OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012

OREGON SCHOOL BOARDS ASSOCIATION

PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

BOARD OF DIRECTORS

Adam Stewart - Chair
Hillsboro Chief Financial Officer

Phil Wentz – Co-Chair
Tigard-Tualatin Facilities Manager

Allen Bunch
Chemeketa Risk Manager

Debbie Laszlo
Redmond 2J Regional Risk/Benefits Manager

Phil Long
Medford 549C Superintendent

Mike Schofield
Forest Grove CFO

John Rexford
High Desert ESD Superintendent

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

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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 of Oregon School Boards Association Property and Casualty Coverage for Education (PACE) as of June 30, 2013 and 2012 and the related Statement of Activities, Statement of Cash Flows and notes to the financial statements for the year then ended.

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 of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

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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, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. .

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financials statements of PACE. The Supplementary Information, as shown on the table of contents, is presented for purposes of additional analysis and is not required parts 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 Supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

James Marta + Company LLP

James Marta & Company LLP
Certified Public Accountants
November 4, 2013

FINANCIAL SECTION

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION

STATEMENTS OF FINANCIAL POSTION

JUNE 30, 2013 AND 2012

	2013	2012
ASSETS:		
Current Assets:		
Cash	$ 2,440,167	$ 2,091,805
Investments	-	6,233,865
Accounts receivable	313,852	373,210
Prepaid expenses	81,221	44,504
Total Current Assets	2,835,240	8,743,384
Non Current Assets:		
Investments	30,861,423	25,545,700
Total Assets	33,696,663	34,289,084
LIABILITIES		
Current Liabilities:		
Accounts payable	81,712	1,746,993
Deferred revenue	1,145,309	1,059,733
Claims payable - current portion	6,940,540	8,500,000
Total Current Liability	8,167,561	11,306,726
Non Current Liabilities		
Claims payable	13,353,897	12,461,110
Total Liabilities	21,521,458	23,767,836
NET ASSETS		
Restricted net assets	8,247,882	6,928,429
Unrestricted net assets	3,927,323	3,592,819
Total Net Assets	$ 12,175,205	$ 10,521,248

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, 2013 AND 2012

	2013	2012
REVENUES:		
Member contributions	$ 25,873,329	$ 23,283,466
Miscellaneous / Other Income	7,200	-
Total Revenues	25,880,529	23,283,466
EXPENSES:		
Underwriting Expenses:		
Claims expense	10,105,636	14,988,440
Insurance premiums	10,164,037	8,912,189
Local agent commissions	2,098,902	1,994,756
Broker fees	100,000	90,000
Operating Expenses:		
Contract fees - SDAO	1,395,000	1,317,500
Contract fees - OSBA	326,012	326,012
Operating expenses	667,701	508,155
Dividends	-	720,000
Total Expenses	24,857,288	28,857,052
Operating Income (Loss)	1,023,241	(5,573,586)
NONOPERATING REVENUES		
Interest income	630,716	756,641
CHANGE IN NET ASSETS	1,653,957	(4,816,945)
NET ASSETS, BEGINNING	10,521,248	15,338,193
NET ASSETS, ENDING	$ 12,175,205	$ 10,521,248

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, 2013 AND 2012

	2013	2012
Cash Flow From Operating Activities		
Cash received from members	$ 25,966,105	$ 23,310,499
Cash paid for claims	(10,712,951)	(7,683,016)
Cash paid for insurance premiums	(10,164,037)	(8,912,189)
Cash paid for other underwriting expenses	(2,198,902)	(2,084,756)
Cash paid for operating expenses	(4,090,711)	(1,190,852)
Net Cash Flows Provided (Used) by Operating Activities	(1,200,496)	3,439,686
Cash Flows From by Investing Activities		
Investment income received	630,714	756,639
Purchase of investments	(25,961,382)	(31,500,868)
Sale of investments	26,879,524	28,761,217
Net Cash Flow Provided (Used) by Investing Activities	1,548,856	(1,983,012)
Net Increase (Decrease) in Cash	348,362	1,456,676
Beginning Cash and Equivalents	2,091,805	635,129
Ending Cash and Equivalents	$ 2,440,167	$ 2,091,805
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by Operating Activities		
Operating income (loss)	1,023,241	(5,573,586)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities		
(Increase) Decrease in:		
Account receivable	59,358	524,352
Prepaid expenses	(36,717)	5,664
Increase (Decrease) in:		
Accounts payable	(1,665,281)	1,675,151
Deferred revenue	85,576	13,360
Claims liabilities	(666,673)	6,794,745
Net Cash Flows Provided by Operating Activities	$ (1,200,496)	$ 3,439,686

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

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 $633,000 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.

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 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

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, 2013 and 2012, the Trust held unearned premiums in the amount of $1,145,309 and $1,059,733, 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.

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.

3. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

The Trust has the following cash and cash equivalents:

	2013	2012
Demand Deposits with Financial Institutions	$ 2,163,008	$ 1,671,501
Local Government Investment Pool	76,841	420,304
Money Market Account	200,318	-
Total	$ 2,440,167	$ 2,091,805

Deposits

At June 30, 2013, the Trust's demand deposits with various financial institutions had a bank value of $2,287,911.

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, 2013, 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.

B. Investments

As of June 30, 2013, The Trust had the following investments held in a managed portfolio:

		Investment Maturities		
Investment Type	Fair Value	<1yr	1-3 yrs	>3yrs
Government Agencies	$ 4,991,152	$ -	$ 304,593	$ 4,686,559
Corporate Notes	20,269,058	-	8,323,813	11,945,245
Subtotal	25,260,210	$ -	$ 8,628,406	$ 16,631,804
Equities	5,362,763			
Accrued Interest	238,450			
Total	$ 30,861,423			

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. 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.

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, 2013, Oregon School Boards Association Property and Casualty Coverage for Education had the following investments held in a managed portfolio.

Credit Rating (S&P)	Federal Agencies	Corporate/Foreign Notes	Totals
AAA	$ 1,204,680	$ 2,026,813	$ 3,231,493
AA3	1,454,403	6,062,088	7,516,491
AA2	136,258	519,602	655,860
AA+	-	1,077,830	1,077,830
AA-	1,065,140	978,581	2,043,721
AA	-	995,570	995,570
A2	304,593	1,045,890	1,350,483
A1	-	1,548,406	1,548,406
A+	312,917	-	312,917
A	-	1,109,541	1,109,541
BBB+	-	1,810,681	1,810,681
BAA2	-	2,146,385	2,146,385
BAA1	-	947,670	947,670
N/A	513,162	-	513,162
Totals	$ 4,991,153	$ 20,269,057	$ 25,260,210

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

	Fair Value	% of Portfolio
General Electric	2,109,801	6.84%

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 and 2012 consist of the following:

	2013	2012
Contributions Receivable	$ 27,864	$ 17,493
Reinsurance Receivable	258,178	315,922
Other Receivables	27,810	39,795
Total	$ 313,852	$ 373,210

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:

	2013	2012
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	$ 20,961,110	$ 14,124,282
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	9,727,007	10,783,128
Changes in provision for insured events of prior fiscal years	445,269	3,955,412
Changes in provision for ULAE	(59,651)	249,900
Total incurred claims and claim adjustment expenses	10,112,625	14,988,440
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	2,736,713	2,456,908
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	8,042,585	5,694,704
Total payments	10,779,298	8,151,612
Total unpaid claims and claim adjustment expenses at end of the fiscal year	$ 20,294,437	$ 20,961,110
Current Portion	$ 6,940,540	$ 8,500,000
Noncurrent Portion	13,353,897	12,461,110
	$ 20,294,437	$ 20,961,110

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, 2013 and 2012 were $1,395,000 and $1,317,500, 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, 2013 and 2012 were $326,012 and $326,012, 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, 2013 and 2012 were $210,040 and $216,076, respectively. Amounts payable at June 30, 2013 and 2012 were $10,750 and $33,962, respectively

7. RESTRICTED SURPLUS

Restricted surplus balances for June 30, 2013 and 2012 are calculated as follows:

	2013	2012
Member Premiums	$ 25,873,329	$ 23,283,466
Premiums Paid	10,164,037	8,912,189
Net Contributions	15,709,292	14,371,277
State Restricted Percentage (25%)	0.25	0.25
Restricted Surplus	$ 3,927,323	$ 3,592,819

The amounts the Trust returned in surplus equity during the years ended June 30, 2013 and 2012 were $0 and $720,000, 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 to the Trust for distribution of surplus equity to members under this agreement as of June 30, 2013 and 2012.

8. SUBSEQUENT EVENTS

The Trust's management evaluated its fiscal year 2012-13 financial statements for subsequent events through November 4, 2013 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, 2013

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.

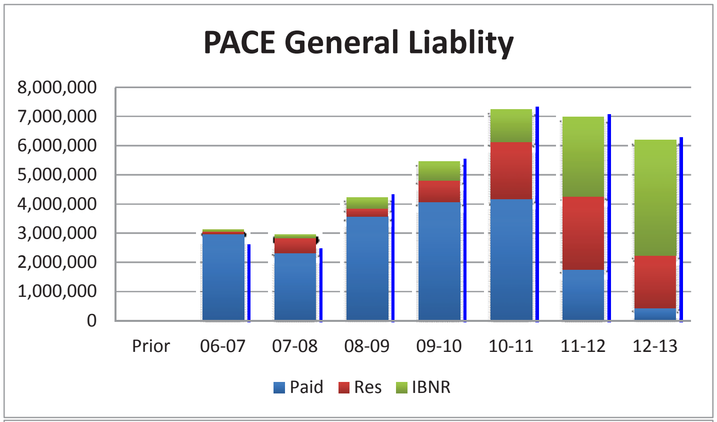
OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
CLAIMS DEVELOPMENT INFORMATION

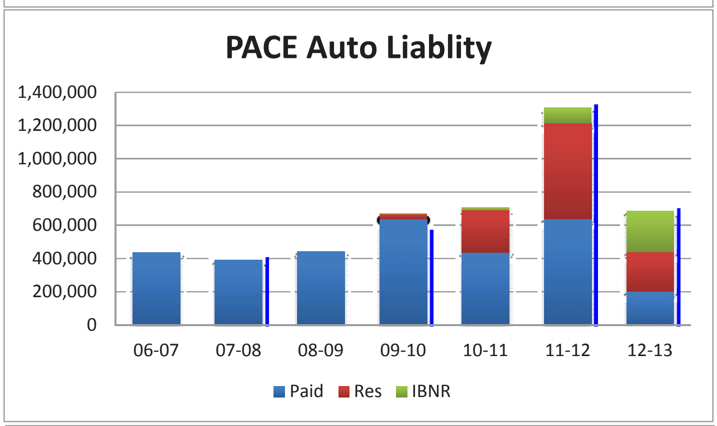
JUNE 30, 2013

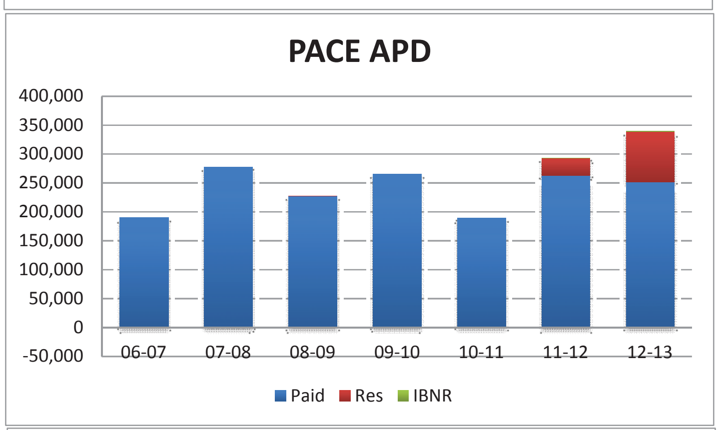
	Fiscal and Policy Year Ended						
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-2013
1. Required contribution and investment revenue:							
Gross Contribution	$ 18,910,185	$ 19,605,616	$ 19,271,908	$ 21,091,358	$ 21,447,082	$ 23,283,466	$ 25,873,315
Investment Earnings During Policy Period	367,411	326,911	225,817	191,180	186,112	201,151	170,790
Investment Earnings Subsequent to Policy Period	706,620	390,038	242,997	267,013	189,544	104,769	-
Ceded	(7,391,527)	(7,719,386)	(7,357,443)	(8,749,917)	(8,272,053)	(8,912,189)	(10,194,871)
Net earned	12,592,689	12,603,180	12,383,279	12,799,634	13,550,685	14,677,197	15,849,234
2. Unallocated expenses	3,657,068	3,868,864	4,039,229	3,837,330	3,963,466	4,236,418	4,587,603
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	13,158,564
Ceded	(4,438,710)	(5,249,852)	(4,480,142)	(547,688)	(1,474,652)	(9,952,507)	(3,431,557)
Net incurred	5,315,085	7,447,531	7,473,195	6,951,601	8,120,071	10,783,128	9,727,007
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	2,736,713
One Year Later	3,362,061	4,181,102	4,486,092	3,587,382	4,547,504	5,107,369	
Two Years Latet	4,256,461	4,435,524	5,814,817	4,837,784	6,830,482		
Three Years Later	4,437,829	5,038,741	7,063,847	6,812,782			
Four Years Later	4,577,337	5,761,299	7,220,140				
Five Years Later	4,996,145	6,000,231					
Sic Years Later	5,596,741						
5 Reestimated ceded claims and expenses	6,639,544	10,358,742	8,954,027	1,252,735	1,564,381	11,654,150	3,431,557
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	9,727,007
One Year Later	5,986,631	6,712,582	7,603,378	7,238,274	10,195,296	11,148,758	
Two Years Later	5,634,666	6,050,323	7,819,023	8,311,028	10,171,115		
Three Years Later	5,090,818	6,387,440	8,099,854	8,258,817			
Four Years Later	5,088,730	6,546,748	7,871,394				
Five Years Later	5,514,899	6,624,801					
Six Years Later	5,736,825						
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	$ 421,740	$ (822,730)	$ 398,199	$ 1,307,216	$ 2,051,044	$ 365,630	$ -

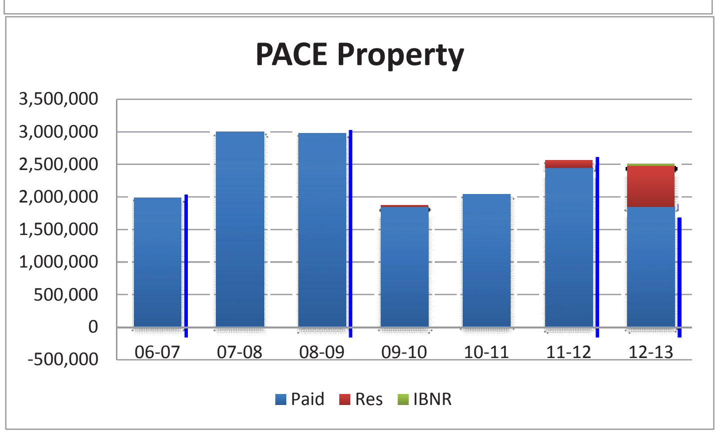
OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
GRAPHICAL SUMMARY OF CLAIMS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013









James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Directors of
OSBA Property and Casualty Coverage for Education Trust
Salem, Oregon

We have audited the financial statements of the OSBA Property and Casualty Coverage for Education Trust (the "Trust") for the years ended June 30, 2013 and 2012 and have issued our report thereon dated November 16, 2012. Professional standards require that we communicate certain matters to you related to our audit. These are provided below:

Our Responsibility under Generally Accepted Auditing Standards

As communicated in our engagement letter dated May 15, 2012, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Trust solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding significant control and other matters noted during our audit in a separate letter to you dated November 4, 2013.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Organization's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. At the time of preparation of this letter, we have no knowledge of any doucments that contained audit report or financial statemtents.

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Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative Aspects of the Organization's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Trust is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during FY 2012-13. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the claim liabilities. Management's estimate of the claim liabilities is based on calculations reported by the actuary and claim administrators. We evaluated the key factors and assumptions used to develop the claim liabilties and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures
Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Organization's financial statements relate to accounting policies affecting claim liabilities.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected financial statement misstatement whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Organization's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated November 4, 2013.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the Trust, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Organization's auditors.

This report is intended solely for the use of the Board of Directors and management of OSBA Property and Casualty Coverage for Education Trust and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

James Marta + Company LLP

James Marta & Company LLP
Certified Public Accountants
November 4, 2013

MANAGEMENT REPRESENTATION LETTER

November 4, 2013

To: James Marta & Company

This representation letter is provided in connection with your audit of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows of OSBA Property and Casualty Coverage for Education Trust as of June 30, 2013 and 2012 and for the years then ended and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of OSBA Property and Casualty Coverage for Education Trust in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 4, 2013

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated May 15, 2012, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- All joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.

- All components and classifications have been properly reported.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
  - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- OSBA Property and Casualty Coverage for Education Trust has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which OSBA Property and Casualty Coverage for Education Trust is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
- OSBA Property and Casualty Coverage for Education Trust has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Additional Representations

- We agree with the findings of specialists in evaluating the claim liabilities in total and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have affected the independence or objectivity of the specialists.
- Provision has been made for any material loss that is probable from our claim liabilities. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have

been adequately described in the OSBA Property and Casualty Coverage for Education Trust financial statements.

- We have reviewed, approved, and taken responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.
- With respect to the required supplementary information accompanying the financial statements:

  a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with GASB Statement Nos. 10, 30 and 34.
  b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
  c. The methods of measurement or presentation have not changed from those used in the prior period.

To the best of our knowledge and belief, no events have occurred subsequent to the Statement of Net Position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

/S Michael Doherty

Passed Journal Entries

Client:	***PACE - OSBA Property and Casualty Coverage for Education Trust***
Engagement:	***Audit2012 - PACE Audit 2013***
Period Ending:	***06/30/13***
Trial Balance:	***2210 - Trial Balance***
Workpaper:	***2213 - Proposed JE Report***

Account	Description	W/P Ref	Debit	Credit
Proposed JE# 3		**5415**		
To adjust claims laibility to match recon				
531-110-137	S - Change in Res - AL 12-13		6,989.00	
241-110-337	S - IBNR Reserves - AL 12-13			6,989.00
Total			**6,989.00**	**6,989.00**

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

INDEPENDENT AUDITOR'S REPORT

The Governing Body
OSBA Property and Casualty Coverage for Education Trust
Salem, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of OSBA Property and Casualty Coverage for Education Trust, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the OSBA Property and Casualty Coverage for Education Trust's basic financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OSBA Property and Casualty Coverage for Education Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OSBA Property and Casualty Coverage for Education Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of OSBA Property and Casualty Coverage for Education Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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We noted certain matters that we have reported to management of OSBA Property and Casualty Coverage for Education Trust in a separate letter dated November 4, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is intended solely for the information and use of management, the Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
November 4, 2013

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

MANAGEMENT LETTER

To the Management
OSBA Property and Casualty Coverage for Education Trust
Salem, Oregon, 97301

We have recently completed the audit of the financial statements of *OSBA Property and Casualty Coverage for Education Trust* and have issued our report thereon dated November 4, 2013. In planning and performing our audit of your financial statements for period ending *June 30, 2013,* we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Although our audit was not designed to provide assurance on the internal control structure and its operation, we noted certain matters that we are submitting for your consideration for the improvement of the *OSBA Property and Casualty Coverage for Education Trust* accounting and financial reporting functions. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. We will review the status of these comments during our next audit engagement. This letter does not affect our report dated November 4, 2013 on the financial statements of the OSBA Property and Casualty Coverage for Education Trust.

Current year recommendations

2013-01 Broker Commissions

Observation: Upon review of the broker contract we did not see a specific duty for the broker to disclose the amount of commissions received annually associated with your insurance coverage placed. A clear understanding of how and where your broker receives additional compensation may assist you in evaluating the recommendations given by the broker.

Recommendations: We recommend that SDAO have contract with the broker amended to include a duty and process to disclose outside commissions and other related revenue annually.

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Status of Prior Year Recommendations

2012-01 Bylaws

Observation:
Terminated member obligations: upon review of the bylaws, I did not find that there is a clear obligation for terminated members to be liable for subsequent assessments or contributions for policy years they have participated. The concern is that once a member terminates they may believe based on the bylaws that they have not continuing obligation.

Recommendations:
We recommend the bylaws be reviewed and revised to strengthen the member obligations and clarify that the member obligation to pay their pro rata share of contributions and related assessments (if necessary) does not expire upon termination or withdrawal.

Management Response:
OSBA is having an attorney review the nature of PACE and the member/trust rights and obligations. The intent is that PACE be a nonassessable pool.

2012-02 Program Manager

Observation:
The trust agreement appoints the Executive Director of OSBA as the Program Administrator of PACE. The PACE program is a complex risk financing risk sharing intergovernmental entity. The management of the program requires a deep understanding of the risk financing, insurance, loss control and claims administration. PACE engages OSBA for the overall administration and SDAO for the primary program operations.

Recommendations:
We suggest PACE consider appointing a "Program Manager" position at OSBA that has specific knowledge and experience with the self insurance pooling of losses. Lisa Freiley may have the best knowledge at OSBA for this position and is practically filling this role now. In addition, OSBA naturally may have some conflicts of interests with PACE as OSBA charges PACE for administration and PACE uses attorney's from OSBA based on an hourly fee basis. If a Program Manager position was established, we recommend the PACE board, perhaps through the agreement, emphasize that this person shall be the advocate for PACE and put their interests primary when acting as program manager. This position could be tasked for taking the initiative to address board concerns and to suggest the direction in new areas along with the input of the SDAO staff.

Management Response:
The new Executive Director has restructured Lisa Freiley's position and job description. She has been designated to administer the PACE program.

2012-03 Legal Contracts

Observation:
No formal agreement or rates for these contracts.

Recommendations:
We suggest that formal contracts be established with standard rates, protocol for litigation and litigation management. A process of assigning that documents the special experience skills of each attorney and when they should be assigned.

Management Response:
This is in process

2012-04 Legal Cost Allocation

Observation:
There are about $600k charged in legal costs and preloss legal this past year at a standard rate of $180/hr. When there are cost sharing arrangements between related parties the cost allocation should be based on actual costs.

Recommendations:
We recommend that these costs be supported by a cost allocation study to ensure they are allocated on an equitable basis.

Management Response:
This is in process

2012-05 Liability Claims Growth

Observation:
There has been a large growth in the liability claims.

Recommendations:
Training, loss control, reserving and litigation management should be reviewed to assess how these may be prevented or losses reduced.

Management Response:
Members use Safe Schools for training and It shows that about 28,000 to 30,000 completions of courses in the areas of Child Abuse, Sexual Conduct and Sexual Harassment (each) for the past fiscal year. In addition, loss control staff have visited the Washington Schools Risk Pool and reviewed their programs and processes. They learned that as training increased there were initial increases in related claims but latter the claims began to fall off.

Comment Follow-up:
Although the number of individual training is on its face impressive, we further recommend that PACE emphasize a strong tone by administration in training conference sessions. The tone at each school should be the highest when considering these areas.

We believe that the implementation of these recommendations will provide *OSBA Property and Casualty Coverage for Education Trust* with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the Trust, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
November 4, 2013