

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

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2012 AND 2011**

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

John Rexford - Chair
Bend-LaPine Assistant Superintendent

Adam Stewart – Co-Chair
Hillsboro Chief Financial Officer

Allen Bunch
Chemeketa Risk Manager

Debbie Laszlo
Redmond 2J Regional Risk/Benefits Manager

Phil Long
Medford 549C Superintendent

Mike Schofield
Forest Grove CFO

Phil Wentz
Tigard-Tualatin Facilities Manager

Terry Lenchitsky
Oregon Trail 46 Board Member

Marie Knight
Vernonia Fiscal Assistant and Safety Coordinator

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL SECTION	
Statement of Net Assets	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6
REQUIRED SUPPLEMENTARY INFORMATION	
Claims Development Information	17
SUPPLEMENTARY INFORMATION	
Graphical Summary of Claims	19



James Marta & Company

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Net Assets of Oregon School Boards Association Property and Casualty Coverage for Education (PACE) as of and for the year then ended June 30, 2012, and the related Statement of Activities, and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of PACE's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Oregon School Boards Association Property and Casualty Coverage for Education as of June 30, 2011, were audited by other auditors whose report dated October 17, 2011, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements 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, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Oregon School Boards Association Property and Casualty Coverage for Education. The Claims Development Information is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. The Graphical Summary of Claims is presented for purposes of additional analysis and is not a required part of the basic 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 Claims Development Information and Graphical Summary of Claims are fairly stated in all material respects in relation to the financial statements as a whole.

James Marta & Company

James Marta & Company
Certified Public Accountants
November 16, 2012

FINANCIAL SECTION

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS:		
Current Assets:		
Cash	\$ 2,091,805	\$ 635,129
Investments	6,233,865	3,619,615
Accounts receivable	373,210	897,562
Prepaid expenses	44,504	50,168
Total Current Assets	8,743,384	5,202,474
Non Current Assets:		
Investments	25,545,700	25,420,299
Total Assets	34,289,084	30,622,773
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	1,746,993	71,842
Deferred revenue	1,059,733	1,046,373
Claims payable - current portion	8,500,000	6,000,000
Total Current Liability	11,306,726	7,118,215
Non Current Liabilities		
Claims Payable	12,461,110	8,166,365
Total Liabilities	23,767,836	15,284,580
Net Assets	\$ 10,521,248	\$ 15,338,193

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, 2012 AND 2011

	2012	2011
REVENUES:		
Member contributions	\$ 23,283,466	\$ 21,447,082
EXPENSES:		
Underwriting Expenses:		
Claims expense	14,988,440	8,954,814
Insurance premiums	8,912,189	8,272,053
Local agent commissions	1,994,756	1,876,524
Broker fees	90,000	90,000
Operating Expenses:		
Contract Fees - SDAO	1,317,500	1,267,500
Contract Fees - OSBA	326,012	310,488
Operating Expenses	508,155	418,954
Dividends	720,000	497,473
Total Expenses	28,857,052	21,687,806
Operating Income (Loss)	(5,573,586)	(240,724)
Non-Operating Revenues		
Interest Income	756,641	741,114
Change in Net Assets	(4,816,945)	500,390
Net Assets, Beginning	15,338,193	14,837,803
Net Assets, Ending	\$ 10,521,248	\$ 15,338,193

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, 2012 AND 2011

	2012	2011
Cash Flow From Operating Activities		
Cash received from members	\$ 23,310,499	\$ 21,941,136
Cash paid for claims	(7,683,016)	(5,681,325)
Cash paid for insurance premiums	(8,912,189)	(8,261,703)
Cash paid for other underwriting expenses	(2,084,756)	(1,967,020)
Cash paid for operating expenses	(1,190,852)	(2,588,184)
Net Cash Flows Provided (Used) by Operating Activities	3,439,686	3,442,904
Cash Flows From by Investing Activities		
Investment income received	756,639	783,775
Purchase of investments	(31,500,868)	(25,398,308)
Sale of investments	28,761,217	21,105,160
Net Cash Flow Provided (Used) by Investing Activities	(1,983,012)	(3,509,373)
Cash Flows From by Noncapital Financing Activities		
Transfer from Special District Association of Oregon to Oregon School Board Association		
Property and Casualty Coverage for Education	-	150,000
Net Cash Flow Provided by Noncapital Financing Activities	-	150,000
Net Increase (Decrease) in Cash	1,456,676	83,533
Beginning Cash and Equivalents	635,129	551,596
Ending Cash and Equivalents	\$ 2,091,805	\$ 635,129
 Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by Operating Activities		
Operating income (loss)	(5,573,586)	(240,724)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities		
(Increase) Decrease in:		
Account receivable	524,352	129,397
Prepaid expenses	5,664	(18,309)
Increase (Decrease) in:		
Accounts payable	1,675,151	(71,990)
Deferred revenue	13,360	473,896
Claims liabilities	6,794,745	3,170,634
Net Cash Flows Provided by Operating Activities	\$ 3,439,686	\$ 3,442,904

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, JUNE 30, 2012 AND 2011

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). The Trust was formed effective July 1, 2006 and offers property and casualty coverage to school districts.

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 and auto liability claim and the first \$250,000 each of property claim.

B. Membership

Members must be any Oregon School District, Education Service District, or Community College which is a member of the OSBA, any Charter School per SB 100 (1999 Oregon Laws Charter 200) that is sponsored by a participating member of OSBA-PACE or a district who purchases coverage from the OSBA-PACE excess carrier. Currently, there are 294 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, JUNE 30, 2012 AND 2011

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.

The Trust applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations, except where superceded by GASB pronouncements.

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 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. Deferred Revenue/Prepaid Expenses

The policy year-end for the programs is June 30. As such, certain revenues are treated as deferred 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, JUNE 30, 2012 AND 2011

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, 2012 and 2011, the Trust held unearned premiums in the amount of \$1,059,733 and \$1,046,373, 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 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, JUNE 30, 2012 AND 2011

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 actuaries 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 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.

N. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

The Trust has the following cash and cash equivalents:

	2012	2011
Demand Deposits with Financial Institutions	\$ 1,671,501	\$ 132,806
Local Government Investment Pool	420,304	502,323
Total	<u>\$ 2,091,805</u>	<u>\$ 635,129</u>

OREGON SCHOOL BOARDS ASSOCIATION

PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, JUNE 30, 2012 AND 2011

Deposits

At June 30, 2012, the Trust's demand deposits with various financial institutions had a bank value of \$1,684,106.

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, 2012, 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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, JUNE 30, 2012 AND 2011

B. Investments

As of June 30, 2012, The Trust had the following investments held in a managed portfolio:

Investment Type	Fair Value	Investment Maturities		
		<1yr	1-3 yrs	>3yrs
Government Agencies	\$ 14,068,667	\$ -	\$ 310,519	\$ 13,758,148
Corporate Notes	12,996,200	1,519,167	8,397,218	3,079,815
Federated Government Obligations	4,714,698	4,714,698	-	-
Subtotal	<u>\$ 31,779,565</u>	<u>\$ 6,233,865</u>	<u>\$ 8,707,737</u>	<u>\$ 16,837,963</u>

Investment Objectives

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

Investment Securities and Diversification

Acceptable Investments:

- General obligations of the United States issued as U.S. Treasury Bills, Notes and Bonds and Federal Agency securities.
- 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.
- 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.
- 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.
- Fixed or Variable Life Insurance or Annuity Contracts and Guaranteed Investment Contracts issued by life insurance companies authorized to do business in Oregon.
- 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).

OREGON SCHOOL BOARDS ASSOCIATION

PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, JUNE 30, 2012 AND 2011

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.

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

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from changes in interest rates, Oregon School Boards Association Property and Casualty Coverage for Education investment policy limits maturities at the time of purchase of any investment to five years. As of June 30, 2012, Oregon School Boards Association Property and Casualty Coverage for Education had the following investments held in a managed portfolio.

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, JUNE 30, 2012 AND 2011

Credit Rating (S&P)	Federal Agencies	Corporate Notes	Totals
AAA	\$ 13,285,938	\$ 2,028,722	\$ 15,314,660
AA3	332,856	5,802,934	6,135,790
AA2	139,344	1,040,907	1,180,251
AA+	-		0
A3	-	1,009,113	1,009,113
A2	310,529.00	1,548,593	1,859,122
A1	-	1,565,931	1,565,931
Totals	<u>\$ 14,068,667</u>	<u>\$ 12,996,200</u>	<u>\$ 27,064,867</u>

Investments in securities of any one issuer consisting of 5% or more of total investments are as follows:

	Fair Value	% of Portfolio
Federal National Mortgage Association	\$ 6,054,836	22%
Federal Farm Credit Banks	2,006,810	7%
Federal Home Loan Banks	2,002,642	7%

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 and 2011 consist of the following:

	2012	2011
Contributions Receivable	\$ 17,493	\$ 15,285
Reinsurance Receivable	315,922	842,181
Other Receivables	39,795	40,096
Total	<u>\$ 373,210</u>	<u>\$ 897,562</u>

OREGON SCHOOL BOARDS ASSOCIATION

PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, JUNE 30, 2012 AND 2011

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:

	<u>2012</u>	<u>2011</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 14,124,282	\$ 10,995,730
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	10,783,128	8,120,071
Changes in provision for insured events of prior fiscal years	3,955,412	714,908
Changes in provision for ULAE	<u>249,900</u>	<u>119,835</u>
Total incurred claims and claim adjustment expenses	<u>14,988,440</u>	<u>8,954,814</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	2,456,908	2,523,717
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>5,694,708</u>	<u>3,260,464</u>
Total payments	<u>8,151,616</u>	<u>5,784,181</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 20,961,110</u>	<u>\$ 14,166,365</u>
Current Portion	\$ 8,500,000	\$ 6,000,000
Noncurrent Portion	<u>12,461,110</u>	<u>8,166,365</u>
	<u>\$ 20,961,110</u>	<u>\$ 14,166,365</u>

OREGON SCHOOL BOARDS ASSOCIATION

PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, JUNE 30, 2012 AND 2011

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, 2012 and 2011 were \$1,317,500 and \$1,267,500, 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, 2012 and 2011 were \$326,012 and \$310,488, 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, 2012 and 2011 were \$216,076 and \$202,595, respectively. Amounts payable at June 30, 2012 and 2011 were \$33,962 and \$12,264, respectively.

7. RESTRICTED SURPLUS

Restricted surplus balances for June 30, 2012 and 2011 are calculated as follows:

	<u>2012</u>	<u>2011</u>
Member Premiums	\$ 23,283,466	\$ 21,447,082
Premiums Paid	8,912,189	8,272,053
Net Contributions	14,371,277	13,175,029
State Restricted Percentage (25%)	0.25	0.25
Restricted Surplus	<u>\$ 3,592,819</u>	<u>\$ 3,293,757</u>

The amounts the Trust returned in surplus equity during the years ended June 30, 2012 and 2011 were \$720,000 and \$497,473, 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. SDAO transferred \$0 and \$150,000 to the Trust for distribution of surplus equity to members under this agreement as of June 30, 2012 and 2011, respectively.

OREGON SCHOOL BOARDS ASSOCIATION

PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, JUNE 30, 2012 AND 2011

8. SUBSEQUENT EVENTS

The Trust's management evaluated its fiscal year 2011-12 financial statements for subsequent events through November 14, 2012 the date the financial statements were available to be issued. Management issued the following statement:

In July 2012, the OSBA Board drafted and approved a new investment policy for the PACE program, based on a legal opinion that it received that PACE is not restricted legally to the investment options contained in ORS 294. The new policy adds equities to the investment options of the Trust up to a 40% overall allocation. There are minimum company value and size requirements that must be met for any equity investment as well as a 5% maximum allocation in any single company. The use of ETF's for easier diversification was also added to the policy.

REQUIRED SUPPLEMENTARY INFORMATION

SPECIAL DISTRICTS INSURANCE SERVICES

CLAIMS DEVELOPMENT INFORMATION

JUNE 30, 2012

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, 2012

	Fiscal and Policy Year Ended					
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
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
Investment Earnings During Policy Period	367,411	326,911	225,817	191,180	172,691	192,464
Investment Earnings Subsequent to Policy Period	652,863	345,226	225,534	222,083	134,713	0
Ceded	(7,391,527)	(7,719,386)	(7,357,443)	(8,749,917)	(8,272,053)	(8,912,189)
Net earned	12,538,932	12,558,368	12,365,816	12,754,704	13,482,433	14,563,741
2. Unallocated expenses	3,657,068	3,868,864	4,039,229	3,837,330	3,963,466	4,236,418
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	20,735,635
Ceded	(4,438,710)	(5,249,852)	(4,480,142)	(547,688)	(1,474,652)	(9,952,507)
Net incurred	5,315,085	7,447,531	7,473,195	6,951,601	8,120,071	10,783,128
4. Paid (cumulative) as of:						
End of policy year	2,425,953	2,392,299	2,400,469	2,422,022	2,565,799	2,456,908
One Year Later	3,362,061	4,181,102	4,486,092	3,587,382	4,547,504	
Two Years Later	4,256,461	4,435,524	5,814,817	4,837,784		
Three Years Later	4,437,829	5,038,741	7,063,847			
Four Years Later	4,577,337	5,761,299				
Five Years Later	4,996,145					
5. Reestimated ceded claims and expenses	6,639,631	10,361,705	8,981,987	1,294,132	2,209,885	9,952,507
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	10,783,128
One Year Later	5,986,631	6,712,582	7,603,378	7,238,274	10,195,296	
Two Years Later	5,634,666	6,050,323	7,819,023	8,311,028		
Three Years Later	5,090,818	6,387,440	8,099,854			
Four Years Later	5,088,730	6,546,748				
Five Years Later	5,514,899					
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$199,814	(\$900,783)	\$626,659	\$1,359,427	\$2,075,226	\$0

SUPPLEMENTARY INFORMATION

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
GRAPHICAL SUMMARY OF CLAIMS
FOR THE FISCAL YEAR ENDED JUNE 30, JUNE 30, 2012

