<u>\$ 1,651,613</u>	<u>\$ (1,665,327)</u>	<u>\$ (436,485)</u>	<u>\$ (458,113)</u>	<u>\$ 1,159,630</u>	<u>\$ -</u>

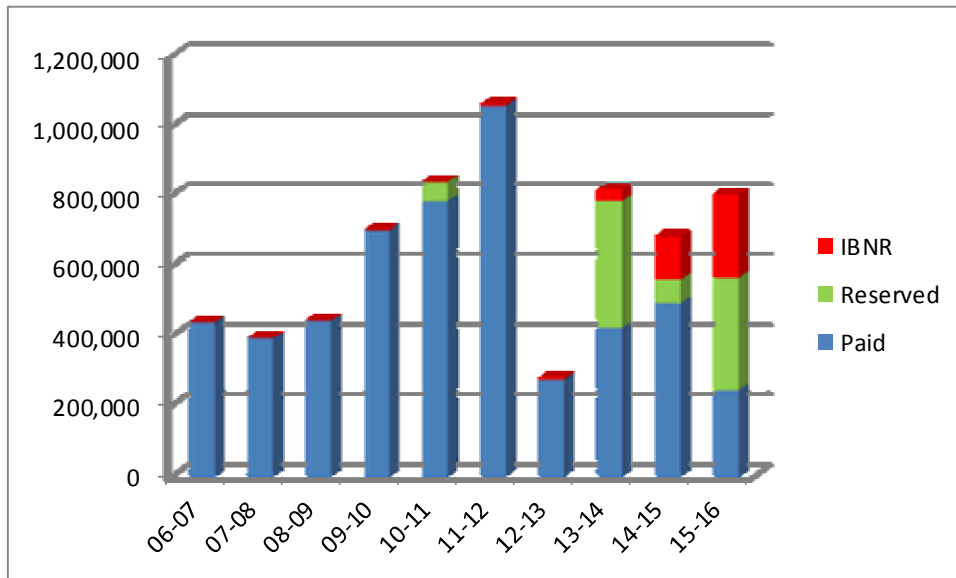
**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION  
GRAPHICAL SUMMARY OF CLAIMS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**General Liability**



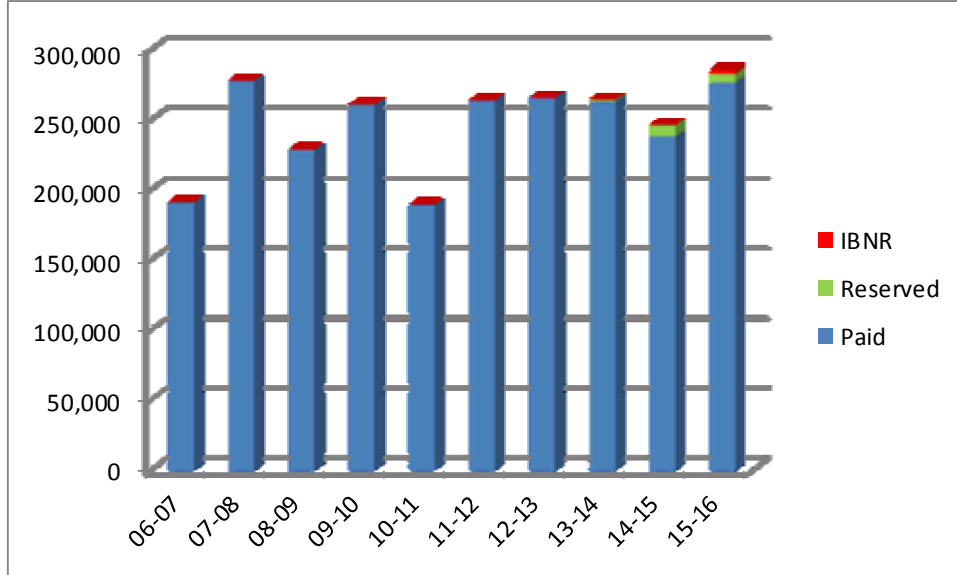
**Auto Liability**



**OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION  
GRAPHICAL SUMMARY OF CLAIMS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Auto Physical Damage**



**Property**

