

***OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE
FOR EDUCATION
FINANCIAL STATEMENTS
Years Ended June 30, 2008 and 2007***

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
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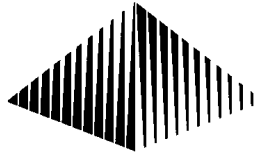
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Oregon School Boards Association Property and Casualty Coverage for Education, as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon School Boards Association Property and Casualty Coverage for Education as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.


CERTIFIED PUBLIC ACCOUNTANTS

October 3, 2008

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 12,913,292	\$ 9,963,646
Accounts receivable	2,946,782	190,545
	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$ 15,860,074</u>	<u>\$ 10,154,191</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 42,825	\$ 42,843
Deferred revenue	636,241	347,809
Claims payable	8,254,744	3,062,018
	<u> </u>	<u> </u>
<i>Total Liabilities</i>	8,933,810	3,452,670
 Net Assets		
Unrestricted	6,926,264	6,701,521
	<u> </u>	<u> </u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 15,860,074</u>	<u>\$ 10,154,191</u>

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

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Premiums	\$ 19,600,200	\$ 18,910,185
Miscellaneous/Other income	5,416	-
Total Revenues	<u>19,605,616</u>	<u>18,910,185</u>
Expenses		
Underwriting Expenses:		
Loss and loss adjustment expense	8,521,191	5,487,972
Insurance premiums	7,719,386	7,391,527
Local agent commissions	1,888,766	1,817,671
Broker fees	110,000	75,000
Operating Expenses:		
Contract fees - SDAO	1,165,000	1,135,000
Contract fees - OSBA	307,000	306,000
Administrative expenses	398,098	323,396
Total Expenses	<u>20,109,441</u>	<u>16,536,566</u>
Operating Income (Loss)	(503,825)	2,373,619
Non-Operating Revenues (Expenses)		
Interest income	728,568	527,902
Change in Net Assets	<u>224,743</u>	<u>2,901,521</u>
Transfer from SDAO	-	3,500,000
Transfer from PACT	-	300,000
Total Equity Transfers	-	3,800,000
Net Assets, Beginning of year	<u>6,701,521</u>	-
Net Assets, End of year	<u>\$ 6,926,264</u>	<u>\$ 6,701,521</u>

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

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<i>Cash Flows From Operating Activities</i>		
Cash received from premiums	\$ 19,856,741	\$ 19,067,449
Cash received from miscellaneous sources	5,416	-
Cash paid for claims	(6,153,769)	(2,425,954)
Cash paid for insurance premiums	(7,695,354)	(7,391,527)
Cash paid for other underwriting expenses	(1,898,477)	(1,892,671)
Cash paid for operating expenses	(1,893,479)	(1,721,553)
	<u>2,221,078</u>	<u>5,635,744</u>
<i>Net Cash Flows Provided by Operating Activities</i>	2,221,078	5,635,744
<i>Cash Flows Provided by Investing Activities</i>		
Investment income received	728,568	527,902
<i>Cash Flows Provided by Noncapital Financing Activities</i>		
Transfer from SDAO to PACE	-	3,500,000
Transfer from PACT to PACE	-	300,000
	<u>-</u>	<u>3,800,000</u>
<i>Net Cash Flow Provided by Noncapital Financing Activities</i>	-	3,800,000
<i>Net Increase in Cash</i>	2,949,646	9,963,646
<i>Beginning Cash and Equivalents</i>	9,963,646	-
<i>Ending Cash and Equivalents</i>	<u>\$ 12,913,292</u>	<u>\$ 9,963,646</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>		
<i>Cash Flows from Operating Activities</i>		
Operating income (loss)	\$ (503,825)	\$ 2,373,619
<i>Adjustments to Reconcile Operating Net Income to Cash Provided by Operating Activities</i>		
Decrease (increase) in:		
Accounts receivable	(2,756,237)	(190,545)
Increase (decrease) in:		
Accounts payable	(18)	42,843
Deferred revenue	288,432	347,809
Claims liabilities	5,192,726	3,062,018
	<u>\$ 2,221,078</u>	<u>\$ 5,635,744</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 2,221,078</u>	<u>\$ 5,635,744</u>

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

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Premiums

Premiums are taken into income as earned over the term of related insurance policies. Policies are generally written for the annual period from July 1 through June 30. As of June 30, 2008 and 2007, the Trust held unearned premiums in the amount of \$636,241 and \$347,809 respectively.

Claims and Claims Adjustment Expenses

Unpaid losses and loss adjustments expenses at June 30, 2008 have been estimated based upon an actuarial study of the program prepared by the Trust’s consulting actuary. The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST
NOTES TO FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Claims and Claims Adjustment Expenses (Continued)

claims costs depend on several complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed on both the actual historical data that reflect past inflation and other on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Income Taxes

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

SELF-INSURANCE LIMITS

The Trust has established a \$500,000 general liability and a \$250,000 property self-insurance limit. The self-insurance pool provides for the first \$500,000 of each general liability claim and the first \$250,000 of property, automobile, errors and omissions, and other miscellaneous coverages.

CASH AND CASH EQUIVALENTS

The Trust has the following cash and cash equivalents:

Demand deposits with financial institutions	\$ 482,379
Local Government Investment Pool	<u>12,430,913</u>
<i>Total Cash and Cash Equivalents</i>	<u>\$ 12,913,292</u>

Demand deposits with financial institution consist of a checking account. The total bank balance as shown on the bank's records at June 30, 2008 and 2007, were \$531,506 and \$245,384 respectively. These deposits were covered by federal depository insurance of \$100,000, and a certificate of participation of \$1,000,000.

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, 2008, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the pool shares.

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST
NOTES TO FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

CASH AND CASH EQUIVALENTS (Continued)

Custodial Risk

This is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. Oregon laws require governmental deposits in banks to be protected either by depository insurance or the financial institution is required to maintain on deposit with a collateral pool manager securities having a value of not less than 25% of the face value of the certificate issued by the pool manager. When such securities are deposited with the pool manager, covered funds are considered fully collateralized under Oregon law. The collateral is held by a state-sponsored pool manager which is a commercial bank in the name of the pool manager, with the collateral certificate issued by the pool manager in the name of the Trust. This does not constitute full collateral of deposits, but meets Oregon legal requirements.

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-loan 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.

CLAIMS AND CLAIMS ADJUSTMENT EXPENSES PAYABLE

The Trust has established a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The liability is based on an actuarial study of the program prepared by the Trust's consulting actuary. Administration fees for unresolved claims was estimated at \$575,000 and included in claims payable.

The liability for unpaid claims and claims adjustment expenses has not been discounted and does not reflect a reduction for future interest income which will be available to meet the Trust's claims payment obligations. The following represents changes in those aggregate liabilities for the Trust during the past year:

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST
NOTES TO FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

CLAIMS AND CLAIMS ADJUSTMENT EXPENSES PAYABLE (Continued)

	<u>2008</u>	<u>2007</u>
Claims and claims adjustment expense payable at beginning of year	\$ 3,062,018	\$ -
Incurred claims and claims adjustment expense:		
Provisions for insured events of the current year	7,447,531	5,315,086
Changes in provision for insured events of prior fiscal years	671,546	-
Changes in provision for ULAE	402,114	172,886
<i>Total Incurred Claims and Claims Adjustment Expenses</i>	<u>8,521,191</u>	<u>5,487,972</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	2,392,299	2,425,954
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	936,166	-
<i>Total Payments</i>	<u>3,328,465</u>	<u>2,425,954</u>
<i>Claims and Claims Adjustment Expense Payable</i>	<u>\$ 8,254,744</u>	<u>\$ 3,062,018</u>

CLAIMS AND ADMINISTRATIVE SERVICE AGREEMENTS

The Trust receives professional insurance management and support services from Special Districts Association of Oregon. The expense for services provided under contract during the years ended June 30, 2008 and 2007 were \$1,165,000 and \$1,135,000 respectively.

The Trust also receives administration and support services from Oregon School Boards Association. The expense for these services provided under contract during the years ended June 30, 2008 and 2007 were \$307,000 and \$306,000 respectively.

OREGON SCHOOL BOARDS ASSOCIATION
PROPERTY AND CASUALTY COVERAGE FOR EDUCATION TRUST
NOTES TO FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2008 AND 2007

ACCOUNTS RECEIVABLE

Accounts Receivable as of June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Contributions receivable	\$ 16,627	\$ 19,046
Reinsurance receivable	2,895,203	70,541
Commissions receivable	<u>34,310</u>	<u>100,958</u>
<i>Total Accounts Receivable</i>	<u>\$ 2,946,140</u>	<u>\$ 190,545</u>

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

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

	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
(1) Net earned required contribution	\$ 11,886,231	\$ 11,518,658
(2) Unallocated expenses	3,868,864	3,657,068
(3) Estimated incurred claims and claims expense, end of policy year	7,447,531	5,315,085
(4) Paid (cumulative as of:		
End of policy period	2,392,299	2,425,953
One year later	-	3,362,061
(5) Re-estimated incurred claims and claims expense		
End of policy period	7,447,531	5,315,085
One year later	-	5,986,631
(6) Increase (decrease) in estimated incurred claims and claims expenses from end of policy year	-	671,547