

***OREGON SCHOOL BOARDS ASSOCIATION  
PROPERTY AND CASUALTY COVERAGE  
FOR EDUCATION  
FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010***

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

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Oregon School Boards Association  
Salem, Oregon



**GROVE, MUELLER & SWANK, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

***INDEPENDENT AUDITOR'S REPORT***

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

We have audited the accompanying statements of financial position of Oregon School Boards Association Property and Casualty Coverage for Education (a component unit of Oregon School Boards Association), as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The five-year claims development information on page 15 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.

  
CERTIFIED PUBLIC ACCOUNTANTS  
October 17, 2011



**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
Premiums	\$ 21,447,082	\$ 21,091,358
<b>Expenses</b>		
Underwriting Expenses:		
Loss and loss adjustment expense	8,954,814	5,870,703
Insurance premiums	8,272,053	8,749,916
Local agent commissions	1,876,522	1,925,406
Broker fees	90,000	75,000
Operating Expenses:		
Contract fees - SDAO	1,267,500	1,225,000
Contract fees - OSBA	310,488	304,400
Administrative expenses	418,956	307,524
<b>Total Expenses</b>	<u>21,190,333</u>	<u>18,457,949</u>
<b>Operating Income</b>	256,749	2,633,409
<b>Non-Operating Revenues</b>		
Interest income	785,884	659,412
Investment (loss)/income	(44,770)	11,267
<b>Total Non-Operating Revenues</b>	<u>741,114</u>	<u>670,679</u>
<b>Change in Net Assets</b>	997,863	3,304,088
Transfer from SDAO	150,000	-
Transfer from Oregon School Boards Association Property and Casualty Trust	-	2,460,177
Return of surplus equity	(497,473)	-
<b>Total Equity Transfers</b>	<u>(347,473)</u>	<u>2,460,177</u>
<b>Net Assets, Beginning of year</b>	<u>14,687,803</u>	<u>8,923,538</u>
<b>Net Assets, End of year</b>	<u>\$ 15,338,193</u>	<u>\$ 14,687,803</u>

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

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b><i>Cash Flows From Operating Activities</i></b>		
Cash received from premiums	\$ 21,941,136	\$ 21,240,731
Cash paid for claims	(5,681,325)	(5,116,525)
Cash paid for insurance premiums	(8,261,703)	(8,754,927)
Cash paid for other underwriting expenses	(1,967,020)	(1,999,380)
Cash paid for operating expenses	(2,090,711)	(1,799,100)
	<hr/>	<hr/>
<i>Net Cash Flows Provided by Operating Activities</i>	3,940,377	3,570,799
<b><i>Cash Flows From Investing Activities</i></b>		
Investment income received	783,775	599,910
Purchase of investments	(25,398,308)	(33,843,094)
Sale of investments	21,105,163	19,984,695
	<hr/>	<hr/>
<i>Net Cash Flow Used in Investing Activities</i>	(3,509,370)	(13,258,489)
<b><i>Cash Flows from Noncapital Financing Activities</i></b>		
Transfer from SDAO to PACE	150,000	-
Transfer from Oregon School Boards Association Property and Casualty Trust	-	2,908,052
Return of surplus equity	(497,473)	-
	<hr/>	<hr/>
<i>Net Cash Flow Provided by Noncapital Financing Activities</i>	(347,473)	2,908,052
<b><i>Net Change in Cash and Cash Equivalents</i></b>	83,534	(6,779,638)
<b><i>Beginning Cash and Equivalents</i></b>	551,596	7,331,234
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<b><i>Ending Cash and Cash Equivalents</i></b>	<u>\$ 635,130</u>	<u>\$ 551,596</u>

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*Provided by Operating Activities*

*Cash Flows from Operating Activities*

Operating income	\$	256,749	\$	2,633,409
<i>Adjustments to Reconcile Operating Net Income to Cash</i>				
<i>Provided by Operating Activities</i>				
Decrease (increase) in:				
Accounts receivable		129,397		394,054
Prepaid expenses		(18,309)		(36,601)
Increase (decrease) in:				
Accounts payable		(71,990)		(346,527)
Deferred revenue		473,896		10,964
Claims payable		3,170,634		915,500
		<u>                    </u>		<u>                    </u>
<i>Net Cash Provided by Operating Activities</i>	\$	<u>3,940,377</u>	\$	<u>3,570,799</u>

*The accompanying notes are an integral part of the financial statements.*

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

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***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The Oregon School Boards Association Property and Casualty Coverage for Education Trust (“Trust”) is a component unit of Oregon School Boards Association (OSBA). The Trust was formed effective July 1, 2006 and offers property and casualty coverage to school districts. The Trustees of OSBA Property and Casualty Coverage for Education Trust are appointed by the Board of Directors of Oregon School Boards Association. The accompanying financial statements include all financial activities of the Trust. The Trust purchases various services from OSBA and pays a fee for administration. In addition, the Trust contracts with Special Districts Association of Oregon (SDAO) to provide claims processing, accounting, underwriting and loss control services for the Trust.

*Basis of Accounting*

Financial transactions are recorded on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Trust has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

*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.

*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 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.

Oregon statutes authorize the Trust to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, certain commercial paper, and the Oregon State Treasurer's Local Government Investment Pool, among others.

*Accounts Receivable*

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.

*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, 2011 and 2010, the Trust held unearned premiums in the amount of \$1,046,373 and \$572,477, respectively.



**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 YEARS ENDED JUNE 30, 2011 AND 2010

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Claims and Claims Adjustment Expenses*

Unpaid losses and loss adjustments expenses at June 30, 2011 have been estimated based upon an actuarial study of the program prepared by the Trust's consulting actuary. The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and 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 salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on several complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of 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 on both the actual historical data that reflect past inflation and other 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.

*Restricted Surplus*

The Trust is obligated to return surplus of the Trust to members once the 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.

*Income Taxes*

The Trust is tax exempt under Internal Revenue Code Section 115.

**SELF-INSURANCE LIMITS**

The Trust has established a \$600,000 general liability and a \$250,000 property self-insurance limit. The self-insurance pool provides for the first \$600,000 of each general liability claim and the first \$250,000 of property, automobile, errors and omissions, and other miscellaneous coverages.

**CASH AND CASH EQUIVALENTS**

The Trust has the following cash and cash equivalents:

	<u>2011</u>	<u>2010</u>
Demand deposits with financial institutions	\$ 132,807	\$ 266,392
Local Government Investment Pool	502,323	285,204
	<u>635,130</u>	<u>551,596</u>
<i>Total Cash and Cash Equivalents</i>	<u>\$ 635,130</u>	<u>\$ 551,596</u>

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
*YEARS ENDED JUNE 30, 2011 AND 2010*

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**CASH AND CASH EQUIVALENTS (Continued)**

*Deposits*

At June 30, 2011, the Trust's demand deposits with various financial institutions had a bank value of \$143,760.

*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. As of June 30, 2011, all amounts were covered by FDIC insurance.

*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, 2011, 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 commingled 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 TRUST**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**INVESTMENTS**

At June 30, 2011, the Trust's investment balances were as follows:

<i>Description</i>	<i>Face Amount</i>	<i>Fair Value</i>	<i>Investment Maturities</i>	
			<i>Less than 18 months</i>	<i>18-60 months</i>
Federal Government Obligations	\$ 1,064,826	\$ 1,064,826	\$ 1,064,826	\$ -
Bank of America - 5.45%, due 4/1/2015	536,134	538,322	-	538,322
Bank of America - 4.5%, due 4/1/2015	512,870	522,750	-	522,750
FFCB - 2.04%, due 6/15/2016	1,000,000	988,461	-	988,461
FHLMC - 2.125%, due 8/25/2015	2,000,000	2,006,130	-	2,006,130
FHLMC - 2.8%, due 4/26/16	1,000,000	1,001,889	-	1,001,889
FNMA - 2.125%, due 8/12/2012	1,000,000	1,002,559	1,002,559	-
FNMA - 1.875%, due 9/9/2015	1,000,000	1,004,067	-	1,004,067
FNMA - 2.125%, due 8/10/2015	1,009,691	1,010,150	-	1,010,150
FNMA - 2.25%, due 7/22/2015	2,000,000	2,002,304	-	2,002,304
FHLB - 2.05%, due 10/5/2015	1,445,000	1,436,576	-	1,436,576
FHLB - 1.75%, due 11/23/2015	1,000,000	997,858	-	997,858
FHLB - 1.85%, due 9/10/2015	1,000,000	998,204	-	998,204
FHLB - 1.875%, due 5/11/2015	2,000,000	1,993,928	-	1,993,928
FHLB - 2.2%, due 6/30/2016	1,000,000	991,245	-	991,245
FHLB - 3.25%, due 8/26/2014	1,008,965	1,004,711	-	1,004,711
FHLB STD NET, due 4/27/2016	1,000,000	1,000,320	-	1,000,320
GE - 1.307%, due 8/15/2011	493,039	500,120	500,120	-
GE - 3.75%, due 11/14/2014	509,013	529,254	-	529,254
ID HLTH - 4%, due 7/1/2015	331,336	330,100	-	330,100
JP Morgan Chase - 3.7%, due 1/20/2015	505,149	519,904	-	519,904
JPM Bear Stearns - 5.7%, due 11/15/2014	549,971	552,236	-	552,236
Key Bank - 5.5%, due 9/17/2012	1,025,206	1,052,110	1,052,110	-
Mellon Bank - 5.0%, due 12/01/2014	1,069,157	1,099,923	-	1,099,923
Merrill Lynch - 5.45%, due 2/5/2013	523,017	530,396	-	530,396
NYL - 3%, due 5/4/2015	986,238	982,525	-	982,525
Rabobank - 3.2%, due 3/11/2015	999,614	1,034,535	-	1,034,535
US Bank - 4.95%, due 10/30/2014	1,069,153	1,094,184	-	1,094,184
Wells Fargo - 3.75%, due 10/1/2014	1,016,049	1,053,908	-	1,053,908
<i>Totals</i>		\$ 28,843,495	\$ 3,619,615	\$ 25,223,880

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**INVESTMENTS (Continued)**

At June 30, 2010, the Trust's investment balances were as follows:

<i>Description</i>	<i>Face Amount</i>	<i>Fair Value</i>	<i>Investment Maturities</i>	
			<i>Less than 18 months</i>	<i>18-60 months</i>
Federal Government Obligations	\$ 4,476,639	\$ 4,476,639	\$ 4,476,639	\$ -
Bank of America - 7.4%, due 1/15/2011	1,040,288	1,029,643	1,029,643	-
Bank One - 7.875%, due 8/01/2010	509,646	502,231	502,231	-
FFCB - 2%, due 9/10/2012	1,000,000	1,003,125	-	1,003,125
FHLMC - 3%, due 2/17/2015	1,000,000	1,003,385	-	1,003,385
FHLMC - 3%, due 4/15/2015	1,000,000	1,016,466	-	1,016,466
FNMA - 2%, due 12/3/2012	1,000,004	1,006,250	-	1,006,250
FNMA - 3%, due 10/23/2014	1,000,000	1,001,562	-	1,001,562
FHLB - 3%, due 10/06/2014	1,000,000	1,006,875	-	1,006,875
FHLB - 3%, due 3/02/2015	1,000,000	1,004,375	-	1,004,375
FHLB - 3%, due 4/15/2015	1,000,000	1,000,937	-	1,000,937
FHLB - 3%, due 5/11/2015	1,700,000	1,704,250	-	1,704,250
FHLB - 3.1%, due 4/27/2015	480,000	480,900	-	480,900
FHLB - 3.25%, due 8/26/2014	1,011,361	1,032,188	-	1,032,188
GE - 1.307%, due 8/15/2011	466,254	497,524	497,524	-
GE - 3.75%, due 11/14/2014	511,409	511,492	-	511,492
JP Morgan Chase - 3.7%, due 1/20/2015	506,260	511,423	-	511,423
Key Bank - 5.5%, due 9/17/2012	1,041,246	1,064,914	-	1,064,914
Mellon Bank - 5.0%, due 12/01/2014	1,087,667	1,091,761	-	1,091,761
Merrill Lynch - 5.45%, due 2/5/2013	534,012	524,519	-	524,519
Rabobank - 3.2%, due 3/11/2015	999,530	1,011,047	-	1,011,047
US Bank - 4.95%, due 10/30/2014	1,087,681	1,089,784	-	1,089,784
Wells Fargo - 3.75%, due 10/1/2014	1,020,310	1,023,830	-	1,023,830
<i>Totals</i>		\$ 24,595,120	\$ 6,506,037	\$ 18,089,083

**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.

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
*YEARS ENDED JUNE 30, 2011 AND 2010*

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**INVESTMENTS (Continued)**

*Investment Securities and Diversification*

*Acceptable Investments:*

1. General obligations of the United States issued as U.S. Treasury Bills, Notes and Bonds and Federal Agency securities.
2. Obligations of Oregon and its respective political subdivisions having a long-term rating of A or an equivalent rating or better, or are rated in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.
3. Lawfully issued debt of Washington, Idaho and California and their respective political subdivisions having a long-term rating of AA or an equivalent rating or better, or are rated in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.
4. Negotiable Certificates of Deposit of banks, mutual savings banks and savings and loan associations which maintain a head office or branch in the state of Oregon.
5. Fixed or Variable Life Insurance or Annuity Contracts and Guaranteed Investment Contracts issued by life insurance companies authorized to do business in Oregon.
6. Deferred Compensation Funds used by other public employers if the Trust is a public instrumentality of such public employers and is described as set forth in ORS 294.035(7).
7. Banker's Acceptance of qualified financial institutions pursuant to Oregon law. Guaranteed by and carried on the books of a qualified financial institution defined as financial institution located and licensed to do business in the state of Oregon or a financial institution licensed and qualified to do business in the company that owns a financial institution that is located and licensed to do banking business in the state of Oregon and the obligation is eligible for discount by the Federal Reserve System and issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organization.
8. Corporate Indebtedness: Commercial Paper, Bonds and MTNS.
9. Securities of any open- and/or closed-end management investment company or investment trust subject to the limitations set forth in ORS 294.035(10).
10. Repurchase Agreements: Only securities described in paragraph 1 above shall be used in conjunction with repurchase agreements and such securities shall have a maturity of not longer than three years. The price paid for such securities may not exceed amounts or percentages prescribed by Oregon statute.

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 YEARS ENDED JUNE 30, 2011 AND 2010

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**INVESTMENTS (Continued)**

*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. Additionally, ORS 294.035 sets forth diversification limitations. These limitations are applied on a fund-by-fund basis.

Corporate Indebtedness of "Oregon Issuer" (ORS 294.035(9)9C0):

- No more than 35% of any association's fund
- No more than 5% with any one single corporate entity

Corporate Indebtedness of "Outside Oregon Issuer" (ORS 294.035(9)(a)(b):

- No more than 35% of any association's fund
- No more than 5% with any one single corporate entity

Banker's Acceptances:

- No more than 25% of any association's fund may be invested in banker's acceptances of any qualified financial institution

**CLAIMS AND CLAIMS ADJUSTMENT EXPENSES PAYABLE**

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. Administration fees for unresolved claims was estimated at \$818,200 and included in claims payable.

The liability for unpaid claims and claims adjustment expenses has not been discounted and does not reflect 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 the past year:

	<u>2011</u>	<u>2010</u>
Claims and claims adjustment expense payable at beginning of year	\$ 10,995,730	\$ 9,632,355
PACT beginning claims expense from merger	<u>-</u>	<u>447,875</u>
<i>Total Claims and Claims Adjustment Expenses Payable</i>	10,995,730	10,080,230
Incurred claims and claims adjustment expense:		
Provisions for insured events of the current year	8,120,071	6,951,602
Changes in provision for insured events of prior fiscal years	714,908	(1,129,263)
Changes in provision for ULAE	<u>119,835</u>	<u>48,365</u>
<i>Total Incurred Claims and Claims Adjustment Expenses</i>	8,954,814	5,870,704

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 YEARS ENDED JUNE 30, 2011 AND 2010

**CLAIMS AND CLAIMS ADJUSTMENT EXPENSES PAYABLE (Continued)**

	<u>2011</u>	<u>2010</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	\$ 2,523,717	\$ 2,422,022
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>3,260,463</u>	<u>2,533,182</u>
<i>Total Payments</i>	<u>5,784,180</u>	<u>4,955,204</u>
<i>Claims and Claims Adjustment Expense Payable</i>	<u>\$ 14,166,364</u>	<u>\$ 10,995,730</u>

**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, 2011 and 2010 were \$1,267,500 and \$1,225,000, respectively.

The Trust also receives administration and support services from Oregon School Boards Association. The expense for these services provided under contract during the years ended June 30, 2011 and 2010 were \$310,488 and \$304,400, respectively.

In addition, Oregon School Boards Association provides pre-loss legal and other services to the Trust. Amounts paid for these services during the years ended June 30, 2011 and 2010 were \$202,595 and \$138,449, respectively. Amounts payable at June 30, 2011 and 2010 were \$12,264 and \$9,267, respectively.

**ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Contributions receivable	\$ 15,285	\$ 75,539
Reinsurance receivable	842,181	951,419
Miscellaneous receivable	<u>40,095</u>	<u>-</u>
<i>Total Accounts Receivable</i>	<u>\$ 897,561</u>	<u>\$ 1,026,958</u>

**OREGON SCHOOL BOARDS ASSOCIATION**  
**PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
*YEARS ENDED JUNE 30, 2011 AND 2010*

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**RESTRICTED SURPLUS**

Restricted surplus balances for June 30, 2011 and 2010 are calculated as follows:

	<u>2011</u>	<u>2010</u>
Member premiums	\$ 21,447,082	\$ 21,091,715
Premiums paid	8,272,053	8,749,917
	<hr/>	<hr/>
Net contributions	13,175,029	12,341,798
	<hr/>	<hr/>
State restricted percentage (25%)	0.25	0.25
	<hr/>	<hr/>
Restricted surplus	<u>\$ 3,293,757</u>	<u>\$ 3,085,450</u>

The amounts the Trust returned in surplus equity during the years ended June 30, 2011 and 2010 were \$497,473 and \$-0-, respectively.

Upon inception of the Trust, the Special Districts Association of Oregon (SDAO) School District Program's operations and members were transferred to the Trust. An agreement exists between SDAO and the Trust stating that SDAO will annually identify and transfer balances of retained net assets deemed prudent from the SDAO School District Program to the Trust. The Trust will then distribute this surplus to remaining members of the School District Program. During the year, SDAO transferred \$150,000 to the Trust for distribution of surplus equity to members under this agreement.

**SUBSEQUENT EVENTS**

The Trust follows the provisions of Accounting Standards Codification (ASC) 855 "Subsequent Events". ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through October 17, 2011, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.



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

The table below illustrates how the Trust's earned revenues compared to related costs of loss and other expenses assumed by the Trust as of the end of each of the last five years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues. (2) This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims. (3) This line shows the Trust's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section of two rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of two rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation 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. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	<b>June 30, 2011</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
(1) Net earned required contribution	\$ 13,347,720	\$ 12,662,965	\$ 1,233,930	\$ 12,497,424	\$ 12,452,376
(2) Unallocated expenses	3,963,466	3,837,330	4,036,229	3,868,864	3,657,068
(3) Estimated incurred claims and claims expense, end of policy year	8,120,071	6,951,601	7,473,195	7,447,531	5,315,085
(4) Paid (cumulative as of:					
End of policy period	2,523,717	2,422,022	2,400,468	2,392,299	2,425,953
One year later	-	3,582,034	4,432,777	4,181,102	3,362,061
Two years later	-	-	5,770,501	4,434,096	4,256,461
Three years later	-	-	-	5,037,313	4,409,738
Four years later	-	-	-	-	4,549,246
(5) Re-estimated incurred claims and claims expense					
End of policy period	8,120,071	6,951,601	7,473,195	7,447,531	5,315,085
One year later	-	7,232,726	7,603,378	6,701,154	5,986,631
Two years later	-	-	7,774,707	6,038,895	5,606,575
Three years later	-	-	-	6,386,012	5,062,726
Four years later	-	-	-	-	5,060,639
(6) Increase (decrease) in estimated incurred claims and claims expenses from end of policy year	-	281,125	301,512	(1,061,519)	(252,358)