

Oklahoma School Assurance Group

Financial Report
June 30, 2017 and 2016

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Independent Auditor's Report

RSM US LLP

The Board of Trustees
Oklahoma School Assurance Group
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma School Assurance Group (OSAG), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation 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 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 from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma School Assurance Group as of June 30, 2017 and 2016, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

Oklahoma City, Oklahoma
November 20, 2017

Oklahoma School Assurance Group

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the activities and financial performance of Oklahoma School Assurance Group (OSAG) provides an introduction to the financial statements for the years ended June 30, 2017 and 2016.

OSAG, established in June 1994, is an Interlocal Cooperation Act Agency of schools offering membership to public and vocational technical school districts in Oklahoma with the mission of providing efficient and economical workers' compensation services to its members.

Financial and Activity Highlights

Our operations for the years ended June 30, 2017 and 2016 resulted in increases to net position of approximately \$92,000 and \$402,000, respectively. These increases are a result of tight budget practices and investment management.

The school superintendents who preside over the OSAG program have played an integral part in the formation and critical decisions of OSAG. All member schools have a voice in OSAG, since this is a school-owned program, run by its peers and solely in business to serve Oklahoma schools.

OSAG is an inter-local and operates under the open meeting act similar to school districts. OSAG is a member of various educational organizations and pays sponsorship to those organizations for membership. As of June 30, 2017, OSAG membership is comprised of 488 school districts.

OSAG Board of Trustees:

- John Cox (Chairman) Superintendent—Peggs School District
- Keith Weldon Superintendent—Calumet School District
- Glen Elliott Superintendent—Burlington School District
- Robert Trammell Superintendent—Snyder School District
- Tony Potts Superintendent—Stringtown Public Schools

OSAG Administrative Director:

- Jack Dryden

OSAG Program Administration:

- The Beckman Company

OSAG Claims Administration:

- Consolidated Benefits Resources

OSAG Accounting Firm

- Wedel Rahill & Associates

OSAG Auditing Firm

- RSM US LLP

OSAG Mission Statement: To provide efficient and economical workers' compensation services to Oklahoma public schools.

Overview of the Financial Statements and Financial Analysis

This report consists of Management's Discussion and Analysis (this part), the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. These statements provide financial information on OSAG as a whole.

These statements include all assets and liabilities using the accrual basis of accounting. All of the revenues and expenses are recognized when earned or incurred regardless of when cash is received or paid.

This financial report is designed to provide member school districts, creditors, and suppliers with a general overview of OSAG's finances.

Oklahoma School Assurance Group

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis (Continued)

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report OSAG's net position and how it has changed. Net position, the difference between assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure OSAG's financial health or position.

The following summarizes OSAG's assets, liabilities and net position as of June 30 (OSAG has no deferred outflows or inflows):

	2017	2016	2015
Assets:			
Cash and cash equivalents	\$ 2,845,449	\$ 6,049,248	\$ 9,510,083
Receivables and other assets	272,374	682,353	364,224
Investments	10,739,618	10,090,616	3,375,744
Total assets	<u>\$ 13,857,441</u>	<u>\$ 16,822,217</u>	<u>\$ 13,250,051</u>
Liabilities:			
Due to members	\$ 796,447	\$ 474,142	\$ 541,766
Premiums received in advance	1,298,616	1,284,400	1,845,241
Other payables	718	584	765
Policy and contract retention reserves	5,705,306	9,098,547	5,299,388
Total liabilities	<u>7,801,087</u>	<u>10,857,673</u>	<u>7,687,160</u>
Net position:			
Unrestricted	5,952,437	5,884,427	5,492,277
Restricted	103,917	80,117	70,614
Total net position	<u>6,056,354</u>	<u>5,964,544</u>	<u>5,562,891</u>
Total liabilities and net position	<u>\$ 13,857,441</u>	<u>\$ 16,822,217</u>	<u>\$ 13,250,051</u>

Oklahoma School Assurance Group

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis (Continued)

The following summarizes OSAG's Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30:

	2017	2016	2015
Operating revenues:			
Premium income	\$ 22,596,857	\$ 38,659,783	\$ 38,834,240
Operating expenses:			
Policy holders benefits, net	-	8,499,860	5,423,429
Insurance premiums	18,017,681	24,436,021	27,263,123
Claims administration fees	1,816,634	2,401,669	2,532,846
Marketing and general consulting fees	2,119,150	2,471,642	2,717,793
Other expenses	551,159	521,612	529,390
Total operating expenses	<u>22,504,624</u>	<u>38,330,804</u>	<u>38,466,581</u>
Operating income	92,233	328,979	367,659
Net nonoperating revenue (expenses)	<u>(423)</u>	<u>72,674</u>	<u>44,400</u>
Change in net position	91,810	401,653	412,059
Net position, beginning of year	5,964,544	5,562,891	5,150,832
Net position, end of year	<u>\$ 6,056,354</u>	<u>\$ 5,964,544</u>	<u>\$ 5,562,891</u>

All of OSAG's operating revenue is related to the receipt of member contributions from OSAG's member school districts. OSAG's operating expenses primarily relate to claims losses, the costs associated with insurance premiums, the costs to process claims, and the costs of marketing OSAG to new entities. The net nonoperating revenue is primarily comprised of income earned on investments and net scholarship activities.

The Statements of Cash Flows

The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future cash flows, ability to meet obligations as they come due, and needs for external financing. The following summarizes OSAG's cash flows for the years ended:

	2017	2016	2015
Cash provided by (used in):			
Operating activities	\$ (2,554,374)	\$ 3,181,514	\$ 4,121,687
Noncapital financing activities	23,800	9,503	9,304
Investing activities	<u>(673,225)</u>	<u>(6,651,852)</u>	<u>533,096</u>
Net increase (decrease) in cash and cash equivalents	(3,203,799)	(3,460,835)	4,664,087
Cash and cash equivalents, beginning of year	6,049,248	9,510,083	4,845,996
Cash and cash equivalents, end of year	<u>\$ 2,845,449</u>	<u>\$ 6,049,248</u>	<u>\$ 9,510,083</u>

Oklahoma School Assurance Group

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis (Continued)

OSAG's overall liquidity decreased during the year ended June 30, 2017 primarily due to a decrease in premium income received of approximately \$15,685,000, offset by a decrease in cash payments for stop-loss insurance, claims, marketing and general administrative fees, and other operating expenses of approximately \$7,367,000, and decreases in benefits paid to policyholders of approximately \$2,321,000 and net purchases of certificates of deposit of approximately \$673,300. OSAG's overall liquidity decreased during the year ended June 30, 2016, primarily due to an increase in investments held. OSAG purchased additional investments during the year in order to earn a better return on funds held. Cash from operations decreased slightly from prior year due to higher benefit payments to policy holders which was offset by lower cost of stop loss insurance. Cash transactions in operating activities are primarily related to receipts of member contributions for the years ended June 30, 2017 and 2016 and for the prepayment of member contributions for fiscal years 2017 and 2016, offset by insurance and management disbursements of OSAG. Cash provided by investing activities relates to proceeds from the sale or maturity of investments and income earned on investments. Cash provided by investing activities relates to maturities of investments which were reinvested into other investments.

Capital Asset and Debt Administration

OSAG had no capital asset and debt administration activity during the years ended June 30, 2017, 2016, or 2015.

Economic Factors and Premium Rates

OSAG's management considered many factors when developing the annual operating budget for the fiscal year ending June 30, 2018.

The budget for the fiscal year ending June 30, 2018 was developed based upon the following key assumptions:

- Premium contributions are based upon the cost of excess insurance quoted by CompSource Mutual plus administrative costs.
- Investment income is projected to be approximately 1 percent of the market value of total investments.
- Reinsurance premiums are expected to decrease approximately 2 percent from current levels.

Oklahoma School Assurance Group

Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,845,449	\$ 6,049,248
Receivables:		
Due from CompSource Oklahoma	272,223	682,197
Investments	7,858,173	8,196,065
Other assets	151	156
Total current assets	10,975,996	14,927,666
Investments	2,881,445	1,894,551
Total assets	\$ 13,857,441	\$ 16,822,217
Liabilities and Net Position		
Current liabilities:		
Due to members	\$ 796,447	\$ 474,142
Premiums received in advance	1,298,616	1,284,400
Policy and contract retention reserves	2,017,345	3,179,050
Other payables	718	584
Total current liabilities	4,113,126	4,938,176
Policy and contract retention reserves, net of current portion	3,687,961	5,919,497
Total liabilities	7,801,087	10,857,673
Net position:		
Unrestricted net position	5,952,437	5,884,427
Restricted net position	103,917	80,117
Total net position	6,056,354	5,964,544
Total liabilities and net position	\$ 13,857,441	\$ 16,822,217

See notes to financial statements.

Oklahoma School Assurance Group

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016**

	2017	2016
Operating revenues:		
Premium income	\$ 22,596,857	\$ 38,659,783
Operating expenses:		
Cost of stop-loss insurance	18,017,681	24,436,021
Claims administration fee	1,816,634	2,401,669
Marketing and general consulting fee	2,119,150	2,471,642
Policyholders benefits, net of stop-loss reimbursements	-	8,499,860
Professional services	314,385	305,256
Insurance expense	41,671	42,096
Membership services—seminars	22,499	17,126
Board meeting expenses	9,384	909
Conferences	7,638	525
Sponsorship fees	62,895	60,836
Postage and printing expense	10,886	16,464
Telephone	3,771	1,739
Office expenses	22,897	23,971
Travel	4,376	3,778
Consulting fees	14,830	10,935
Other	35,927	37,977
Total operating expenses	22,504,624	38,330,804
Operating income	92,233	328,979
Nonoperating revenues (expenses):		
Investment income (loss)	(24,223)	63,171
Scholarship fundraising	27,800	17,776
Scholarship expense	(4,000)	(8,273)
Net nonoperating revenues (expenses)	(423)	72,674
Change in net position	91,810	401,653
Net position, beginning of year	5,964,544	5,562,891
Net position, end of year	\$ 6,056,354	\$ 5,964,544

See notes to financial statements.

Oklahoma School Assurance Group

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Premium income received	\$ 22,136,936	\$ 37,822,171
Cash received for claims covered by stop-loss insurance	5,343,682	5,303,689
Cash payments for stop-loss insurance, claims, marketing and general administrative fees and other operating expenses	(22,504,490)	(29,831,125)
Benefit payments to policy holders	(7,530,502)	(9,851,007)
Refunds made of remaining 2014 and 2013 reserves to qualifying members	-	(262,214)
Net cash provided by (used in) operating activities	(2,554,374)	3,181,514
Cash flows from noncapital financing activities:		
Contributions from scholarship fundraising	27,800	17,776
Cash payments on scholarship expense	(4,000)	(8,273)
Net cash provided by noncapital financing activities	23,800	9,503
Cash flows from investing activities:		
Proceeds from sales and maturity of investments	1,237,510	1,645,583
Purchases of investments	(1,972,000)	(8,331,784)
Investment income received	61,265	34,349
Net cash used in investing activities	(673,225)	(6,651,852)
Change in cash and cash equivalents	(3,203,799)	(3,460,835)
Cash and cash equivalents, beginning of year	6,049,248	9,510,083
Cash and cash equivalents, end of year	\$ 2,845,449	\$ 6,049,248
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 92,233	\$ 328,979
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	409,974	(317,973)
Other assets	5	(5)
Other payables	134	(181)
Refunds and rebates owed to members	322,305	(67,624)
Premiums received in advance	14,216	(560,841)
Policy and contract retention reserves	(3,393,241)	3,799,159
Net cash provided by (used in) operating activities	\$ (2,554,374)	\$ 3,181,514
Supplemental information:		
Net unrealized investment gains (losses) on investments	\$ (92,823)	\$ 39,106

See notes to financial statements.

Oklahoma School Assurance Group

Notes to Financial Statements

Note 1. Summary of Significant Accounting and Reporting Policies

Organization: Oklahoma School Assurance Group (OSAG) was established by an agreement with an effective date of June 1, 1994, and a duration of fifty years, unless sooner dissolved or extended. OSAG is an Interlocal Cooperation Act Agency of schools offering membership to Oklahoma public and vocational technical school districts with the mission of providing efficient and economical workers' compensation services to its members.

OSAG has created a Workers' Compensation Plan Fund and an Operating Fund. The purpose of the Workers' Compensation Plan Fund is to provide workers' compensation coverage through CompSource Mutual Insurance Company (CompSource Mutual) to participating school districts in the state of Oklahoma as required by the Oklahoma Workers' Compensation Act. One basic insurance plan exists for covered employee claims of participating school districts. Covered employees include management, teachers, volunteers, and other full and part-time employees. The purpose of the Operating Fund is to provide management to the Workers' Compensation Plan Fund. For financial statement presentation purposes, the two funds have been combined with all inter-fund activity eliminated.

All affairs of OSAG are governed by a Board of Trustees elected by and from its members. Trustee responsibilities include reviewing and ensuring compliance with OSAG's policies and services as contemplated in its establishing agreement. For the years ended June 30, 2017 and 2016, the Board of Trustees contracted with Consolidated Benefits Resources to be the third party administrator responsible for claims processing and management for OSAG members, and The Beckman Company to serve as the marketing agent and professional insurance consultant. Fees payable to Consolidated Benefits Resources and The Beckman Company are determined on a member-by-member basis at the time the risk is underwritten.

Title to all assets acquired by OSAG is vested in it. In the event of termination, such property shall belong to the then members of OSAG in equal shares. Each participating school district pays for all costs, premiums, or other fees attributable to its respective participation in any plan, policy, or service created in the establishing agreement and the service agreement with CompSource Mutual. Each school district is responsible for its obligation under any contract entered into with OSAG.

Financial statement presentation: OSAG's financial statements are presented in accordance with requirements of the Governmental Accounting Standards Board (GASB) specific to enterprise fund activities. Under these requirements, OSAG is required to present a statement of net position classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows, using the direct method.

Basis of accounting: For financial reporting purposes, OSAG is considered a special-purpose government engaged only in business-type activities. Accordingly, OSAG's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and such amounts could be significant.

Oklahoma School Assurance Group

Notes to Financial Statements

Note 1. Summary of Significant Accounting and Reporting Policies (Continued)

Revenue recognition: Insurance contracts with member school districts are for a one-year period beginning July 1 through June 30. Premiums are determined on a member-by-member basis and are due at the beginning of each contract period and are recognized as revenue over the period of the contract. Each school district's premium is based on its loss history for the last five years with the last three years having greater significance. Premiums received in advance are amounts received in excess of amounts due and for which coverage has not yet been provided.

Each premium includes an amount designated to cover administrative expenses of OSAG, which is determined annually by the Board of Trustees.

Cash, cash equivalents and other deposits: OSAG considers all demand deposit accounts and investments with original maturities of 90 days or less, excluding money market mutual funds held in OSAG's investment portfolio, to be cash equivalents. As circumstances dictate, amounts in each fund's main checking account are swept into interest-bearing accounts that are insured or collateralized by U.S. government securities. Non-negotiable certificates of deposit with original maturities of 90 days or more are classified as investments for financial reporting purposes.

Investments: OSAG reports most types of investments at fair value in the statements of net position and reports all investment income, including changes in fair value of investments, as revenue in the statements of revenues, expenses, and changes in net position.

Investments are classified as current and noncurrent consistent with the contractual maturities of investments that mature within a year and greater than a year, respectively. All investments with no stated maturity are considered current. OSAG's investments can be liquidated and converted into cash based on management's determination; however, penalties may be incurred with an early redemption.

Accounts receivable: Accounts receivable consist of amounts due from CompSource Mutual for claim payments in excess of specified retention levels. Accounts receivable are recorded net of estimated uncollectible amounts. OSAG determines its allowance for accounts receivable by considering a number of factors, including length of time accounts receivable are past due and the previous payment history. OSAG writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the operating expenses.

Based on historical information, coupled with a review of the current status of existing receivables, management of OSAG determined that an allowance for doubtful accounts at June 30, 2017 and 2016 was not necessary.

Policy and contract retention reserves: OSAG's liability for policy and contract retention reserves is generally limited to the prior three policy periods. Each individual member's liability is limited to its specific retention level (amount set aside each policy period to pay claims of member employees) for each policy period. Actual member claims in excess of the retention level for a policy period are covered by a stop-loss insurance agreement with CompSource Mutual (see Note 4). Unused retention for a policy period accrues to the benefit of the specific member upon expiration of the three-year period. If any unused retention remains for any member, that amount will be issued as a credit toward the following year's premium for active members only. Subsequent qualifying claims for a policy period in which the member's unused retention was either refunded or applied as a credit is the sole liability of the member. Policy contracts under the first dollar coverage program (see Note 5) do not have policy or contract retention reserves as all claims under this program have been ceded to CompSource Mutual.

Oklahoma School Assurance Group

Notes to Financial Statements

Note 1. Summary of Significant Accounting and Reporting Policies (Continued)

Classification of revenues: OSAG has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute OSAG's principal ongoing operations, such as premiums. Nonoperating revenues consist of other revenue sources that are defined as nonoperating revenues, such as contributions and investment income.

Net position: OSAG's net assets are classified as follows.

Unrestricted: Unrestricted net position represent resources derived from member premiums. These resources are used for transactions relating to the operations of OSAG and may be used at the discretion of the Board of Trustees to meet current expenses.

Restricted net position: Restricted expendable net position are derived from funds raised for the Gene Keith Scholarship. These resources are used for a scholarship awarded annually by OSAG.

Insurance premiums: Insurance premiums, which are determined on a member-by-member basis and include administrative fees and excess insurance premiums, are recognized as income ratably over the terms of the policies.

Income tax status: OSAG is a public entity organized under the laws of the state of Oklahoma. The income it earns in the exercise of its essential government function and which accrues to political subdivisions of the state of Oklahoma is exempt from federal income taxes under Internal Revenue Code Section 115(a).

Note 2. Deposits and Investments

Custodial credit risk: Custodial credit risk is the risk that in the event of bank failure, OSAG will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized. Investments are exposed to custodial credit risk if they are uninsured, are not registered in OSAG's name, or are held by a counterparty or the counterparty's trust department but not in OSAG's name. OSAG does not have a written policy for custodial credit risk. However, OSAG's management requires that all of its cash deposits and investments be covered by federal deposit insurance or fully collateralized by U.S. Government securities. As of June 30, 2017 and 2016, OSAG had cash on deposit with financial institutions of approximately \$2,833,000 and \$6,039,000, respectively, which is either insured via federal deposit insurance, or swept into sweep accounts, which are collateralized with U.S. Treasuries. Also, as of June 30, 2017 and 2016, OSAG had approximately (a) \$3,938,000 and \$3,133,000, respectively, of certificates of deposit, which are insured via federal deposit insurance, (b) \$1,497,000 and \$5,875,000, respectively, of U.S Government securities-based money market mutual funds, which are primarily invested in U.S. Federal Agencies and U.S. Treasury obligations and held in OSAG's name, and (c) \$5,214,000 and \$1,012,000, respectively, in a pooled investment program, which is primarily invested in United States Government agencies or sponsored entities. As of June 30, 2017 and 2016, approximately \$90,000 and \$71,000, respectively, in funds held for the Gene Keith Scholarship are invested in exchange-traded funds based on an allocation approved by the board with an additional \$12,000 and \$10,000, respectively, of cash on deposit with financial institutions covered by federal deposit insurance or fully collateralized by U.S. Government securities.

Credit risk: As all of OSAG's investments are insured via federal deposit insurance or invested in funds backed by U.S. obligations, none of OSAG's deposits are considered to have any credit risk.

Oklahoma School Assurance Group

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Interest rate risk: Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. Although it does not have a written policy to address interest rate risk, OSAG's management and Board of Trustees monitor its investment performance on an ongoing basis to limit OSAG's interest rate risk. As of June 30, 2017 and 2016, all of OSAG's investments were short-term liquid investments or certificates of deposits.

Maturities of investments as of June 30, 2017 and 2016 are as follows:

Investment Type	2017		
	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
Certificates of deposit	<u>\$ 3,938,396</u>	<u>\$ 1,056,951</u>	<u>\$ 2,881,445</u>

Investment Type	2016		
	Investment Maturities (In Years)		
	Carrying Value	Less Than 1	1-5
Certificates of deposit	<u>\$ 3,132,051</u>	<u>\$ 1,237,500</u>	<u>\$ 1,894,551</u>

Concentration of credit risk: As of June 30, 2017, OSAG's investments in certificates of deposit are held with one financial institution holding a total of approximately 32 percent of total investments and are fully covered by federal deposit insurance. As of June 30, 2016, OSAG's investments in certificates of deposit are held with thirteen separate financial institution holding a total of approximately 31 percent of total investments and are fully covered by federal deposit insurance. At June 30, 2017 and 2016, OSAG has no individual investments in any issuer exceeding 5 percent of total investments.

Fair value hierarchy: OSAG categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, and other market corroborated inputs; Level 3 inputs are significant unobservable inputs. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Oklahoma School Assurance Group

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Investments at fair value consist of the following at June 30:

	2017			Total
	Level 1	Level 2	Level 3	
Certificates of deposit (brokered)	\$ -	\$ 3,445,896	\$ -	\$ 3,445,896
Mutual funds	90,318	-	-	90,318
U.S. Government securities-based mutual funds	1,497,171	-	-	1,497,171
Total investments by fair value level	<u>\$ 1,587,489</u>	<u>\$ 3,445,896</u>	<u>\$ -</u>	<u>5,033,385</u>
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				492,500
Investments measured at net asset value (NAV):				
Pooled investment funds				5,213,733
Total investments				<u>\$ 10,739,618</u>

	2016			Total
	Level 1	Level 2	Level 3	
Certificates of deposit (brokered)	\$ -	\$ 1,402,041	\$ -	\$ 1,402,041
Mutual funds	70,978	-	-	70,978
U.S. Government securities-based mutual funds	5,874,663	-	-	5,874,663
Total investments by fair value level	<u>\$ 5,945,641</u>	<u>\$ 1,402,041</u>	<u>\$ -</u>	<u>7,347,682</u>
Investments measured at amortized cost:				
Certificates of deposit (non-brokered)				1,730,010
Investments measured at net asset value (NAV):				
Pooled investment funds				1,012,924
Total investments				<u>\$ 10,090,616</u>

Money market, mutual funds and U.S. Government securities-based mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Certificates of deposits (brokered) are classified in Level 2 of the fair value hierarchy are valued using observable inputs from active or inactive markets for the exact or similar securities. Certificates of deposits (non-brokered) are measured at amortized cost.

Oklahoma School Assurance Group

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Pooled investment funds consist solely of one fund invested in an array of direct obligation bonds of the United States Government, its agencies, instrumentalities or sponsored entities. This fund is valued using the net asset value (NAV) of the pool. OSAG has no unfunded commitments related to this investment type. Shares are redeemable weekly at the NAV at the time of redemption.

Note 3. Policy and Contract Retention Reserves

Policy and contract retention reserves provide for reported claims on a case-by-case basis. Policy and contract retention reserves not required to settle claims will be used to reduce future premium costs of the member.

The following reconciles the changes in aggregate policy and contract retention liabilities for the years ended June 30, 2017 and 2016:

	2017	2016
Policy and contract retention reserves at beginning of year	\$ 9,098,547	\$ 5,299,388
Policy holder retention	-	8,499,860
Claims covered under stop-loss contracts	4,933,708	5,621,662
Benefit payments to policyholders	(7,530,502)	(9,851,007)
Refunds paid to qualifying members	-	(262,214)
Accrued refunds to qualifying members	(796,447)	(209,142)
Policy and contract retention reserves at end of year	<u>\$ 5,705,306</u>	<u>\$ 9,098,547</u>
Current portion of policy and contract retention reserves	<u>\$ 2,017,345</u>	<u>\$ 3,179,050</u>

At June 30, 2017 and 2016, total policy and contract retention reserves approximated the aggregate amount of unused member retention levels. The following is a summary of the liability by year:

	2017	2016
2017	\$ -	\$ -
2016	3,907,903	5,684,813
2015	1,793,340	2,616,486
2014	-	793,190
2012	2,175	2,175
2011 and prior	1,888	1,883
	<u>\$ 5,705,306</u>	<u>\$ 9,098,547</u>

Unused retention refunded to qualifying members for the policy year ended June 30, 2014 totaled \$796,477 to be applied to fiscal year 2018 premiums, or to satisfy subsequently incurred claims.

Unused retention refunded to qualifying members for the policy year ended June 30, 2013 totaled \$471,357. During the year ended June 30, 2016, qualifying members elected refunds totaling \$262,214, with the balance to be applied to fiscal year 2017 premiums, or to satisfy subsequently incurred claims.

Oklahoma School Assurance Group

Notes to Financial Statements

Note 4. Stop-Loss Insurance

OSAG's Workers' Compensation Plan has contracted with CompSource Mutual to provide coverage within a policy period when an individual member's claims exceed its specific retention level. As outlined in the stop-loss agreement, each individual member's liability for claim losses is limited to his or her respective retention level for the specific policy period.

Note 5. First Dollar Coverage

First dollar coverage insurance became available to group members on July 1, 2002. Under the first dollar coverage program, premiums are calculated each year, and CompSource Mutual places an initial amount in escrow in the name of OSAG in order to fund a claims payment account for the first dollar coverage group. OSAG, through Consolidated Benefits Resources, bills CompSource Mutual on a monthly basis for claim payments made in the preceding month. All monies remaining in escrow and not utilized by OSAG will be returned to CompSource Mutual upon request.

First dollar coverage groups are eligible for performance rebates based upon loss performance ratios. The loss performance ratios are calculated eighteen months after the inception date of each policy. The calculation is made by CompSource Mutual using loss development factors and trend factors to incurred losses. If an individual member achieves a loss ratio less than 80 percent, that member is entitled to a 5 percent rebate of the premium paid. If the loss ratio is less than 70 percent, the member is entitled to a rebate of 10 percent of premium paid. Rebates will only be made to individual members if the group as a whole achieves a loss ratio less than 100 percent developed and trended above, eighteen months after inception of policy period. Rebates earned by members, which are due from CompSource Mutual, are considered agency transactions with any amounts received by OSAG being owed to OSAG members who participated in the first dollar coverage program. In the current year, OSAG did not receive any rebates from CompSource Mutual and no liability was recorded at June 30, 2017.

Note 6. Contingency

The insurance agreements with CompSource Mutual minimize losses that could arise from excess workers' compensation claims or those of an unusual nature. Although the ceding of insurance does not discharge OSAG from its primary responsibility to its member school districts, the insurance company that provides the stop-loss coverage assumes the related liability when an individual member's claims exceed its specific retention level within a policy period.

For accounting purposes, it is the practice of the original insurer, to the extent of the coverage ceded, to treat such risks as though they are not liable. Failure of the stop-loss carrier to honor its obligation could result in losses to OSAG. OSAG's management evaluates the financial condition of its carrier to minimize its exposure to significant losses and believes the carrier presently used is financially sound and will be able to meet its contractual obligations.





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November 20, 2017

Board of Trustees
Oklahoma School Assurance Group

Attention: Board of Trustees

We are pleased to present this report related to our audit of the financial statements of Oklahoma School Assurance Group (OSAG) for the year ended June 30, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Oklahoma School Assurance Group's financial reporting process.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Oklahoma School Assurance Group.

RSM US LLP

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America, have been described to you in our arrangement letter dated June 12, 2017. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by OSAG. OSAG did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
Audit Adjustments	Audit adjustments proposed by us and recorded by OSAG are shown in the attached Summary of Recorded Audit Adjustments.
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Area	Comments
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Significant Written Communications Between Management and Our Firm	Copies of material written communication between our firm and the management of OSAG, including the representation letter, are attached as Exhibit A.

**Oklahoma School Assurance Group
 Summary of Significant Accounting Estimates
 Year Ended June 30, 2017**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in OSAG's June 30, 2017, financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Policy and Contract Retention Reserves	OSAG's liability for policy and contract retention reserves is generally limited to the prior three policy periods. Each individual member's liability is limited to its specific retention level (amount set aside each policy period to pay claims of member employees) for each policy period. Actual member claims in excess of the retention level for a policy period are covered by a stop-loss insurance agreement with CompSource Mutual. Any policy and contract retention reserves not required for claims will be used to reduce future premium costs of the active members.	OSAG bases estimate on claims data existing at June 30, 2017 and estimates of incurred but not reported claims; however, these liabilities are limited to OSAG's retention levels. Further, any contract retention reserves not required for claims will be used to reduce future premium costs of active members.	We evaluated the key factors and assumptions used to develop these estimates, and concluded management's estimate is reasonable.

**Oklahoma School Assurance Group
Summary of Recorded Audit Adjustments
Year Ended June 30, 2017**

Description	Effect—Debit (Credit)				
	Assets	Liabilities	Net Position	Revenue	Expenses
Audit adjustments:					
Entry to zero out interfund transfers	\$ 784	\$ -	\$ (784)	\$ -	\$ -
Entry to adjust investments to fair value	(46,382)	-	(39,106)	85,488	-
Total effect on statement of revenues, expenses and net position			85,488	\$ 85,488	\$ -
Total effect on statement of net position	\$ (45,598)	\$ -	\$ 45,598		

Exhibit A—Significant Written Communications Between Management and Our Firm



Oklahoma School Assurance Group

November 20, 2017

RSM US LLP
531 Couch Drive
Oklahoma City, Oklahoma 73102

This representation letter is provided in connection with your audits of the statements of net position of Oklahoma School Assurance Group (OSAG) as of June 30, 2017 and 2016, and the related statements of revenues, expenses and change in net position, and cash flows for the years then ended. We confirm that we are responsible for the fair presentation in the financial statements of net position, changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of November 20, 2017, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated June 12, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. We are not aware of any events subsequent to the date of the financial statements for which U.S. GAAP requires adjustment or disclosure.
7. The effects of all known actual or possible litigation and claims, if any, have been accounted for and disclosed in accordance with U.S. GAAP.

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The Oklahoma School Assurance Group is an Interlocal Cooperation Act Agency of Schools Providing Workers' Compensation

8. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private.
9. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
10. The unpaid retention liability represents management's best estimate for the ultimate net cost of all reported and unreported losses incurred and unpaid through June 30, 2017. We have made available to you all documentation and analyses used to develop management's best estimate.
11. The reinsurance contracts provided to you represent all of OSAG's agreements with respect to its ceding and assuming reinsurance activities, and there are no modifications, either written or oral, of the terms of OSAG's reinsurance contracts or additional reinsurance agreements that have not yet been provided to you.
12. We have determined that each of its reinsurance ceded and assumed contracts meet the criteria, to be accounted for as reinsurance, and have been given appropriate accounting recognition and disclosure in the financial statements.
13. We have not entered into any multiple-year retrospectively rated contracts.
14. All reported reinsurance recoverable amounts, less applicable allowances (if any), are collectible. However, OSAG remains primarily liable in the event that the reinsurers do not honor these obligations. We are unaware of any material adverse change in the financial condition of OSAG's reinsurers that might raise concern regarding their ability to honor their reinsurance commitments.
15. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

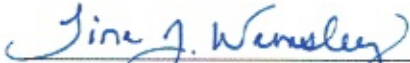
16. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audits;
 - c. Unrestricted access to persons within OSAG from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the governing boards and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
17. All transactions have been recorded in the accounting records and are reflected in the financial statements.
18. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

19. We have no knowledge of allegations of fraud, or suspected fraud, affecting OSAG's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
20. We have no knowledge of noncompliance, or suspected noncompliance, with laws and regulations whose effects were considered when preparing financial statements.
21. 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.
22. We have disclosed to you the identity of OSAG's related parties and all the related-party relationships and transactions of which we are aware.
23. We are aware of no significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect OSAG's ability to record, process, summarize, and report financial data.
24. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

25. With respect to management's discussion and analysis presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by auditing standards 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 and are consistent with those methods used in the financial statements.
26. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Oklahoma School Assurance Group


Tina Wamsley, Board Secretary

11-20-17
Date

