



citycounty insurance services
www.cisoregon.org

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2019 AND 2018**

CIS TRUST
TRUSTEES AND EXECUTIVE DIRECTOR
AS OF JUNE 30, 2019

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CIS TRUST

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Statements of Net Position	12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15
Required Supplementary Information	
Summary of Unpaid Claims Liabilities by Program	
As of June 30, 2019	34
As of June 30, 2018	35
Claims Development Information	
Liability	36
Property	37
Workers' Compensation	38
EBS Benefits	39
AOCIT Benefits	40
Notes to Claims Development Information	41
Pension Plan Information	
Schedule of Proportionate Share of Net Pension Liability	42
Schedule of Contributions	42
Notes to Pension Plan Information	42
Supplementary Information	
Combining Statement of Net Position	43
Combining Statement of Revenues, Expenses, and Changes in Net Position	44
Graphical Summary of Claims	45
Report on Internal Control Over Financial Reporting	46
Statistical Section	
Statistical Section Narrative	50
Financial Trends	51
Demographic and Economic Information	53
Independent Auditor's Review of Fiscal Affairs	54



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
CIS Trust
Salem, Oregon

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of CIS Trust as of June 30, 2019 and 2018 and the related Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and related notes to the financial statements for the years then ended.

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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of CIS Trust, as of June 30, 2019 and 2018, and the respective changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Summary of Unpaid Claims Liabilities by Program, Claims Development Information and Schedules of Proportionate Share of Net Pension Liability and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financials statements of CIS Trust. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims are presented for purposes of additional analysis and are 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 Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position and Graphical Summary of Claims are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2020 on our consideration of CIS Trust's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CIS Trust's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the State of Oregon *Minimum Standards For Audits of Oregon Municipal Corporations*, we have also issued our report dated January 10, 2020 on our review of fiscal affairs required by Oregon State regulations. The purpose of that report is to determine if financial operations have been carried out in accordance with appropriate legal provisions including federal and state laws, charter provisions, court orders, ordinances, resolutions and rules and regulations issued by other governmental agencies.

A handwritten signature in black ink that reads "James Marta". The signature is written in a cursive, flowing style.

James P. Marta
Certified Public Accountant
Sacramento, California
January 10, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

The CIS Trust doing business as Citycounty Insurance Services ("CIS") sets forth a narrative overview and analysis of its financial activities for the fiscal years ended December 31, 2019, 2018 and 2017.

Overview of the Financial Statements

This overview is an introduction to the CIS financial statements. The financial statements consist of three components: (1) basic financial statements, (2) notes to the basic financial statements, and (3) required supplementary information that includes ten-year loss development information and combining schedules.

The Statements of Net Position present information regarding CIS assets and liabilities, with the difference between the two being reported as Net Position. The Statements of Revenue, Expenses, and Changes in Net Position present the financial results of operations for CIS's three most recent fiscal years. This statement presents information showing how the Net Position changed. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The Statements of Cash Flows detail the cash used and provided by the various activities of CIS during the fiscal year. However, this statement does not consider unpaid responsibilities that have been established by contract or other underlying events during the fiscal year.

Analysis of Financial Position

The following is a comparison of the consolidated financial position of CIS at December 31, 2019, 2018 and 2017. The financial statements of the individual trusts are presented under Supplementary Information.

Consolidated CIS Assets, Liabilities and Net Position			
As of June 30,			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>ASSETS & DEFERRED OUTFLOWS</u>			
Cash and Investments	\$ 222,346,027	\$ 199,181,655	\$ 189,419,423
Other current assets	13,973,489	4,456,437	5,963,195
Other noncurrent assets	1,794,597	1,700,264	1,578,502
Capital assets, net	3,793,179	3,556,694	3,329,790
Deferred outflows	3,522,225	2,879,424	4,098,232
Total Assets & Deferred Outflows	<u>\$ 245,429,517</u>	<u>\$ 211,774,474</u>	<u>\$ 204,389,142</u>
<u>LIABILITIES & DEFERRED INFLOWS</u>			
Unearned contributions	\$ 4,914,882	\$ 3,601,044	\$ 4,492,330
Accounts & Accrued expenses payable	3,093,621	3,280,416	2,373,916
Claims liabilities - current portion	24,470,000	23,830,000	23,360,000
Claims liabilities - noncurrent	31,758,581	31,467,607	32,010,637
Net Retirement plans liability	6,691,229	6,109,198	7,157,109
Deferred inflows	735,982	577,548	429,862
Total Liabilities & Deferred Inflows	<u>71,664,295</u>	<u>68,865,813</u>	<u>69,823,854</u>
NET POSITION	<u>173,765,222</u>	<u>142,908,661</u>	<u>134,565,288</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 245,429,517</u>	<u>\$ 211,774,474</u>	<u>\$ 204,389,142</u>

CIS consolidated net position increased to \$173.8 million as of June 30, 2019. This is the largest ever net position for CIS with an increase of \$30.9 million from the prior year. The increase is primarily due to

**CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

unrealized investment income being \$14 million higher than 2018 and \$6.2 million higher than anticipated. CIS benefits claims were \$10 million less than expected which also added to the increase. Additional details regarding the changes is discussed within this analysis.

Results of Operations

The following is a comparison of CIS's Results of Operations for fiscal year 2019, 2018 and 2017.

Consolidated CIS Revenues, Expenses, and Changes in Net Position			
For the fiscal year ended June 30,			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>REVENUE</u>			
Member contributions	\$ 222,260,310	\$ 206,659,941	\$ 200,540,168
Investment and Other income (Loss)	20,218,055	5,240,862	4,743,740
Total Revenue	<u>242,478,365</u>	<u>211,900,803</u>	<u>205,283,908</u>
<u>EXPENSES</u>			
Claims expense	148,380,169	142,599,518	135,806,473
Reinsurance expense	10,128,194	9,229,136	8,156,931
Ceded insurance	27,632,386	27,718,538	26,840,394
Acquisition costs	9,932,268	9,218,898	9,246,281
Administrative expense	15,548,787	14,637,512	14,044,664
Total Expenses	<u>211,621,804</u>	<u>203,403,602</u>	<u>194,094,743</u>
Change in Net Position	<u>30,856,561</u>	<u>8,497,201</u>	<u>11,189,165</u>
Beginning Net Position	142,908,661	134,565,288	123,376,123
Prior Period Adjustments	-	(153,828)	-
Beginning Net Position - Adjusted	<u>142,908,661</u>	<u>134,411,460</u>	<u>123,376,123</u>
Net Position - end of year	<u>\$ 173,765,222</u>	<u>\$ 142,908,661</u>	<u>\$ 134,565,288</u>

Consolidated member contributions increased by \$15.6 million or 7.5%. Consolidated expenses including claims increased by \$8.2 million or 4%.

CIS maintains separate accounting for the three different trusts under its supervision. League of Oregon Cities Employee Benefits Services Trust (EBS) and Association of Oregon Counties Insurance Trust (AOCIT) are both employee benefit trusts. The CIS Property/Casualty Trust (CIS P/C) consists of liability, property and workers compensation funds, and CIS also maintains separate accounting for the three different funds. More detail regarding the financial position of the individual trusts and funds is found within this discussion and in the supplemental schedules of the audited financial statements.

CIS Benefits' increase in revenue of \$22.8 million is due to contribution increases of \$14.3 million and pharmacy rebates of \$4.2 million. The number of combined CIS Benefits' covered employees between fiscal year 2019 and 2018 increased 4.6%. EBS's largest experience rated member has cancelled coverage effective January 1, 2020 with an anticipated reduction to FY2020 EBS contribution revenue of 9.8%.

CIS Benefits direct expenses increased 5.5% as claims costs, ceded insurance and administrative services only (ASO) fees and reinsurance for self-insured claims increased. CIS Benefits' losses and loss adjustment expense in 2019 is higher than 2018 due to general medical cost increases and self-insurance program covered lives growth of approximately 3.1%. CIS Benefits continues to adjust its service and coverage delivery models to provide the best products in the most efficient manner. CIS now contracts with a pharmacy benefits consultant and is using the services of a national pharmacy benefits manager independent of the self-insured medical plan administration.

CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

CIS P/C total operating expense was approximately \$400,000 lower than the prior year mainly because losses and loss adjustments expense were \$2 million lower. Reinsurance premiums increased because the pool's self-insured retention on workers' compensation was reduced from \$1.25 million to \$500,000 per claim.

Changes in Net Position by Fund

CIS Net Position
As of June 30,

	2019	Change	2018	Change	2017
CIS P/C	\$ 52,916,800	30%	\$ 40,603,726	10%	\$ 36,964,675
EBS	84,655,013	16%	73,291,604	4%	70,444,452
AOCIT	36,193,409	25%	29,013,331	7%	27,156,161
	<u>\$ 173,765,222</u>	<u>22%</u>	<u>\$ 142,908,661</u>	<u>6%</u>	<u>\$ 134,565,288</u>

Combined, EBS and AOCIT recorded an increase in net position of \$18.5 million. This was a direct result of claims being \$10 million lower than budget and investment income being \$6.5 million more than anticipated.

CIS P/C recorded an increase in net position of \$12.3 million. This resulted from several factors. Significantly, investment income was \$4.9 million more than anticipated, and claims were \$2.4 million lower than budget. Also, operating expenses were \$1.0 million under budget.

CIS Member Equity Policy

CIS maintains reserves adequate to withstand adverse claims development and to support member rates that are stable and appropriate to their individual risk. The Board in approving the annual CIS budget and funding targets, balances the fiscal strength of CIS with the continuing budgetary pressure of its members. The Board established the CIS Member Equity Policy to guide the use of net position to meet the long-term needs of the individual trusts.

CIS P/C policy, which was updated during FY2019, permits use of reserves only when net position is higher than the 1 in 250-year capitalization amount. Current policy also requires consideration of using reserves when net position is higher than the 1 in 500-year capitalization amount, an amount considered in the policy as the maximum desirable level of capitalization.

CIS P/C Policy Compliance Format - As of June 30,			
	FY2018	FY2019	FY2020
	Actual	Actual	Budget
Net Member Contribution	\$34,483,979	\$34,850,992	\$35,378,000
Net Position	40,603,726	52,916,800	56,969,800
Net Contribution to Net Position	84.9%	65.9%	62.1%
1 in 250-Year Capitalization	\$59,342,000	\$61,346,000	\$61,346,000
1 in 500-Year Capitalization	66,314,000	68,480,000	68,480,000
Difference from 1 in 250	(18,738,274)	(8,429,200)	(4,376,200)
Difference from 1 in 500	(25,710,274)	(15,563,200)	(11,510,200)
Dollar equivalent for 5% change	\$ 2,258,000	\$ 3,734,000	\$ 4,245,000

CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

CIS P/C net position is comprised of three internal funds which are tracked individually.

Dedicated Funds	Net Position June 30, 2019	Contribution to Net Position	Capitalization Targets		Surplus/(Deficit)	
			1-in-250	1-in-500	1-in-250	1-in-500
Liability	\$ 23,358,916	89.7%	\$ 39,629,000	\$ 44,627,000	\$ (16,270,084)	\$ (21,268,084)
Property	25,451,831	37.4%	10,866,000	11,900,000	\$ 14,585,831	\$ 13,551,831
Workers' Compensation	4,106,053	151.7%	10,851,000	11,953,000	\$ (6,744,947)	\$ (7,846,947)
CIS P/C Total	\$ 52,916,800	65.9%	\$ 61,346,000	\$ 68,480,000	\$ (8,429,200)	\$ (15,563,200)

Consistent with CIS P/C, the EBS and AOCIT benefits trusts permit use of reserves only when net position is strong enough to withstand a 1 in 250-year event but requires consideration of using reserves when net position is higher than 1 in 500-year plus 1 in 20-year capitalization.

EBS Policy Compliance Format - As of June 30,			
	FY2018	FY2019	FY2020
	Actual	Actual	Budget
Net Member Contribution	\$ 89,961,038	\$ 102,969,279	\$ 108,465,000
Net Position	73,291,603	84,655,013	88,246,013
Net Contribution to Net Position	122.7%	121.6%	122.9%
1 in 250-Year Capitalization	\$ 55,550,000	\$ 62,084,000	\$ 62,084,000
1 in 500-Year Capitalization plus 1 in 20	85,079,000	90,176,000	90,176,000
Difference from 1 in 250	17,742,000	22,571,000	26,162,000
Difference from 1 in 500	(11,787,000)	(5,521,000)	(1,930,000)
Dollar equivalent to 25% change	\$ 12,384,000	\$ 14,417,000	\$ 14,909,000

AOCIT Policy Compliance Format - As of June 30,			
	FY2018	FY2019	FY2020
	Actual	Actual	Budget
Net Member Contribution	\$ 44,048,588	\$ 45,442,563	\$ 46,914,000
Net Position	29,013,331	36,193,409	37,420,409
Net Contribution to Net Position	151.8%	125.6%	125.4%
1 in 250-Year Capitalization	\$ 24,695,000	\$ 24,961,000	\$ 24,961,000
1 in 500-Year Capitalization plus 1 in 20	36,968,000	38,683,000	38,683,000
Difference from 1 in 250	4,318,000	11,232,000	12,459,000
Difference from 1 in 500	(7,955,000)	(2,490,000)	(1,263,000)
Dollar equivalent to 25% change	\$ 4,099,000	\$ 6,019,000	\$ 6,228,000

On a periodic basis, CIS engages PwC (PricewaterhouseCoopers) to conduct a formal analysis of the funding requirements. This analysis is based on the requirements in the Member Equity Policy and considers many internal and external factors. The results of these studies are shared with the Board and are used as a basis for adjusting the Member Equity Policy.

CIS Member Equity Policy allocates net position to either a Claims Reserve or a Rate Stabilization Reserve. The Claims Reserve includes specific reserve components to protect against adverse development and catastrophic losses. The Rate Stabilization Reserve includes budgeted funding for programs (including risk transfer strategies designed to benefit members) and potential rate subsidies and distributions provided that

CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

net position is within the parameters of the Member Equity Policy allowing such uses. As of June 30, 2019, the amount allowable in each trust's Rate Stabilization Reserve is:

CIS P/C	\$0
EBS	\$22,571,000
AOCIT	\$11,232,000

Consolidated Investment Income

CIS has a consolidated investment portfolio with each of the funds being allocated a percentage of the total investment income based upon their proportional share of their allocated investment portfolio. CIS records realized gains when an investment is sold at a profit and realized losses when an investment is sold at a loss or suffers a permanent impairment in its market value. Changes in the market value of an investment generate unrealized gains or losses.

The investments are managed in three different portfolios. Managed internally by CIS, the Short-Term Portfolio consists of deposits in the State of Oregon Local Government Investment Pool and bank deposits. This cash and cash equivalent money is used to fund claim payments and on-going expenses of CIS.

The Long-Term Portfolio consists primarily of U.S. Government-backed securities, agencies and corporate notes. The majority of the Expanded Asset Class Portfolio is invested in commercial bond and equity mutual funds. Both portfolios are managed by PFM, a well-respected investment manager headquartered in Philadelphia, Pennsylvania. PFM has authority to initiate transactions subject to strict guidance provided in the CIS investment policy. The current portfolio has a 5.75-year duration. More details regarding CIS' investment policy is in the footnotes of the audited financial statements.

Consolidated CIS Investment Income
for the year ended June 30,

	2019	Change	2018	Change	2017
Interest income and					
Realized gains (loss) on Investments sold	\$ 5,476,550	3%	\$ 5,336,943	5%	\$ 5,062,383
Unrealized gains (loss) on Investments	<u>10,101,623</u>		<u>(4,039,770)</u>		<u>4,708,097</u>
	<u>\$ 15,578,173</u>	1101%	<u>\$ 1,297,173</u>	(87%)	<u>\$ 9,770,480</u>

CIS recognized unrealized gains of \$10.1 million in 2019 and unrealized losses of \$4 million in 2018. This large fluctuation is a direct result of interest rate changes effecting our bond portfolio and change in the fair market value in our equity portfolio. During fiscal year 2018 the Federal Reserve Bank increased rates three times. To mitigate the exposure in the portfolio, several government securities were sold in fiscal year 2019 generating a realized loss of \$705,000. In 2018 CIS had a recognized gain of \$520,000. CIS recognized interest income of \$6.2 million, in 2019 compared to \$4.8 million in 2018.

The addition of the Expanded Asset Class Portfolio has allowed CIS to capitalize on the increase in the stock market to offset its investment rate risk inherent in bond and government financial instruments. More details regarding the investment portfolio are in the audited footnotes.

CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

Loss and Loss Adjustment Expenses ("LAE")

Consolidated loss expense was \$148.3 million in 2019 compared to \$142.6 million in 2018. While the overall total increased by \$5.7 million the overall percentage of loss and LAE expense divided by member contributions decreased from 69% to 66.8%.

Loss and loss adjustment expenses and the corresponding loss reserve on the balance sheet are based on estimates. The potentially long period between the occurrence of the event and the final settlement contribute to this variability. On an annual basis, CIS is required to obtain an independent actuarial study and to adjust the IBNR (incurred but not reported) reserves to reflect their latest estimate of ultimate losses for current and prior year claims. Claims development in prior coverage periods is booked in the current fiscal period.

CIS P/C appointed AON as the new actuary for fiscal year ending 2019. Based on actuarial analysis, CIS has booked the required loss reserves of \$56.2 million as of June 30, 2019 and \$55.2 million as of June 30, 2018. The \$931,000 increase in the liability from 2018 represents an overall increase of 2%. The PC funds account for \$45.1 million of the reserves with the Benefit funds holding \$11.1 million. More details are found in the audited footnotes.

Reinsurance & Ceded Insurance

Reinsurance and ceded insurance provide CIS with the financial stability to withstand the financial impact of high dollar claims or an unexpected large quantity of claims that add up to a large dollar amount. When CIS purchases the coverage, it is with the anticipation that the reinsurer or excess carrier will pay those claims. CIS utilizes brokers to place their coverage outside of NLC Mutual and OPEEP. Except for those named entities, CIS only uses carriers that are rated AM Best A or better. Combined reinsurance and ceded insurance for 2019 was \$37.8 million versus \$36.9 million for 2018. There are different programs for the different funds since the risks and best methods to transfer that risk vary.

The attachment point for all classes of workers' compensation reinsurance was reduced from \$1.25 million to \$500,000 on January 1, 2019 from with the layer between \$500,000 and \$1.25 million placed with NLC Mutual. The layer above \$1.25 million is placed with an independent excess carrier rated by AM Best as A+.

The attachment point for most property reinsurance remains at \$500,000 with the layer between \$500,000 and \$100 million placed with a single independent excess carrier who also provides coverage for the \$400 million to \$600 million layer. Property layers from \$100 million to \$400 million are placed with various independent excess carriers. Boiler and machinery excess coverage attaches at \$25,000.

During fiscal year 2019 CIS was notified by its property reinsurance carrier that it rejected the replacement value approved by CIS for a building destroyed by fire in 2017. The reinsurer determined that the new building cost more than the "like, kind & quality" valuation defined in the policy. As a result, CIS has included an additional \$450,000 as a component of the Increase (Decrease) in Provision for Insured Events of Prior Years for the year ended June 30, 2019. CIS determined it had committed to the member that it would pay a certain amount for the claim and felt it was the right thing to do to retain the unexpected loss on CIS's books.

The auditors discussed the matter with CIS and have disclosed the details as a management letter finding. In accordance with their suggestion, CIS developed a better process for calculating replacement values on large complicated claims as well as better documentation to support the approval process.

**CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

Reinsurance layer claims in employment and police liability continue at high levels. CIS continues to develop claim reduction and risk transfer strategies while also focusing on rates that more appropriately reflect the growing risk.

CIS benefits trusts purchase an aggregate stop loss policy with a 135% attachment point and specific stop loss policy with a participant claim limit of \$700,000 for EBS and \$500,000 for AOCIT.

Capital Assets

	2017	Additions	Disposals	2018	Additions	Disposals	2019
Land	\$ 985,760	\$ -	\$ -	\$ 985,760	\$ -	\$ -	\$ 985,760
Buildings and improvements	3,784,995	511,010	-	4,296,005	990	-	4,296,995
Furniture and fixtures	438,043	-	-	438,043	-	(41,328)	396,715
Equipment	305,634	43,738	-	349,372	36,522	(165,684)	220,210
Capitalized software	864,116	-	-	864,116	545,699	-	1,409,815
Total Capital assets	6,378,548	554,748	-	6,933,296	583,211	(207,012)	7,309,495
Accumulated depreciation	(3,048,758)	(327,844)	-	(3,376,602)	(346,726)	207,012	(3,516,316)
Net Capital assets	\$ 3,329,790	\$ 226,904	\$ -	\$ 3,556,694	\$ 236,485	\$ -	\$ 3,793,179

During fiscal year 2019 CIS capitalized \$546,000 for its investment in developing the new benefits enrollment system. The \$166,000 categorized as disposals during 2019 was for obsolete computer equipment. CIS has a big commitment to its technology with home-grown claims and underwriting systems. A Five-Year Technology Roadmap was introduced in fiscal year 2019 which outlines future plans and investments for the IT department.

Pension Expense

At June 30, 2019, CIS reported a net pension liability of \$6.6 million for its proportionate share of the OPERS net pension liability. CIS paid contributions of \$1.1 million during 2019 a 7.6% increase compared to 2018. The 2018 contributions themselves represented a 38% increase compared to 2017. Net pension expense is anticipated to increase as the current \$2.8 million of net pension related deferred outflows and inflows are amortized to pension expense. Oregon's legislature continues to address the growing OPERS costs but the ultimate required contributions and cost to CIS are dependent on many factors including the actual investment returns on OPERS assets.

Oregon updates its OPERS estimates on a 4-year cycle. A new update is scheduled to be released during the 2020 fiscal year. Several employees of CIS have retired recently with several more anticipated in the coming years. The impact of this is unknown. More details regarding the pension expense and Oregon requirements are located in the footnotes of the audit report.

Budget to Actual

During 2019, all components of Member services and Program costs, Salaries and benefits and General and administrative expenditures for CIS were within budget.

Economic Factors

CIS operates in an environment dependent on a wide range of external conditions that can have a great impact on the organization's financial position. The following important economic factors should be considered when evaluating the financial position and operating results of CIS.

Loss and loss adjustment expenses and the corresponding reserve are based on estimates that are subject to inherent variability caused by the nature of the insurance process. For CIS P/C, the potentially long period

**CIS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

between the occurrence of an insured event and the final settlement of a claim and the possible effects of changes in the legal, social, and economic environments contribute to this variability. In response to this uncertainty, CIS continually reviews these estimates, obtains independent actuarial studies, and adjusts the estimates as necessary as experience develops or new information becomes known. Such adjustments are made in current operations.

The CIS investments portfolio consists of United States government debt securities, municipal and corporate obligations, and equities which are all carried at fair market value. The fair value of investments is subject to volatility due to market conditions, such as market interest rates. An increase in market interest rates will cause a reduction in the fair value of debt securities already held and impact CIS's financial position by creating unrealized losses. Conversely, a decrease in market interest rates will cause an increase in the fair value of debt securities already held and impact CIS's financial position by creating unrealized gains. CIS adheres to an investment policy. These investments are monitored regularly and managed with the assistance of a professional advisory firm.

SAIF Corporation (SAIF), the state-chartered not-for-profit workers' compensation insurance company, will continue to be CIS' primary competitor for workers' compensation. SAIF has aggressively marketed to CIS members based on price as evidenced by several members transferring coverage to SAIF over the past few years; including 12 that transferred coverage in FY2020. CIS anticipates that additional members may transfer coverage to SAIF in the future.

CIS provides extremely broad coverage for tort claims and federal civil rights claims. The CIS P/C coverage document addresses the state and federal "alphabet soup" of employment issues, encompassing laws prohibiting discrimination and retaliation, and those requiring accommodation and family medical leave. Unlike Oregon tort claims, there are no caps on awards in federal cases, and the prevailing party often can be awarded legal fees as well as damages. CIS is actively monitoring this area since employment practices claims are one of the highest drivers of losses in the GL fund.

Cyber liability continues to emerge as a growing risk along with the expansion of technology itself. CIS continues to modify and enhance coverage to protect members from data security issues and other liabilities derived from cyber activity.

Oregon Tort Claims Act Revisions. Statutory cap on damages in tort liability claims limits for cities and counties are adjusted for inflation each year by the Office of the State Court Administrator. Effective March 27, 2019 the cap for personal injury increased to \$749,000 per claimant and \$1,498,000 per occurrence. These amounts apply to all causes of action arising on or after July 1, 2019, and before July 1, 2020. Case law underlying the caps is much more stable now in that the Oregon Supreme Court determined it is constitutional for the legislature to set caps on tort damages.

On the federal level, the ACA contains provisions that currently affect CIS Benefits. The Employer Share Responsibility requirements ("Play or Pay") impact approximately 26% of CIS members and CIS internal reporting. The Patient-Centered Outcomes Research (PCOR) fee, which terminated for CIS members as of July 31, 2019, has been reinstated through September 30, 2029. Other potential impacts of future legislative action regarding the ACA remain unknown.

Looking Ahead

CIS engaged an outside consulting firm to better define the mission of CIS and to develop a five-year strategic plan to bring improvements to CIS, its members and its sponsors. We are aware of the many challenges facing our members and we strive to provide the best support and coverage possible.

BASIC FINANCIAL STATEMENTS

CIS TRUST
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 25,279,129	\$ 17,997,146
Investments maturing within one year	30,943,345	34,102,658
Receivables	12,314,079	3,655,037
Administrative service contract deposits, net	1,468,716	656,895
Other deposits and prepaid expenses	190,694	144,505
Total Current Assets	<u>70,195,963</u>	<u>56,556,241</u>
Noncurrent Assets		
Investments	166,123,553	147,081,851
Policy receivable	1,084,803	990,470
Capitalization contributions	709,794	709,794
Capital assets, net	3,793,179	3,556,694
Total Noncurrent Assets	<u>171,711,329</u>	<u>152,338,809</u>
Total Assets	<u>241,907,292</u>	<u>208,895,050</u>
Deferred Outflows of Resources		
Retirement plans deferred outflows	3,522,225	2,879,424
Total Deferred Outflows of Resources	<u>3,522,225</u>	<u>2,879,424</u>
Liabilities		
Current Liabilities		
Accounts payable	1,666,351	1,823,234
Accrued expenses payable	1,427,270	1,457,182
Unearned contributions	4,914,882	3,601,044
Claims liabilities - current portion	24,470,000	23,830,000
Total Current Liabilities	<u>32,478,503</u>	<u>30,711,460</u>
Noncurrent Liabilities		
Claims liabilities	31,758,581	31,467,607
Retirement plans liabilities	6,691,229	6,109,198
Total Liabilities	<u>70,928,313</u>	<u>68,288,265</u>
Deferred Inflows of Resources		
Retirement plans deferred inflows	735,982	577,548
Total Deferred Inflows of Resources	<u>735,982</u>	<u>577,548</u>
Net Position		
Invested in capital assets	3,793,179	3,556,694
Unrestricted	169,972,043	139,351,967
Total Net Position	<u>\$ 173,765,222</u>	<u>\$ 142,908,661</u>

CIS TRUST
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating Revenues		
Member contributions, net	\$ 222,260,310	\$ 206,659,941
Other revenue	4,639,882	3,943,689
Total Operating Revenues	<u>226,900,192</u>	<u>210,603,630</u>
Operating Expenses		
Losses and loss adjustments	148,380,169	142,599,518
Reinsurance	10,128,194	9,229,136
Ceded insurance	27,632,386	27,718,538
Administrative service contract fees	7,168,436	6,620,714
Regulatory assessments and other taxes	452,735	487,414
Local agent commissions	2,311,097	2,110,770
Member services and Program costs	1,458,248	1,473,807
Salaries and benefits	8,498,016	7,653,252
Retirement plans expense	1,199,781	1,232,727
General and administrative	2,586,131	2,544,878
Administrative transfer AOC/LOC	1,459,885	1,405,004
Depreciation	346,726	327,844
Total Operating Expenses	<u>211,621,804</u>	<u>203,403,602</u>
Operating Income (Loss)	<u>15,278,388</u>	<u>7,200,028</u>
Nonoperating Income		
Interest income	6,181,411	4,817,065
Realized gain (loss) on investments sold	(704,861)	519,878
Unrealized gain (loss) on investments	10,101,623	(4,039,770)
Total Nonoperating Income	<u>15,578,173</u>	<u>1,297,173</u>
Change in Net Position	<u>30,856,561</u>	<u>8,497,201</u>
Beginning Net Position	142,908,661	134,565,288
Prior Period Adjustments	-	(153,828)
Beginning Net Position - As restated	<u>142,908,661</u>	<u>134,411,460</u>
Ending Net Position	<u>\$ 173,765,222</u>	<u>\$ 142,908,661</u>

CIS TRUST
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities		
Operating revenues received	\$ 227,819,655	\$ 209,498,104
Losses and loss adjustment expenses paid	(147,449,195)	(142,672,548)
Reinsurance, Ceded insurance and Administrative service fees paid	(54,004,697)	(42,214,032)
Local agent commissions paid	(2,311,097)	(2,110,770)
Regulatory assessments and other taxes paid	(442,184)	(326,490)
Member services and Program costs paid	(1,458,248)	(1,473,807)
Salaries and benefits paid	(9,600,133)	(8,721,224)
General administration expenses paid	(2,829,666)	(1,504,075)
Administrative transfer AOC/LOC paid	(1,459,885)	(1,353,303)
Net Cash Provided (Used) by Operating Activities	<u>8,264,550</u>	<u>9,121,855</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	<u>(583,211)</u>	<u>(554,748)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(583,211)</u>	<u>(554,748)</u>
Cash Flows from Investing Activities		
Investment income received	5,381,410	5,234,895
Sale and Maturity of investments	58,688,546	53,933,990
Purchase of investments	<u>(64,469,312)</u>	<u>(80,194,629)</u>
Net Cash Provided (Used) by Investing Activities	<u>(399,356)</u>	<u>(21,025,744)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,281,983	(12,458,637)
Beginning Cash and Cash Equivalents	<u>17,997,146</u>	<u>30,455,783</u>
Ending Cash and Cash Equivalents	<u>\$ 25,279,129</u>	<u>\$ 17,997,146</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities		
Operating Income	\$ 15,278,388	\$ 7,200,028
Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities:		
Depreciation and amortization	346,726	327,844
(Increase) Decrease in:		
Receivables	(8,658,235)	(58,318)
Deposits and Prepaid expenses	(858,010)	1,545,362
Increase (Decrease) in:		
Claims liabilities	930,974	(73,030)
Accounts and Accrued expenses payable	(186,795)	906,500
Unearned contributions	1,313,838	(891,286)
Net retirement plan liability and Deferred Outflows and Inflows	<u>97,664</u>	<u>164,755</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 8,264,550</u>	<u>\$ 9,121,855</u>
Supplemental Disclosures		
Noncash Investing and Financing Activities		
Unrealized gain (loss) on market value of investments	\$ 10,101,623	\$ (4,039,770)

**CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The CIS Trust (CIS) is an administrative trust established as an intergovernmental entity by the Association of Oregon Counties (AOC) and the League of Oregon Cities (LOC) under ORS 190 and is both a public body and a public corporation under Oregon law. In 1995, the respective Boards of Directors of AOC and LOC charged the CIS Board of Trustees (the Board) with the consolidated administration of three trusts that provide risk management and insurance related services to AOC and LOC members. The joint administration as a reporting unit was completed and effective beginning in fiscal year 2000. The three trusts are the CIS Property/Casualty Trust (CIS P/C), the League of Oregon Cities Employee Benefit Services Trust (EBS) and the Association of Oregon Counties Insurance Trust (AOCIT). EBS and AOCIT are referred to collectively as CIS Benefits.

State of Oregon statutes require CIS P/C to maintain unallocated reserves ("surplus") equal to the greater of 25 percent of annual contributions, or \$250,000 for the liability and property funds. The unallocated reserve account is defined as the amount that total assets exceed total liabilities and annual contributions means total contributions paid less any premium collected to procure insurance of any kind. CIS P/C Total Assets minus Total Liabilities represents CIS P/C's Net Position. As of June 30, 2019, the required minimum ORS 30.282 unallocated reserves for the liability fund was approximately \$5,237,000 and approximately \$1,852,000 for the property fund.

State of Oregon statutes require CIS P/C to maintain adequate financial strength in the workers' compensation fund. The Oregon Department of Consumer and Business Services - Workers' Compensation Division (WCD) conducts annual "rating of financial strength" based on points awarded for three financial measurement ratios. The possible financial strength rating is "strong", "moderate" and "weak". The workers' compensation fund received a rating of "moderate" in the most recent evaluation from WCD.

State of Oregon statutes require CIS Benefits to maintain adequate reserves, include all benefits required of group health insurance policies under ORS 743, 743A and 743B and have sufficient personnel to service enrollees or must contract with Oregon-licensed third-party administrators to provide service to enrollees.

B. MEMBERSHIP

At June 30, 2019, 29 Oregon counties, 237 Oregon cities, and over 100 associated entities were participating members of CIS P/C, EBS or AOCIT.

Admission

An entity is eligible to become a participant of CIS if the entity is:

- CIS itself
- LOC and any Oregon city which is a member of LOC;
- AOC and any Oregon county which is a member of AOC;
- Any other "public body", as defined in ORS 174.109 that is subject to ORS 30.260 to 30.300 and that is created by a city or county under statutory or home rule authority or that provides services a city or county may provide within its own boundaries;

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

Prior to admission the entity must:

- Complete a written application and provide information requested by CIS;
- Enter into a written contractual relationship with CIS;
- Pay contributions or premiums to CIS;
- Receive written acceptance of participation from CIS.

Withdrawal

A member may withdraw from CIS P/C prior to the end of the coverage period established by CIS P/C by delivering to CIS P/C a resolution by the member's governing body authorizing withdrawal. Such resolution must be delivered 180 days prior to the effective date of withdrawal for members still within their three-year membership commitment period and 30 days in all other cases. The three-year membership commitment period only applies to entities that participate in the liability retro program and to those that have received an incentive grant.

A member shall cease to be a participant in CIS Benefits whenever it ceases to be a "Participating" employer; becomes delinquent or otherwise fails to comply with the terms of CIS Benefits or the policies and receives 60 days written notice of termination; or delivers to the Board written notice of its intention to terminate participation in CIS Benefits. Notice shall be given at least 30 days prior to the proposed date of termination.

C. DESCRIPTION OF PROGRAMS (FUNDS)

CIS P/C was established to provide the members with a risk sharing pool for general liability, property damage, and workers' compensation. CIS P/C limits its risk retention on each policy issued through reinsurance, a portion of which is contracted with NLC Mutual Insurance Company (NLC Mutual), and the Oregon Public Entity Excess Pool (OPEEP), both related parties. Risk financing limits provided by the various programs at June 30, 2019 are as follows:

	General and Auto Liability	Property	Workers' Compensation
Entity Deductible:	\$0 - \$330,000	\$250 - \$100,000	\$ -
CIS P/C Self Insured Retention:			
Per Occurrence	\$ 500,000	\$ 500,000	1,250,000*
Per Aggregate	\$ -	\$ -	\$ -
Excess Insurance:			
Per Occurrence	\$ 5,000,000**	\$500 Million ***	\$ -

*The Workers' Compensation SIR attachment point was reduced to \$500,000 at January 1, 2019.

**Members may purchase additional reinsurance for losses in excess of \$5,000,000 through CIS P/C on a case-by-case basis.

***Subject to scheduled limits per member or \$50 million per member, whichever is greater. Individually, flood and earthquake limits per member are up to \$5,000,000.

CIS Benefits purchases medical, dental and vision insurance from Kaiser Permanente, dental insurance from Willamette Dental Group, and life, dependent life and long-term disability insurance from Hartford Life Insurance. Regence BlueCross and BlueShield of Oregon (Regence) administers CIS Benefits' self-insured medical program and provides aggregate reinsurance for the plan. CIS Benefits also maintains a self-insured dental program administered by Delta Dental and a vision program by Vision Service Plan.

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

D. BASIS OF ACCOUNTING

The financial statements of CIS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The accompanying financial statements are prepared on the economic resources measurement focus and accrual basis of accounting in conformity with GAAP. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been received, except when a premium deficiency exists where unearned premiums are recognized currently. CIS discounts claims liabilities; accordingly, CIS considers anticipated investment income in determining if a premium deficiency exists. Operating revenue includes member contributions and fees, which are an integral part of the operations and financing of the covered risks and activities. Nonoperating income includes material activities that are not part of the core risk financing activities of CIS and investment income. Certain prior period amounts have been reclassified to conform to the current period presentation.

The following GASB pronouncements, which may affect CIS, have been issued, but are not yet effective at June 30, 2019:

GASB Statement No. 84, "*Fiduciary Activities*". This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement is effective beginning fiscal year 2020.

GASB Statement No. 87, "*Leases*". The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement is effective beginning fiscal year 2021.

CIS is currently evaluating if new GASB pronouncements will have a significant financial impact to CIS or in issuing its financial statements.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP 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. Examples of significant estimates include unpaid claims liabilities (claims reserves, claims incurred but not reported and unallocated loss adjustment expense). Actual results could differ from those estimates.

F. FUND ACCOUNTING

The accounts are organized on the basis of funds, each of which is considered a separate accounting entity. CIS's funds have been combined for the presentation of the financial statements and are displayed separately in the supplementary information section. The operation of each fund is accounted for by

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

providing a separate set of self-balancing accounts that are comprised of its assets, liabilities, deferred inflows and deferred outflows of resources, net position, revenues, and expenses. Indirect expenses are allocated among the funds based on management's estimate of their share of administration costs.

G. REPORTING ENTITY

The CIS reporting entity includes all activities (operations of its administrative staff, officers and the Board) as they relate to CIS and the three trusts that it administers. This includes financial activity relating to all the membership years. CIS has determined that no other outside entity meets that criteria, and therefore, no agency has been included as a component unit in these financial statements. In addition, CIS is not aware of any entity that would exercise such oversight responsibility that would result in CIS being considered a component unit of that entity. In determining its reporting entity, CIS considered all governmental units that were members of CIS. The criteria did not require the inclusion of these entities in their financial statements principally because CIS does not exercise oversight responsibility over any members.

H. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are stated at fair market value and include all cash, deposits in the State of Oregon Local Government Investment Pool (LGIP) and highly liquid securities with original maturity of three months or less when purchased.

I. INVESTMENTS

CIS investments are predominately fixed maturity securities recorded at fair market value. Changes in fair market value are reported as unrealized gain (loss) on investments as a component of nonoperating income in the Statements of Revenues, Expenses, and Changes in Net Position. The calculation of realized gain on investments sold is independent of the calculation of the change in fair market value. Realized gain on investments sold of the current fiscal year includes unrealized amounts from prior fiscal years.

J. CAPITALIZATION CONTRIBUTIONS

CIS participates in two excess risk pools formed by risk pools such as CIS and made Capitalization contributions to these excess pools as a prerequisite for membership. CIS accounts for its investment in the excess risk pools on the cost basis.

K. CAPITAL ASSETS AND DEPRECIATION

CIS states all capital assets at cost, net of accumulated depreciation. Depreciation is provided for over the estimated useful lives of the assets (10-30 years for buildings and improvements, 3-10 years for furniture and equipment and 5 years for capitalized software), using the straight-line method. CIS's capitalization threshold for tangible capital assets is typically \$1,000. Maintenance and repairs are expensed as incurred. Replacements and betterments that improve or extend the useful life of property are capitalized. Upon disposal of capital assets, the accounts are relieved of the related costs and accumulated depreciation and any resulting gains or losses are reflected in operations. Land is carried at cost and is not depreciated.

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

L. COMPENSATED ABSENCES

Vested or accumulated paid leave is recorded as an expense and liability of CIS as the benefits accrue to employees. Total accumulated compensated absences accrual equaled \$627,105 and \$585,585 as of June 30, 2019 and 2018, respectively. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

M. OPERATING REVENUES

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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Operating revenues include all program contributions, related fees and assessments, which is integral to the financing of the insurance and risk management programs. Investment income is classified as nonoperating income.

N. CONTRIBUTION INCOME

Contributions are recorded as revenue when earned over the term of the related insurance policies. Any advance payment of insurance related policies for coverage after June 30 is considered unearned contributions. Retrospective premiums, subject to various limitations and conditions, may be assessed by CIS upon members of CIS in the event a single loss or series of losses should exceed the remaining unexpended balance of premiums paid by members plus any investment income, gains, or other income derived therefrom. Supplemental assessments are recognized as income in the period assessed.

Contribution development for CIS P/C is performed internally by CIS staff, using, among other items, loss estimates provided by a consulting actuary's analysis. Contribution income consists of payments that are planned to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from joint self-insurance programs, and operating expenses.

Contributions to CIS Benefits are recognized as revenue in the period coverage is effective, and are shown as unearned contributions when received prior to the coverage period. CIS Benefits contracts with various administrators and carriers to administer CIS Benefits self-insured programs or provide group insurance coverage.

O. UNPAID CLAIMS LIABILITIES (CLAIMS RESERVES, CLAIMS INCURRED BUT NOT REPORTED (IBNR) AND UNALLOCATED LOSS ADJUSTMENT EXPENSE)

CIS establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses), that have been reported but not settled, and IBNR. The length of time for which such costs must be estimated varies by the coverage involved. Estimated amounts of salvage and subrogation and excess-insurance 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 re-computed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim 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 reflects past inflation and on other factors that are considered to be

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to losses and loss adjustment expense in the fiscal period in which they are computed.

P. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

Q. RETIREMENT PLANS

For purposes of measuring the net pension asset or liability, deferred inflows and deferred outflows of resources related to pensions and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The GASB issued Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*. This standard established new requirements for reporting a “net OPEB liability” for the unfunded portion of its other postemployment benefits, which includes retiree medical benefits. For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPERS Retiree Health Insurance Account (RHIA) and additions to/deductions from the RHIA fiduciary net position have been determined on the same basis as they are reported by the RHIA. For this purpose, the RHIA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value. CIS adopted this pronouncement in the 2018 fiscal year and, accordingly, has adjusted the beginning net position as of July 1, 2017.

R. INCOME TAX STATUS

CIS is an intergovernmental entity established by AOC and LOC pursuant to ORS 190 and is not subject to state income tax. This statute allows CIS members to provide joint funding for a broad array of risk management and self-insurance services, as such; it is not subject to federal income tax under Internal Revenue Code Section 115.

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

2. CASH AND INVESTMENTS

A. CASH AND CASH EQUIVALENTS

Cash consisted of the following as of June 30,:

	2019	2018
Balance per bank	\$ 7,479,335	\$ 7,036,178
Deposits in transit	9,039	13,989
Outstanding checks	(553,327)	(901,252)
Balance per books	6,935,047	6,148,915
Money market funds	1,168,191	2,343,050
Cash in pooled funds (LGIP)	17,175,891	9,505,181
Total Cash and cash equivalents	<u>\$ 25,279,129</u>	<u>\$ 17,997,146</u>

Bank Deposits and Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, CIS' deposits may not be returned to it. CIS maintains its deposits in accordance with ORS 295, which requires that deposit accounts in excess of federal depository insurance limits may only be maintained at qualified financial institutions identified by the Oregon State Treasurer. CIS deposits not covered by federal depository insurance are covered by the Oregon State Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds but still not guaranteeing that all funds are 100% protected. A bank depository is required to pledge eligible securities with collateral valued in amounts determined by the Oregon State Treasurer.

State of Oregon Local Government Investment Pool

The Oregon State Treasurer maintains the Oregon Short Term Fund (OSTF), of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments in OSTF is voluntary. OSTF investments are regulated by ORS 294, Oregon Investment Council and portfolio guidelines issued by the Oregon Short Term Fund Board. In accordance with Oregon statutes, funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. LGIP was created to offer a short-term investment alternative to Oregon local governments and it is not registered with the U.S. Securities and Exchange Commission. At June 30, 2019, the fair value of CIS' deposits with the LGIP approximates cost. The OSTF financial statements are available at <http://www.ost.state.or.us>.

B. INVESTMENTS

Under provisions of CIS's Investment Policy CIS maintains a Short Term Portfolio, a Long Term Portfolio and an Expanded Asset Class (EAC) Portfolio. The Short Term Portfolio consisted of deposits in the LGIP and bank deposits and is reported as Cash and Cash Equivalents. The following outlines the investment parameters for the portfolios:

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

Short Term and Long Term Portfolios

<u>Asset Class Diversification</u>	<u>Maximum</u>
U.S. Government & Agency Obligations	100%
Mortgage Related Securities, with the following sublimits	50%
U.S. Agency Backed	50%
Agency Collateralized Mortgage Obligations	20%
Non-Agency Backed	10%
Supra-National debt obligations	10%
Corporate Bonds and Commercial Paper	40%
Certificates of Deposits	25%
Banker's Acceptances	50%
(minimum credit rating of Aa3, limited to qualified institutions per ORS 294)	
Local Government Investment Pool	100%
Certificates of Deposits (limited to qualified depositories per ORS 295)	25%
Debt obligations issued by any of the 50 states and their political subdivisions	20%
(limited to General Obligation and Essential Services revenue instruments)	
Asset Backed Securities (must have effective duration of 5 years or less)	5%

Expanded Asset Class

Investment in the EAC Portfolio is limited to 20% of CIS's net position and may be invested in fixed-income mutual funds and exchange-traded funds (ETFs), equity mutual funds and ETFs and alternative asset class mutual funds and ETFs (REITs and inflation hedging assets). Due to activity in the portfolios or appreciation in the asset classes, the allocation can be allowed to grow to a maximum of 25% of net position. The EAC Portfolio represents 17.4% of CIS's net position as of June 30, 2019.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable valuation inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and inputs used to determine their fair value, as follows:

- Level 1 - Unadjusted quoted prices for identical instruments in active markets.
- Level 2 -Quoted prices for similar instruments in active markets; quoted prices for identical instruments in markets that are not active; and model-driven valuations in which all significant inputs are observable.
- Level 3 -Valuations derived from valuation techniques in which significant inputs are unobservable.

At June 30, 2019, CIS had the following fair value measurements.

<u>Instrument Type</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasury-Bills/Bonds/Notes	\$ 34,940,595	\$ -	\$ 34,940,595	\$ -
Federal Agency-Bonds/Notes	7,549,403	-	7,549,403	-
Federal Agency-Mortgaged Backed	35,518,024	-	35,518,024	-
Federal Agency-Collateralized Mortgage Obligation	10,749,430	-	10,749,430	-
Corporate Notes	64,951,877	-	64,951,877	-
Supra-National & Municipal Bond/Note	5,121,459	-	5,121,459	-
Asset-Backed Security	7,908,097	-	7,908,097	-
Mutual Fund - Bond	14,990,268	14,990,268	-	-
Mutual Fund - Equity	14,024,586	14,024,586	-	-
Exchange Traded Fund - Equity	1,313,159	1,313,159	-	-
Total	\$ 197,066,898	\$ 30,328,013	\$ 166,738,885	\$ -

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

CIS's investment portfolios are valued using the reported fair value prices from third-party custodians and/or investment managers. The custodians and investment managers use the latest bid prices or evaluated quotes from independent pricing vendors. The third-party pricing vendors use a variety of methods when pricing securities that incorporate relevant observable market data.

Interest Rate Risk

Interest Rate Risk is the risk that the value of investments will decrease because of a rise in interest rates. CIS's investment policy outlines effective duration ranges and minimum credit quality for the Short Term and Long Term Portfolios. The Long Term and EAC Portfolio investments consisted of the following as of June 30, 2019:

Investment Type	Fair Value	Investment Maturities		
		< 1yr	1-3 yrs	>3 yrs
U.S. Treasury-Bills/Bonds/Notes	\$ 34,940,595	\$ -	\$ 18,067,125	\$ 16,873,470
Federal Agency-Bonds/Notes	7,549,403	-	1,321,804	6,227,599
Federal Agency-Mortgaged Backed	35,518,024	-	188,928	35,329,096
Federal Agency-Collateralized Mortgage Obligation	10,749,430	615,332	72,687	10,061,411
Corporate Notes	64,951,877	-	21,893,528	43,058,349
Supra-National & Municipal Bond/Note	5,121,459	-	5,121,459	-
Asset-Backed Security	7,908,097	-	1,995,792	5,912,305
Mutual Fund - Bond	14,990,268	14,990,268	-	-
Mutual Fund - Equity	14,024,586	14,024,586	-	-
Exchange Traded Fund - Equity	1,313,159	1,313,159	-	-
Total Investments	\$ 197,066,898	\$ 30,943,345	\$ 48,661,323	\$ 117,462,230

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. It is CIS's general investment policy to apply the prudent person standard; that is, investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. As of June 30, 2019, CIS's the Long Term Portfolio investments were rated by Standard and Poor's AA+ (56.2%), BBB+ (8.1%), A+ (8%), AAA (7.5%), A (6.4%), A- (6%), AA- (5.6%), AA (1.5%), and not rated (0.7%). Investments in U.S. Treasuries carry the explicit guarantee of the U.S. Government.

Concentration of Credit Risk

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

	Fair Value	% of Portfolio
U.S. Treasury	\$ 34,940,595	17.7%
Fannie Mae	24,816,452	12.6%
Vanguard	13,383,542	6.8%
Freddie Mac	18,596,219	9.4%

3. RELATED PARTY TRANSACTIONS

CIS pays a flat fee, based upon the prior year's fee plus the current CPI to AOC and LOC and provided education training grants to AOC and LOC. Administrative transfer AOC/LOC expense totaled \$1,459,885 and \$1,405,004 for the fiscal years ended June 30, 2019 and 2018, respectively. Member services and Program costs included AOC/LOC education training grants of \$120,323 and \$115,806 for the fiscal years ended June 30, 2019 and 2018, respectively.

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

CIS is a participating member of NLC Mutual that provides reinsurance coverage. Premium expense paid to NLC Mutual totaled \$1,252,081 and \$778,254 for the fiscal years ended June 30, 2019 and 2018, respectively. CIS received dividend distributions from NLC Mutual of \$61,838 and \$75,131 in the fiscal years ended June 30, 2019 and 2018, respectively. The cost basis of CIS's Capitalization contributions is \$709,794 at June 30, 2019 and 2018. The amount of CIS's unrecognized earnings surplus in NLC Mutual was \$3,137,274 and \$2,826,230 at June 30, 2019 and 2018, respectively.

CIS is a participating and founding member of OPEEP. A CIS employee is a member of the OPEEP Board. A different CIS employee is the Administrator of OPEEP subject to the general supervision and policy direction of the OPEEP Board and Executive Committee. The Administrator has arranged with CIS to perform various administrative functions for OPEEP. CIS made program contributions to OPEEP of \$1,723,575 and \$1,772,339 for the fiscal years ended June 30, 2019 and 2018, respectively. In the fiscal year ended June 30, 2018 CIS made a capitalization contribution of \$60,144 to OPEEP. Capitalization contribution and program contributions to OPEEP are recorded as Reinsurance expense. CIS was reimbursed \$98,631 and \$93,431 by OPEEP for administrative costs for the fiscal years ended June 30, 2019 and 2018, respectively. The amount of CIS's unrecognized earnings surplus in OPEEP was approximately \$616,000 and \$484,000 at June 30, 2019 and 2018, respectively.

4. CAPITAL ASSETS

Capital assets consist of the following as of June 30,:

	2017	Additions	Disposals	2018	Additions	Disposals	2019
Land	\$ 985,760	\$ -	\$ -	\$ 985,760	\$ -	\$ -	\$ 985,760
Buildings and improvements	3,784,995	511,010	-	4,296,005	990	-	4,296,995
Furniture and fixtures	438,043	-	-	438,043	-	(41,328)	396,715
Equipment	305,634	43,738	-	349,372	36,522	(165,684)	220,210
Capitalized software	864,116	-	-	864,116	545,699	-	1,409,815
Total Capital assets	6,378,548	554,748	-	6,933,296	583,211	(207,012)	7,309,495
Accumulated depreciation	(3,048,758)	(327,844)	-	(3,376,602)	(346,726)	207,012	(3,516,316)
Net Capital assets	<u>\$3,329,790</u>	<u>\$ 226,904</u>	<u>\$ -</u>	<u>\$3,556,694</u>	<u>\$236,485</u>	<u>\$ -</u>	<u>\$3,793,179</u>

Depreciation expense was \$346,726 and \$327,844 for the fiscal years ended June 30, 2019 and 2018, respectively.

5. OPERATING LEASES

CIS leases various equipment, buildings and land for use in their operations under cancelable and non-cancelable operating leases. Total costs for such leases were approximately \$86,000 and \$85,000 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease payments for the non-cancelable leases are as follows:

Fiscal Year Ending	Future Payments
June 30, 2020	\$ 74,000
June 30, 2021	62,000
June 30, 2022	6,000
Thereafter	-
Total minimum future payments	<u>\$ 142,000</u>

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

6. ADMINISTRATIVE SERVICE CONTRACT DEPOSITS

CIS contracts with administrative service organizations (ASO) to administer claims for the self-insured medical and certain workers' compensation programs under self-insured administrative service contracts whereby CIS deposits funds with the ASO to be used to pay claims as submitted. The deposit balances are replenished monthly and the ASO receives administrative service fees based on a per transaction basis or the number of program participants administered. Administrative service contract deposits consist of the following as of June 30,:

	2019			2018		
	Contract Deposits	Claims Reimbursement Payable	Net Administrative Service Contract Deposits	Contract Deposits	Claims Reimbursement Payable	Net Administrative Service Contract Deposits
CIS P/C	\$ 159,078	\$ -	\$ 159,078	\$ 187,529	\$ -	\$ 187,529
EBS	2,200,000	(1,217,863)	982,137	2,200,000	(1,766,745)	433,255
AOCIT	800,000	(472,499)	327,501	800,000	(763,889)	36,111
	<u>\$ 3,159,078</u>	<u>\$ (1,690,362)</u>	<u>\$ 1,468,716</u>	<u>\$ 3,187,529</u>	<u>\$ (2,530,634)</u>	<u>\$ 656,895</u>

7. UNPAID CLAIMS LIABILITIES

CIS establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. Changes in aggregate liabilities for all funds during the fiscal year ended June 30 consist of the following:

	2019	2018
Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	\$ 55,297,607	\$ 55,370,637
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of the Current Year	149,461,601	142,050,894
Increase (Decrease) in Provision for Insured Events of Prior Years	(1,081,432)	548,624
Total Claims and Claim Adjustment Expenses	<u>148,380,169</u>	<u>142,599,518</u>
Payments:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	125,314,362	118,010,615
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	22,134,833	24,661,933
Total Payments	<u>147,449,195</u>	<u>142,672,548</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$ 56,228,581</u>	<u>\$ 55,297,607</u>

The components of unpaid claims and claims adjustment expenses as of June 30 were as follows:

	2019	2018
Claims Reserves	\$ 28,862,144	\$ 25,553,222
Claims Incurred But Not Reported	22,724,494	25,599,089
Unallocated Loss Adjustment Expenses	4,641,943	4,145,296
Total Claims Liability	<u>\$ 56,228,581</u>	<u>\$ 55,297,607</u>
Claims Liability - Current Portion	\$ 24,470,000	\$ 23,830,000
Claims Liability - Noncurrent Portion	31,758,581	31,467,607
Total Claims Liability	<u>\$ 56,228,581</u>	<u>\$ 55,297,607</u>

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

At June 30, 2019 and 2018, CIS P/C had \$46,327,890 and \$46,758,285, respectively, of unpaid claims and claim adjustment expenses presented at their net present value of \$45,108,581 and \$45,437,607, respectively. Claims liabilities are discounted at an annual rate of 1.5%. For CIS Benefits unpaid claims and claim adjustment expenses are presented at their undiscounted value of \$11,120,000 and \$9,860,000, respectively.

8. RETIREMENT PLANS

Retirement plans for CIS consist of the OPERS Pension Plan, OPERS Individual Account Program, an Internal Revenue Code Section 457 deferred compensation plan and OPEB for CIS which includes the OPERS RHIA plan and CIS provides an implicit rate subsidy for retiree health insurance continuation premiums administered by CIS.

General Information about the OPERS Pension Plan

Employees of CIS are provided with pensions through OPERS which is a single cost-sharing multiple-employer defined benefit plan. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. OPERS is administered by the Oregon Public Employees Retirement Board (OPERB). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700, by calling (503) 598-7377, or by accessing the OPERS web site at <http://oregon.gov/PERS/>.

OPERS Pension (Chapter 238-Tier 1/Tier 2). The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Pension Benefits

The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- employed by an OPERS employer at the time of death,
- died within 120 days after termination of OPERS-covered employment,
- died as a result of injury sustained while employed in an OPERS-covered job, or
- on an official leave of absence from an OPERS-covered job at the time of death.

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes after Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360, monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA in fiscal year 2015 and beyond will vary based on the amount of the annual benefit.

OPSRP Pension Program (Chapter 238A -OPSRP DB). The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

Pension Benefits

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes after Retirement

Under ORS 238A.210, monthly benefits are adjusted annually through cost-of-living changes. The cap on COLA in fiscal year 2015 and beyond vary based on the amount of the annual benefit.

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the OPERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Ultimate authority for setting and changing the laws governing contributions rest with the Oregon legislature. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced.

Employer contribution rates in effect for the fiscal year 2019 and 2018 are Tier 1/Tier 2 - 18.16% and OPSRP general service - 13.94% based on the December 31, 2015 actuarial valuation. CIS pension plan contributions to OPERS for the year ended June 30, 2019 and 2018 were \$1,112,605 and \$1,033,219, respectively. Employer contribution rates in effect for the fiscal year 2020 and 2021 are Tier 1/Tier 2 - 15.88% and OPSRP general service - 11.43% based on the December 31, 2017 actuarial valuation.

Actuarial Valuations

The employer contribution rates effective July 1, 2017, through June 30, 2019, were set using the entry age normal actuarial cost method. For the tier one/Tier Two component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Actuarial Methods and Assumptions:

Valuation date:	12/31/2016
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Amortized as a level percentage of payroll; Tier1/Tier 2 UAL (20 years) and OPSRP pension UAL (16 years) amortization periods are closed.
Equivalent Single Amortization Period:	20 years
Asset Valuation Method:	Market value of assets
Actuarial assumptions:	
Inflation rate:	2.50%
Long-term expected rate of return:	7.20%
Projected Salary Increases:	3.50%
Cost of living adjustments (COLA):	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with Moro decision; blend based on service.
Mortality:	Healthy retirees and beneficiaries: RP-2014 Healthy annuitant, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation. Active members: RP-2014 Employees, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation. Disabled retirees: RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study that reviewed experience for the four-year period ending on December 31, 2014.

Assumed Asset Allocation

Asset Class/Strategy	Low Range	High Range	OIC Target
Cash	0.00%	3.00%	0.00%
Debt Securities	15.00	25.00	20.00
Public Equity	32.50	42.50	37.50
Private Equity	13.50	21.50	17.50
Real Estate	9.50	15.50	12.50
Alternative Investments	0.00	12.50	12.50
Opportunity Portfolio	0.00	3.00	0.00
Total			100.00%

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in June 2015 the OPERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	3.49%
Short-Term Bonds	8.00	3.38
Bank/Leveraged Loans	3.00	5.09
High Yield Bonds	1.00	6.45
Large/Mid Cap US Equities	15.75	6.30
Small Cap US Equities	1.31	6.69
Micro Cap US Equities	1.31	6.80
Developed Foreign Equities	13.13	6.71
Emerging Market Equities	4.13	7.45
Non-US Small Cap Equities	1.88	7.01
Private Equity	17.50	7.82
Real Estate (Property)	10.00	5.51
Real Estate (REITS)	2.50	6.37
Hedge Fund of Funds - Diversified	2.50	4.09
Hedge Fund - Event-driven	0.63	5.86
Timber	1.88	5.62
Farmland	1.88	6.15
Infrastructure	3.75	6.60
Commodities	1.88	3.84
Assumed Inflation - Mean		2.50

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.2% for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CIS's proportionate share of the net pension liability to changes in the discount rate. The following presents CIS's proportionate share of the net pension liability calculated using the discount rate of 7.2%, as well as what CIS's proportionate share of the net pension liability would be if it were calculated using a rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.2%)	Current Discount Rate (7.2%)	1% Increase (8.2%)
CIS Proportional Share of Net pension liability (asset)	\$ 10,991,912	\$ 6,577,304	\$ 2,933,385

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, CIS reported a net pension liability of \$6,577,304 for its proportionate share of the OPERS Net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 and rolled forward to June 30, 2017. CIS's proportion of the net pension liability was based on CIS's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers. At December 31, 2015, CIS's proportion was 0.04416%.

For the years ended June 30, 2019 and 2018, CIS recognized pension plan expense of \$1,239,289 and \$1,209,931, respectively. At June 30, 2019, CIS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	Deferred Outflow of Resources	Deferred Inflow of Resources
Net difference between projected and actual earnings on investments	\$ 5,651	\$ 307,147
Assumption changes or inputs	1,529,211	28,278
Changes in proportion and differences between employer contributions and proportionate share of contributions	608,401	396,594
Economic/demographic (gains) or losses	223,740	3,963
Contributions made subsequent to measurement date	1,155,222	-
Net Deferred Outflow/(Inflow) of Resources	<u>\$ 3,522,225</u>	<u>\$ 735,982</u>

CIS contributions subsequent to the measurement date of June 30, 2018 are reported as deferred outflows of resources related to pensions and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending	Deferred Outflow/(Inflow) of Resources (prior to post-measurement date contributions)
June 30, 2020	\$ 826,954
June 30, 2021	607,198
June 30, 2022	(5,726)
June 30, 2023	152,842
Thereafter	49,753
Total	<u>\$ 1,631,021</u>

Changes expected to have a significant effect on the measurement of CIS's proportionate share of the Net pension liability

GASB Statement No. 68 requires the total pension liability to be determined based on the benefit terms in effect at the Measurement Date. Any changes to benefit terms that occurs after that date are reflected in amounts reported for the subsequent Measurement Date. The OPERS actuary has reported that they are not aware of any significant changes subsequent to the June 30, 2018 measurement date.

Defined Contribution Plan

As a supplement to its defined benefit plan, OPERS also operates the Individual Account Program (IAP), a defined contribution plan. The IAP is administered by the OPERB. The plan terms are determined by the Oregon Legislature and may be amended by them. For each employee participating in the plan, 6% of annual pay is transmitted to OPERS and deposited in the employees account. As an additional benefit, CIS pays the entire amount of the contribution. Employees are fully vested in their contributions to the plan. CIS's contributions to the IAP were \$433,086 in fiscal year 2019, \$400,325 in fiscal year 2018 and \$371,738 in fiscal year 2017, all of which equaled the required contributions for that year.

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

Deferred Compensation Plan

CIS has established a deferred compensation plan in accordance with Internal Revenue Code Section 457, whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. The Plan assets are held in trust for the exclusive benefit of Plan participants and their beneficiaries and, therefore are excluded from the accompanying financial statements. Employee deductions contributed to the plan totaled \$392,335 and \$448,019 for the fiscal years ended June 30, 2019 and 2018, respectively.

General Information about OPEB

CIS has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". OPEB for CIS combines two separate plans. CIS provides an implicit rate subsidy for retiree health insurance continuation premiums administered by CIS and CIS contributes to the OPERS RHIA, a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by OPERB. CIS's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At June 30, 2019, CIS reported a combined net OPEB liability of \$113,925. CIS adopted this pronouncement in the 2018 fiscal year and, accordingly, reduced the beginning net position as of July 1, 2017 by \$153,828. OPEB deferred outflows of resources, deferred inflows of resources, and OPEB expense as of and for the fiscal years ended June 30, 2019 and 2018 are immaterial.

Plan Descriptions

Retiree Health Insurance Continuation Premiums Administered by CIS

CIS is required by ORS 238.420 to make available to retirees, on a self-pay basis, group health insurance from the date of retirement until Medicare eligibility. This continued health coverage is offered to eligible CIS retirees and their spouses and dependents. Coverage must be continuous from active-employee to retiree status. The active-employee premium rate applies to retirees, however, in some cases the premium itself does not represent the full cost of covering retirees. Retirees can be expected to generate higher health care claims and therefore higher premiums than the active population. CIS has not established a trust to fund (and there is no obligation of CIS to fund) these implicit rate subsidy benefits in advance. As of June 30, 2019 CIS has 63 active-employees participating in CIS health insurance programs and only one (1) inactive employee or beneficiary that has continued coverage as a retiree. There are no inactive employees entitled to but not yet receiving a continued coverage benefit.

OPERS RHIA

The RHIA plan established under ORS 238.420 provides a payment of up to \$60 per month towards the costs of health insurance for eligible OPERS retirees. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700, by calling (503) 598-7377, or by accessing the OPERS web site at <http://oregon.gov/PERS/>.

CIS TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

Actuarial Methods and Assumptions

Total OPEB liability is based on valuations provided by an independent actuarial firm based on assumptions including inflation rate, projected salary increases, discount rate, medical, dental and vision increases, and mortality rates and other inputs. Assumptions and methods used are generally consistent with the Actuarial Methods and Assumptions reported for the OPERS Pension Plan.

Contributions

Participating RHIA employers are contractually required to contribute at a rate assessed bi-annually by the OPERB. The rates in effect for the fiscal year 2019 and 2018 are Tier 1/Tier 2 - 0.07% and OPSRP general service – 0.43%. CIS rates in effect for fiscal year 2020 and 2021 are Tier 1/Tier 2 - 0.06% and OPSRP general service – 0.0%. The OPERB sets the employer contribution rate. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. CIS's contributions to the RHIA were \$32,803 in fiscal year 2019, \$30,401 in fiscal year 2018 and \$29,745 in fiscal year 2017, all of which equaled the required contributions.

10. SUBSEQUENT EVENTS

CIS management has evaluated its operations and financial transactions from June 30, 2019 (the date of the accompanying financial statements) through January 10, 2020, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CIS TRUST
SUMMARY OF UNPAID CLAIMS LIABILITIES BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Liability</u>	<u>Property</u>	<u>Workers' Compensation</u>	<u>EBS Benefits</u>	<u>AOCIT Benefits</u>	<u>Total Claims Liabilities</u>
Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	\$ 34,421,493	\$ 1,688,250	\$ 9,327,864	\$ 6,750,000	\$ 3,110,000	\$ 55,297,607
Incurred Claims and Claim Adjustment Expenses:						
Provision for Insured Events of the Current Year	10,395,334	3,841,016	2,223,838	93,650,157	39,351,256	149,461,601
Increase (Decrease) in Provision for Insured Events of Prior Years	311,239	(74,238)	(270,238)	(577,396)	(470,799)	(1,081,432)
Total Incurred Claims and Claim Adjustment Expenses	10,706,573	3,766,778	1,953,600	93,072,761	38,880,457	148,380,169
Payments:						
Claim and Claim Adjustment Expenses						
Attributable to Insured Events of the Current Year	917,377	1,765,518	700,056	85,900,156	36,031,255	125,314,362
Claim and Claim Adjustment Expenses						
Attributable to Insured Events of the Prior Years	10,558,500	976,013	1,838,513	6,122,605	2,639,202	22,134,833
Total Payments	11,475,877	2,741,531	2,538,569	92,022,761	38,670,457	147,449,195
Total Unpaid Claims and Claims Adjustment Expenses at End of Year	\$ 33,652,189	\$ 2,713,497	\$ 8,742,895	\$ 7,800,000	\$ 3,320,000	\$ 56,228,581

The components of unpaid claims and claims adjustment expenses were as follows:

	<u>Liability</u>	<u>Property</u>	<u>Workers' Compensation</u>	<u>EBS Benefits</u>	<u>AOCIT Benefits</u>	<u>Total Claims Liabilities</u>
Claims Reserves	\$ 22,781,970	\$ 2,091,662	\$ 3,988,512	\$ -	\$ -	\$ 28,862,144
Claims Incurred But Not Reported	7,534,771	394,570	3,675,153	7,800,000	3,320,000	22,724,494
Unallocated Loss Adjustment Expense	3,335,448	227,265	1,079,230	-	-	4,641,943
Total Claims Liability	\$ 33,652,189	\$ 2,713,497	\$ 8,742,895	\$ 7,800,000	\$ 3,320,000	\$ 56,228,581
Current Portion	\$ 10,000,000	\$ 1,250,000	\$ 2,100,000	\$ 7,800,000	\$ 3,320,000	\$ 24,470,000
Noncurrent Portion	23,652,189	1,463,497	6,642,895	-	-	31,758,581
Total Claims Liability	\$ 33,652,189	\$ 2,713,497	\$ 8,742,895	\$ 7,800,000	\$ 3,320,000	\$ 56,228,581

CIS TRUST
SUMMARY OF UNPAID CLAIMS LIABILITIES BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Liability	Property	Workers' Compensation	EBS Benefits	AOCIT Benefits	Total Claims Liabilities
Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	\$ 33,704,193	\$ 3,065,005	\$ 8,681,439	\$ 6,230,000	\$ 3,690,000	\$ 55,370,637
Incurred Claims and Claim Adjustment Expenses:						
Provision for Insured Events of the Current Year	11,721,195	3,300,704	3,134,624	83,124,115	40,770,256	142,050,894
Increase (Decrease) in Provision for Insured Events of Prior Years	(1,112,494)	(76,913)	1,902,840	316,931	(481,740)	548,624
Total Incurred Claims and Claim Adjustment Expenses	10,608,701	3,223,791	5,037,464	83,441,046	40,288,516	142,599,518
Payments:						
Claim and Claim Adjustment Expenses						
Attributable to Insured Events of the Current Year	846,099	2,057,371	1,072,774	76,374,115	37,660,256	118,010,615
Claim and Claim Adjustment Expenses						
Attributable to Insured Events of the Prior Years	9,045,302	2,543,175	3,318,265	6,546,931	3,208,260	24,661,933
Total Payments	9,891,401	4,600,546	4,391,039	82,921,046	40,868,516	142,672,548
Total Unpaid Claims and Claims Adjustment Expenses at End of Year	\$ 34,421,493	\$ 1,688,250	\$ 9,327,864	\$ 6,750,000	\$ 3,110,000	\$ 55,297,607

The components of unpaid claims and claims adjustment expenses were as follows:

	Liability	Property	Workers' Compensation	EBS Benefits	AOCIT Benefits	Total Claims Liabilities
Claims Reserves	\$ 19,895,002	\$ 1,070,330	\$ 4,587,890	\$ -	\$ -	\$ 25,553,222
Claims Incurred But Not Reported	11,458,864	487,475	3,792,750	6,750,000	3,110,000	25,599,089
Unallocated Loss Adjustment Expense	3,067,627	130,445	947,224	-	-	4,145,296
Total Claims Liability	\$ 34,421,493	\$ 1,688,250	\$ 9,327,864	\$ 6,750,000	\$ 3,110,000	\$ 55,297,607
Current Portion	\$ 9,380,000	\$ 1,380,000	\$ 3,210,000	\$ 6,750,000	\$ 3,110,000	\$ 23,830,000
Noncurrent Portion	25,041,493	308,250	6,117,864	-	-	31,467,607
Total Claims Liability	\$ 34,421,493	\$ 1,688,250	\$ 9,327,864	\$ 6,750,000	\$ 3,110,000	\$ 55,297,607

CIS TRUST
CLAIMS DEVELOPMENT INFORMATION – LIABILITY
JUNE 30, 2019

Fiscal Years Ended June 30,	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(1) Required contribution and investment income:										
Earned	\$ 13,241,958	\$ 15,985,870	\$ 15,147,241	\$ 15,226,795	\$ 12,490,412	\$ 15,274,363	\$ 18,670,255	\$ 22,306,195	\$ 23,470,213	\$ 27,917,019
Ceded	1,827,975	1,875,616	1,854,231	1,837,389	1,838,651	1,863,910	2,374,070	2,109,316	2,555,871	2,673,075
Net	11,413,983	14,110,254	13,293,010	13,389,406	10,651,761	13,410,453	16,296,185	20,196,879	20,914,342	25,243,944
(2) Unallocated expenses	4,118,161	4,051,815	3,975,372	4,924,766	4,700,154	5,080,771	6,357,360	5,938,035	7,037,707	7,268,116
Policy Years Ended June 30,										
(3) Estimated incurred claims and allocated expenses, end of the policy year:										
Incurred	6,699,292	6,901,309	9,397,076	11,216,832	11,292,960	16,754,347	13,671,956	14,345,924	13,738,394	14,137,334
Assumed by reinsurers	806,000	910,000	1,108,000	1,194,106	1,301,436	2,948,062	1,507,385	3,102,602	2,017,199	3,742,000
Net incurred	5,893,292	5,991,309	8,289,076	10,022,726	9,991,524	13,806,285	12,164,571	11,243,322	11,721,195	10,395,334
(4) Paid (cumulative) as of:										
End of policy year	885,383	872,507	952,671	895,753	605,396	1,533,133	1,152,427	1,227,917	846,099	917,377
One year later	3,023,092	2,762,790	2,622,255	2,853,925	2,280,187	3,052,187	3,285,362	3,221,865	3,130,496	
Two years later	5,302,563	5,565,543	4,492,606	4,859,336	5,715,214	6,229,013	5,179,240	6,100,188		
Three years later	7,798,406	8,052,250	6,923,672	6,494,848	7,650,685	8,863,807	7,362,856			
Four years later	9,203,409	8,893,311	7,944,597	7,329,086	8,057,993	10,473,962				
Five years later	10,097,395	9,361,946	8,008,658	8,853,849	9,026,644					
Six years later	10,113,366	9,477,450	8,361,071	8,919,410						
Seven years later	10,394,100	9,545,359	8,902,287							
Eight years later	10,424,599	9,550,129								
Nine years later	10,472,964									
(5) Re-estimated claims and expenses assumed by reinsurers:	705,699	318,830	319,000	230,372	5,168,000	8,990,866	2,097,557	3,241,000	2,164,000	3,742,000
(6) Re-estimated incurred claims and allocated expenses:										
End of policy year	5,893,292	5,991,309	8,289,076	10,022,726	9,991,524	13,806,285	12,164,571	11,243,322	11,777,249	10,395,334
One year later	7,644,002	8,845,715	9,382,338	11,131,050	11,897,376	13,661,061	11,347,486	11,221,600	12,123,310	
Two years later	11,378,901	10,935,489	9,613,231	11,848,401	10,985,773	13,333,388	10,874,092	13,522,589		
Three years later	11,182,521	10,928,698	9,164,971	9,803,095	9,973,357	12,273,177	9,773,154			
Four years later	10,915,619	10,397,533	8,782,860	8,822,842	9,758,103	11,589,017				
Five years later	10,807,321	10,134,766	8,666,207	9,534,934	9,370,595					
Six years later	10,522,195	10,180,010	9,088,601	8,975,264						
Seven years later	10,499,149	9,716,358	9,331,549							
Eight years later	10,448,619	9,595,865								
Nine years later	10,496,378									
(7) Increase (decrease) in estimated incurred claims and expense from end of policy year	4,603,086	3,604,556	1,042,473	(1,047,462)	(620,929)	(2,217,268)	(2,391,417)	2,279,267	402,115	-

CIS TRUST
CLAIMS DEVELOPMENT INFORMATION – PROPERTY
JUNE 30, 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fiscal Years Ended June 30,										
(1) Required contribution and investment income:										
Earned	\$ 7,842,158	\$ 7,431,238	\$ 8,039,256	\$ 7,659,629	\$ 9,096,808	\$ 9,319,818	\$ 10,249,449	\$ 9,767,570	\$ 9,225,225	\$ 14,354,941
Ceded	3,208,821	3,375,996	3,471,493	3,865,295	4,421,808	4,612,230	4,359,690	4,242,094	4,146,053	4,831,173
Net	4,633,337	4,055,242	4,567,763	3,794,334	4,675,000	4,707,588	5,889,759	5,525,476	5,079,172	9,523,768
(2) Unallocated expenses	1,855,678	1,816,540	1,880,840	2,080,865	2,023,448	2,114,485	2,236,508	2,009,919	1,852,102	2,897,476
Policy Years Ended June 30,										
(3) Estimated incurred claims and allocated expenses, end of the policy year:										
Incurred	1,730,942	3,266,055	1,779,423	1,259,655	2,036,073	2,028,176	3,798,606	4,195,410	4,102,233	3,121,683
Assumed by reinsurers	4,000	41,225	121,180	94,048	91,868	223,830	1,031,125	1,092,406	2,198,795	532,000
Net incurred	1,726,942	3,224,830	1,658,243	1,165,607	1,944,205	1,804,346	2,767,481	3,103,004	1,903,438	2,589,683
(4) Paid (cumulative) as of:										
End of policy year	1,045,581	1,769,715	936,249	486,016	1,154,282	840,957	1,584,948	935,868	972,377	936,599
One year later	1,561,935	3,102,415	1,413,524	678,579	1,633,853	1,586,211	2,444,828	3,071,315	2,050,450	
Two years later	1,636,434	3,263,786	1,533,641	678,579	1,739,367	1,692,404	2,584,511	2,873,132		
Three years later	1,771,717	3,267,637	1,578,173	680,969	1,745,208	1,754,602	2,463,427			
Four years later	1,771,748	3,254,581	1,586,176	680,969	1,631,058	1,755,736				
Five years later	1,770,870	3,234,468	1,585,853	680,969	1,631,004					
Six years later	1,770,870	3,234,406	1,585,500	680,969						
Seven years later	1,770,870	3,234,406	1,585,294							
Eight years later	1,770,870	3,234,406								
Nine years later	1,770,870									
(5) Re-estimated claims and expenses assumed by reinsurers:	373,002	1,477,512	116,645	-	-	171,919	836,969	2,442,469	1,821,295	532,000
(6) Re-estimated incurred claims and allocated expenses:										
End of policy year	1,726,942	3,224,830	1,658,243	1,165,607	1,944,205	1,804,346	2,767,481	3,103,004	1,903,438	2,589,683
One year later	1,687,003	3,373,924	1,522,780	743,157	1,833,293	1,730,205	2,779,116	3,293,491	2,262,965	
Two years later	1,791,323	3,370,418	1,620,164	693,887	1,835,672	1,694,583	2,654,479	3,054,851		
Three years later	1,773,980	3,234,581	1,578,173	680,969	1,827,391	1,754,602	2,463,427			
Four years later	1,770,870	3,234,581	1,586,176	680,969	1,631,058	1,755,736				
Five years later	1,770,870	3,234,468	1,585,853	680,969	1,631,004					
Six years later	1,770,870	3,234,406	1,585,500	680,969						
Seven years later	1,770,870	3,234,406	1,585,294							
Eight years later	1,770,870	3,234,406								
Nine years later	1,770,870									
(7) Increase (decrease) in estimated incurred claims and expense from end of policy year	43,928	9,576	(72,949)	(484,638)	(313,201)	(48,610)	(304,054)	(48,153)	359,527	-

CIS TRUST
CLAIMS DEVELOPMENT INFORMATION – WORKERS’ COMPENSATION
JUNE 30, 2019

Fiscal Years Ended June 30,		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(1)	Required contribution and investment income:										
	Earned	\$ 8,676,923	\$ 7,370,189	\$ 8,413,000	\$ 8,611,763	\$ 9,253,265	\$ 8,991,052	\$ 8,994,216	\$ 8,644,987	\$ 8,240,517	\$ 9,489,743
	Ceded	860,162	840,810	809,029	724,711	807,347	712,883	582,638	571,447	571,447	862,203
	Net	7,816,761	6,529,379	7,603,971	7,887,052	8,445,918	8,278,169	8,411,578	8,073,540	7,669,070	8,627,540
(2)	Unallocated expenses	2,868,379	3,234,450	3,861,996	4,266,283	4,018,670	4,148,403	4,858,438	4,148,152	4,018,924	4,153,524
Policy Years Ended June 30,											
(3)	Estimated incurred claims and allocated expenses, end of the policy year:										
	Incurred	3,639,951	6,299,090	3,840,120	3,658,012	3,996,962	3,687,458	3,906,078	4,003,288	3,319,001	2,491,838
	Assumed by reinsurers	227,000	1,491,000	234,000	176,737	166,097	151,414	203,918	196,364	184,377	268,000
	Net incurred	3,412,951	4,808,090	3,606,120	3,481,275	3,830,865	3,536,044	3,702,160	3,806,924	3,134,624	2,223,838
(4)	Paid (cumulative) as of:										
	End of policy year	1,455,563	1,877,219	1,269,366	1,236,109	1,555,377	1,226,422	1,242,431	1,143,521	1,072,774	700,056
	One year later	2,634,840	3,056,627	2,707,603	2,135,741	2,783,542	2,467,349	2,664,884	3,170,565	1,753,294	
	Two years later	2,793,805	3,716,546	3,107,874	2,509,280	3,659,868	2,895,285	3,126,821	3,454,419		
	Three years later	2,806,448	4,169,126	3,578,661	2,794,744	3,882,425	3,169,727	3,223,252			
	Four years later	3,056,877	4,945,335	3,886,439	2,841,377	4,193,752	3,388,355				
	Five years later	3,083,889	5,413,282	3,923,948	2,897,115	4,583,329					
	Six years later	3,084,670	5,541,691	3,966,858	2,920,901						
	Seven years later	3,091,886	5,581,953	3,997,183							
	Eight years later	3,131,586	5,631,171								
	Nine years later	3,132,503									
(5)	Re-estimated claims and expenses assumed by reinsurers:	-	588,000	52,000	41,000	72,000	76,000	384,000	90,000	85,000	268,000
(6)	Re-estimated incurred claims and allocated expenses:										
	End of policy year	3,412,951	4,808,090	3,606,120	3,481,275	3,830,865	3,536,044	3,702,160	3,806,924	3,134,624	2,223,838
	One year later	3,393,987	4,729,345	4,128,316	3,449,852	4,130,383	3,855,932	4,055,814	4,534,316	2,746,621	
	Two years later	3,200,217	5,680,848	4,360,662	3,215,736	4,550,868	3,877,506	4,705,336	4,253,329		
	Three years later	3,216,446	5,743,847	4,604,483	3,285,558	4,604,994	3,907,360	4,852,210			
	Four years later	3,411,923	6,184,787	4,290,617	3,218,292	4,913,468	4,080,261				
	Five years later	3,315,449	6,260,283	4,253,818	3,174,623	4,989,123					
	Six years later	3,242,281	6,232,972	4,263,339	2,975,539						
	Seven years later	3,203,059	6,238,453	4,399,267							
	Eight years later	3,215,369	6,210,012								
	Nine years later	3,144,093									
(7)	Increase (decrease) in estimated incurred claims and expense from end of policy year	(268,858)	1,401,922	793,147	(505,736)	1,158,258	544,217	1,150,050	446,405	(388,003)	-

CIS TRUST
CLAIMS DEVELOPMENT INFORMATION – EBS BENEFITS
JUNE 30, 2019

Fiscal Years Ended June 30,		EBS									
		Fiscal Years Ended June 30,									
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(1)	Required contribution and investment income:										
	Earned	\$ 7,152,722	\$ 80,231,975	\$ 79,810,835	\$ 78,395,485	\$ 81,377,923	\$ 82,719,887	\$ 88,572,225	\$ 89,938,400	\$ 93,890,048	\$111,888,471
	Ceded	-	162,307	159,754	115,333	123,210	132,569	130,503	509,608	915,711	956,900
	Net	7,152,722	80,069,668	79,651,081	78,280,152	81,254,713	82,587,318	88,441,722	89,428,792	92,974,337	110,931,571
(2)	Unallocated expenses	521,984	6,382,146	6,234,103	6,529,633	7,025,925	6,883,421	6,758,607	6,198,112	6,652,967	7,523,662
Policy Years Ended June 30,											
(3)	Estimated incurred claims and allocated expenses, end of the policy year:										
	Incurred	6,858,080	70,643,321	69,053,499	67,888,454	70,928,499	79,615,079	79,148,529	79,723,558	83,124,115	93,650,157
	Assumed by reinsurers	-	-	-	-	-	-	-	-	-	-
	Net incurred	6,858,080	70,643,321	69,053,499	67,888,454	70,928,499	79,615,079	79,148,529	79,723,558	83,124,115	93,650,157
(4)	Paid (cumulative) as of:										
	End of policy year	6,563,101	62,220,495	63,216,376	62,075,091	65,694,336	71,707,079	72,943,529	73,493,558	76,374,115	85,900,156
	One year later	6,888,266	68,595,758	68,278,192	67,680,901	72,380,116	76,472,289	77,654,367	80,178,177	82,639,769	
	Two years later	6,888,266	68,545,232	68,027,592	67,703,238	72,327,190	76,219,748	77,614,498	80,136,252		
	Three years later	6,888,266	68,564,914	68,227,416	67,695,278	72,280,856	76,204,048	77,553,506			
	Four years later	6,888,266	68,578,577	68,226,002	67,753,557	72,240,123	76,162,596				
	Five years later	6,888,266	68,571,504	68,218,082	67,692,941	72,240,055					
	Six years later	6,888,266	68,570,806	68,215,241	67,694,293						
	Seven years later	6,888,266	68,592,877	68,215,276							
	Eight years later	6,888,266	68,592,877								
	Nine years later	6,888,266									
(5)	Re-estimated claims and expenses assumed by reinsurers:	-	-	-	-	-	-	-	-	-	-
(6)	Re-estimated incurred claims and allocated expenses:										
	End of policy year	6,858,080	70,643,321	69,053,499	67,888,454	70,928,499	79,615,079	79,148,529	79,723,558	83,124,115	93,650,157
	One year later	6,888,266	68,595,758	68,278,192	67,680,901	72,380,116	76,472,289	77,654,367	80,178,177	82,639,769	
	Two years later	6,888,266	68,545,232	68,027,592	67,703,238	72,327,190	76,219,748	77,614,498	80,136,252		
	Three years later	6,888,266	68,564,914	68,227,416	67,695,278	72,280,856	76,204,048	77,553,506			
	Four years later	6,888,266	68,578,577	68,226,002	67,753,557	72,240,123	76,162,596				
	Five years later	6,888,266	68,571,504	68,218,082	67,692,941	72,240,055					
	Six years later	6,888,266	68,570,806	68,215,241	67,694,293						
	Seven years later	6,888,266	68,592,877	68,215,276							
	Eight years later	6,888,266	68,592,877								
	Nine years later	6,888,266									
(7)	Increase (decrease) in estimated incurred claims and expense from end of policy year	30,186	(2,050,444)	(838,223)	(194,161)	1,311,556	(3,452,483)	(1,595,023)	412,694	(484,346)	-

CIS TRUST
CLAIMS DEVELOPMENT INFORMATION – AOCIT BENEFITS
JUNE 30, 2019

		AOCIT									
		Fiscal Years Ended June 30,									
Fiscal Years Ended June 30,		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(1)	Required contribution and investment income:										
	Earned	\$ 2,047,674	\$ 25,719,361	\$ 30,256,745	\$ 31,688,652	\$ 32,817,163	\$ 33,068,838	\$ 38,648,345	\$ 44,362,870	\$ 45,935,550	\$ 49,665,835
	Ceded	-	59,869	118,597	97,772	107,871	119,672	133,253	365,391	555,055	519,842
	Net	2,047,674	25,659,492	30,138,148	31,590,880	32,709,292	32,949,166	38,515,092	43,997,479	45,380,495	49,145,993
(2)	Unallocated expenses	159,163	2,240,791	2,400,552	2,641,932	2,934,524	2,977,787	3,184,001	3,284,920	3,246,510	3,267,202
Policy Years Ended June 30,											
(3)	Estimated incurred claims and allocated expenses, end of the policy year:										
	Incurred	1,715,928	22,142,080	25,289,758	23,891,337	26,307,891	31,037,759	36,387,716	42,415,883	40,799,571	39,351,256
	Assumed by reinsurers	-	-	-	-	-	-	-	-	29,315	-
	Net incurred	1,715,928	22,142,080	25,289,758	23,891,337	26,307,891	31,037,759	36,387,716	42,415,883	40,770,256	39,351,256
(4)	Paid (cumulative) as of:										
	End of policy year	1,637,790	19,749,319	23,552,475	21,552,364	23,663,961	28,102,759	32,242,716	38,725,883	37,660,256	36,031,255
	One year later	1,711,968	21,675,542	25,117,138	23,736,945	26,248,171	29,705,176	35,083,047	42,052,245	40,336,920	
	Two years later	1,711,968	21,642,916	25,114,935	23,736,980	26,176,215	29,734,868	34,967,969	42,039,925		
	Three years later	1,711,968	21,654,732	25,108,514	23,715,595	26,175,001	29,735,266	34,942,884			
	Four years later	1,711,968	21,652,267	25,104,122	23,715,064	26,172,058	29,735,209				
	Five years later	1,711,968	21,652,267	25,104,122	23,714,662	26,172,058					
	Six years later	1,711,968	21,652,219	25,104,122	23,714,662						
	Seven years later	1,711,968	21,652,141	25,104,122							
	Eight years later	1,711,968	21,652,141								
	Nine years later	1,711,968									
(5)	Re-estimated claims and expenses assumed by reinsurers:	-	-	-	-	-	-	-	-	29,315	-
(6)	Re-estimated incurred claims and allocated expenses:										
	End of policy year	1,715,928	22,142,080	25,289,758	23,891,337	26,307,891	31,037,759	36,387,716	42,415,883	40,770,256	39,351,256
	One year later	1,711,968	21,675,542	25,117,138	23,736,945	26,248,171	29,705,176	35,083,047	42,052,245	40,336,920	
	Two years later	1,711,968	21,642,916	25,114,935	23,736,980	26,176,215	29,734,868	34,967,969	42,039,925		
	Three years later	1,711,968	21,654,732	25,108,514	23,715,595	26,175,001	29,735,266	34,942,884			
	Four years later	1,711,968	21,652,267	25,104,122	23,715,064	26,172,058	29,735,209				
	Five years later	1,711,968	21,652,267	25,104,122	23,714,662	26,172,058					
	Six years later	1,711,968	21,652,219	25,104,122	23,714,662						
	Seven years later	1,711,968	21,652,141	25,104,122							
	Eight years later	1,711,968	21,652,141								
	Nine years later	1,711,968									
(7)	Increase (decrease) in estimated incurred claims and expense from end of policy year	(3,960)	(489,939)	(185,636)	(176,675)	(135,833)	(1,302,550)	(1,444,832)	(375,958)	(433,336)	-

CIS TRUST
NOTES TO CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2019

The preceding tables illustrate how earned contribution revenue and investment income (net of reinsurance) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed as of the end of each of the last ten years. The rows of the table are defined as follows:

1. Total of each fiscal year's gross earned contribution revenues and investment income, net of ceded premiums placed with reinsurers.
2. Each fiscal year's other operating costs including overhead and claims administration costs.
3. Gross incurred claims and allocated claim adjustment expense, claims assumed by the reinsurers, and net incurred claims and allocated claim 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. Cumulative net amounts paid as of the end of successive years for each policy year.
5. The latest re-estimated amount of claims assumed by reinsurers as of the end of the current fiscal year for each policy year.
6. Each policy year's net incurred claims as of the end of successive years. (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).
7. Compares the latest re-estimated 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 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.

CIS TRUST
PENSION PLAN INFORMATION
JUNE 30, 2019

Schedule of Proportionate Share of Net Pension Liability

For the fiscal year ended June 30,					
	2019	2018	2017	2016	2015
CIS proportion of net pension liability (asset)	0.043418%	0.044163%	0.047675%	0.053389%	0.047903%
CIS proportionate share of net pension liability (asset) *	\$ 6,577,304	\$ 5,953,146	\$ 7,157,109	\$ 3,065,307	\$ (1,085,831)
CIS covered-employee payroll	\$ 7,218,106	\$ 6,672,087	\$ 6,195,627	\$ 5,629,184	\$ 5,183,740
CIS proportionate share of net pension liability (asset) as a percentage covered-employee payroll *	91.12%	89.22%	115.52%	54.45%	(20.95%)
Plan fiduciary net position as a percentage of the total pension liability *	82.07%	83.12%	80.53%	91.88%	103.59%

Schedule of Pension Contributions

For the fiscal year ended June 30,					
	2019	2018	2017	2016	2015
Contractually required contribution **	\$ 1,112,605	\$ 1,033,219	\$ 751,232	\$ 682,083	\$ 453,075
Contributions in relation to the contractually required contribution	(1,112,605)	(1,033,219)	(751,232)	(682,083)	(453,075)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
CIS covered-employee payroll	\$ 7,218,106	\$ 6,672,087	\$ 6,195,627	\$ 5,629,184	\$ 5,183,740
Contributions as a percentage of covered-employee payroll **	15.41%	15.49%	12.13%	12.12%	8.74%

Notes to Pension Plan Information

*The Oregon Supreme Court decision in *Moro v. State of Oregon* stated that the reduced COLA amounts provided by Senate Bills 822 and 861 only apply to benefits earned after the effective date of the legislation. Reflecting the larger COLA increased the OPERS total pension liability and net pension liability and increased CIS's proportionate share of net pension liability. Future pension plan changes and other factors may impact the ultimate change in net pension liability.

**The Contractually required contribution and Contributions as a percentage of covered-employee payroll reported above reflect the blended Tier 1/Tier 2 (18.16%) and OPSRP general service (13.94%) pension rates in effect for fiscal year 2019. Total contributions to OPERS including Individual Account Program and Retiree Health Insurance Account were \$1,578,494 in fiscal year 2019 that represent 21.87% of covered-employee payroll.

SUPPLEMENTARY INFORMATION

CIS TRUST
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2019

	CIS P/C Dedicated Funds						
	Liability	Property	Workers' Compensation	Total CIS P/C	EBS	AOCIT	COMBINED TOTALS
Assets							
Current Assets							
Cash and cash equivalents	5,979,795	2,465,912	1,943,314	10,389,021	10,380,563	4,509,545	25,279,129
Investments maturing within one year	6,959,118	3,293,362	1,508,971	11,761,451	13,415,682	5,766,212	30,943,345
Receivables	6,403,058	4,429,740	726,768	11,559,566	535,806	218,707	12,314,079
Prepaid reinsurance	-	-	-	-	-	-	-
Administrative service contract deposits, net	-	-	159,078	159,078	982,137	327,501	1,468,716
Other deposits and prepaid expenses	30,328	72,599	12,828	115,755	52,412	22,527	190,694
Total Current Assets	19,372,299	10,261,613	4,350,959	33,984,871	25,366,600	10,844,492	70,195,963
Noncurrent Assets							
Investments	37,360,971	17,680,862	8,101,115	63,142,948	72,023,913	30,956,692	166,123,553
Policy receivable	-	-	1,084,803	1,084,803	-	-	1,084,803
Capitalization contributions	233,859	358,026	117,909	709,794	-	-	709,794
Restricted investments	-	-	-	-	-	-	-
Capital assets, net	2,358,516	596,176	342,716	3,297,408	361,913	133,858	3,793,179
Total Noncurrent Assets	39,953,346	18,635,064	9,646,543	68,234,953	72,385,826	31,090,550	171,711,329
Total Assets	59,325,645	28,896,677	13,997,502	102,219,824	97,752,426	41,935,042	241,907,292
Liabilities							
Current Liabilities							
Accounts payable	174,693	82,671	37,879	295,243	983,242	387,866	1,666,351
Accrued expenses payable	392,713	161,003	114,041	667,757	456,422	303,091	1,427,270
Unearned contributions	83,219	39,383	18,045	140,647	3,247,009	1,527,226	4,914,882
Claims liabilities - current portion	10,000,000	1,250,000	2,100,000	13,350,000	7,800,000	3,320,000	24,470,000
Member dividends payable	-	-	-	-	-	-	-
Total Current Liabilities	10,650,625	1,533,057	2,269,965	14,453,647	12,486,673	5,538,183	32,478,503
Noncurrent Liabilities							
Claims liabilities	23,652,189	1,463,497	6,642,895	31,758,581	-	-	31,758,581
Retirement plan liabilities	1,663,915	448,292	978,589	3,090,796	610,740	203,450	3,904,986
Total Liabilities	35,966,729	3,444,846	9,891,449	49,303,024	13,097,413	5,741,633	68,142,070
Net Position	23,358,916	25,451,831	4,106,053	52,916,800	84,655,013	36,193,409	173,765,222
Total Net Position	23,358,916	25,451,831	4,106,053	52,916,800	84,655,013	36,193,409	173,765,222

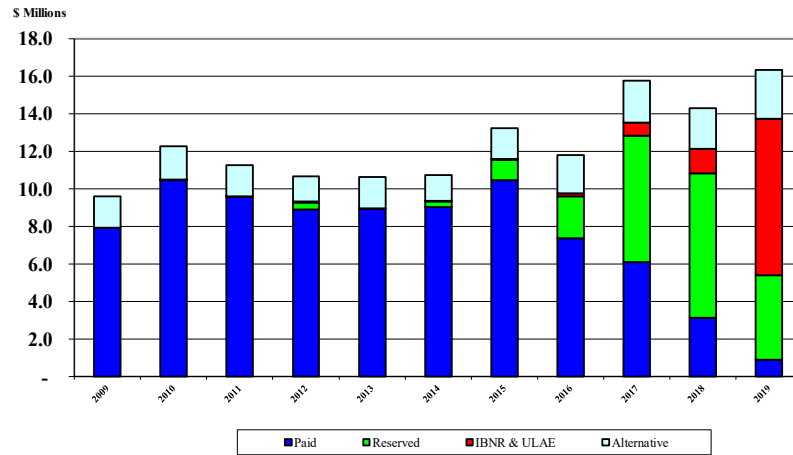
CIS TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	CIS P/C Dedicated Funds			Total CIS P/C	EBS	AOCIT	COMBINED TOTALS
	Liability	Property	Workers' Compensation				
Operating Revenues							
Member contributions, net - CIS P/C	23,619,784	12,505,232	8,088,934	44,213,950	-	-	44,213,950
Member contributions, net - Benefits Self insured	-	-	-	-	103,926,179	45,962,405	149,888,584
Member contributions, net - Benefits Ceded	-	-	-	-	24,472,683	3,685,093	28,157,776
Other revenue	185,455	20,743	116,422	322,620	2,969,384	1,347,878	4,639,882
Total Operating Revenues	23,805,239	12,525,975	8,205,356	44,536,570	131,368,246	50,995,376	226,900,192
Operating Expenses							
Losses and loss adjustment expenses	10,706,573	3,766,778	1,953,600	16,426,951	93,072,761	38,880,457	148,380,169
Reinsurance	2,673,075	5,099,275	879,102	8,651,452	956,900	519,842	10,128,194
Ceded insurance	-	-	-	-	24,020,788	3,611,598	27,632,386
Administrative service contract fees	-	-	-	-	4,946,395	2,222,041	7,168,436
Local agent commissions	1,059,729	675,088	266,223	2,001,040	196,788	113,269	2,311,097
Regulatory assessments and other taxes	-	-	425,306	425,306	19,387	8,042	452,735
Member services and Program costs	440,502	290,936	268,460	999,898	343,762	114,588	1,458,248
Salaries and benefits	4,072,556	1,125,206	2,450,874	7,648,636	1,536,871	512,290	9,697,797
General and administrative	610,531	179,442	407,664	1,197,637	1,035,247	353,247	2,586,131
Administrative transfer AOC/LOC	834,774	297,123	282,974	1,414,871	25,014	20,000	1,459,885
Member dividends	-	-	-	-	-	-	-
Depreciation	250,024	61,579	35,123	346,726	-	-	346,726
Total Operating Expenses	20,647,764	11,495,427	6,969,326	39,112,517	126,153,913	46,355,374	211,621,804
Operating Income	3,157,475	1,030,548	1,236,030	5,424,053	5,214,333	4,640,002	15,278,388
Nonoperating Income (Loss)							
Interest income	1,616,437	728,624	377,116	2,722,177	2,457,228	1,002,006	6,181,411
Realized gains (loss) on investments sold	(199,017)	(88,520)	(50,023)	(337,560)	(264,691)	(102,610)	(704,861)
Unrealized gain (loss) on investments	2,694,361	1,188,863	621,180	4,504,404	3,956,539	1,640,680	10,101,623
Other	-	-	-	-	-	-	-
Total Nonoperating Income (loss)	4,111,781	1,828,967	948,273	6,889,021	6,149,076	2,540,076	15,578,173
Change in Net Position	7,269,256	2,859,515	2,184,303	12,313,074	11,363,409	7,180,078	30,856,561
Beginning Net Position	16,089,660	22,592,316	1,921,750	40,603,726	73,291,604	29,013,331	142,908,661
Ending Net Position	23,358,916	25,451,831	4,106,053	52,916,800	84,655,013	36,193,409	173,765,222

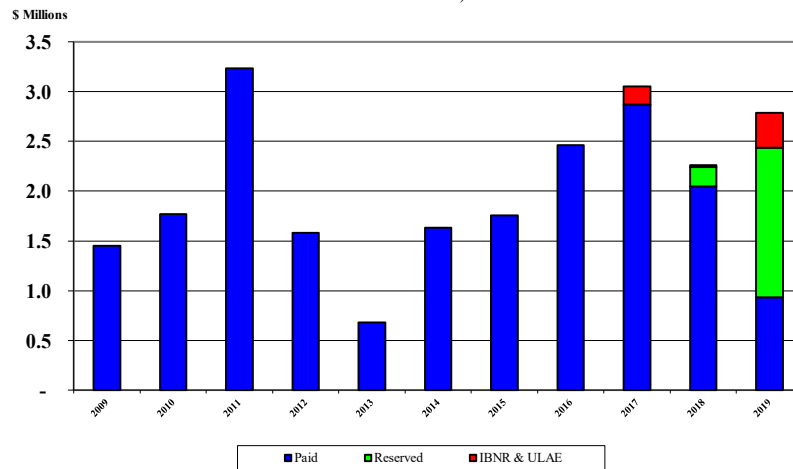
CIS TRUST

GRAPHICAL SUMMARY OF CLAIMS AS OF JUNE 30, 2019

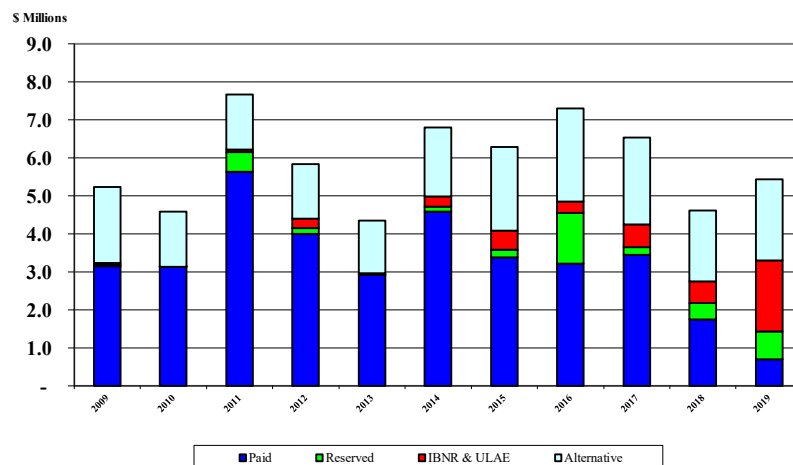
Liability
Graphic Presentation of Claims Net of Recoveries
As of: June 30, 2019



Property
Graphic Presentation of Claims Net of Recoveries
As of: June 30, 2019



Workers' Compensation
Graphic Presentation of Claims Net of Recoveries
As of: June 30, 2019





James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
CIS Trust
Salem, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of CIS Trust, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise CIS Trust's basic financial statements, and have issued our report thereon dated January 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CIS 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 CIS Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of CIS 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2019-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CIS Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CIS Trust's Response to Findings

CIS Trust's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. CIS Trust's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James P. Marta
Certified Public Accountant
Sacramento, California
January 10, 2020

CIS TRUST
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2019

2019-01 – Claims Coverage

Finding

The City of Enterprise has a property claim with CIS with coverage that provides for replacement of like kind and quality (LK&Q). The total incurred balance on this individual claim was \$2,700,000 as of June 30, 2019 and as of October 25, 2019 the total incurred balance has increased to \$2,857,500. This claim is the largest individual property claim in CIS history. During FY2019 CIS determined that the initial claims handling process incorrectly calculated the allowed LK&Q on the claim. It is our understanding that the City of Enterprise relied on communications from the CIS property adjustor regarding expected coverage and payments to be received in awarding contracts to rebuild city property.

CIS's excess property carrier, RSUI, informed CIS sometime in November 2018 that they believed the October 31, 2018 estimated to be incurred of \$2,500,000 was approximately \$500,000 in excess of LK&Q and they intended to deny the right to collect any excess coverage claims over the LK&Q.

CIS executive management has stated the CIS Claims Committee has reviewed the claim and for business reasons authorized the claims department to continue making payments on this claim even though it exceeds the LK&Q determination. Management further indicated that the amounts incurred over LK&Q for which the Excess Carrier might not reimburse was disclosed to the Board of Trustees CIS is concerned that failing to make the full amount of coverage payments that were communicated by the CIS property adjustor, exposes CIS to litigation and additional expense.

The amount of LK&Q is under negotiation with the property resinsurer. The expected amount is \$480,000, but could be as high as \$580,000.

Our review of the claims files during audit fieldwork indicates there is limited documentation in the Compass system regarding the initial RSUI review and the initial claims committee review, but there is documentation through a January 22, 2019 file note of the subsequent authorization to the claims department to continue making payments on this claim even though it exceeds the LKQ determination.

Recommendation

Current Claim:

The Enterprise claim file should be updated with all RSUI correspondence and documentation of the claims committee review, approval and justification for payment of the claim.

Policies and Procedures:

The claims committee should review and ensure that more structured policies and procedures are put in place to ensure LKQ determinations are accurate. In addition, the coverage agreement language should be reviewed and consider clarifying "like kind and quality." The claims file should also document the claims committee discussion, review and approval.

Monitoring:

The claims committee may want to identify dollar limits for claims where the committee would be provided copies of the specific claim's expert's reports on damage calculations along with the estimated reserves. The committee would then review all documentation to ensure a claim is within coverage. The CIS claims department should also communicate earlier with the excess carrier to ensure that both CIS and the excess carrier are in agreement on all coverage issues and LKQ damage calculations.

CIS TRUST
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2019

Management Response

The CIS P/L Claims Department acknowledges that there were significant claim processing deficiencies in the handling of the large City of Enterprise fire claim. These processing/handling deficiencies led to payments being made above the Like Kind and Quality of a current loss and will likely result in the Excess Carrier (RSUI) refusing to reimburse \$480-580,000 of those payments.

Actions Taken:

As the result of this discovery, the following actions were taken to improve the Property Claims handling process and ensure that this type of mistake or error in processing will not happen again:

Staffing

- 1) The Sr. Property Adjuster that was in charge of handling all Property Claims for CIS and this claim in particular, was terminated in December of 2018.
- 2) Hired new Sr. Property Adjuster with over 20 years of experience in the handling complex property claims.

Modifications to the P/L Standards and Practices – Property

- 1) Outside Consultant/Engineer – LKQ - On total loss structure claims or claims where damage will be exceeding \$250,000, it is mandatory that the adjuster obtain an independent consultant to determine the total loss scope of the original structure to ensure any rebuild is based on Like Kind and Quality.
- 2) Excess Carrier Involvement: - Prior to providing authorization to rebuild to a member, the claims adjuster will ensure that the Excess carrier has been provided a complete copy of the documentation of the LKQ calculations and give the Excess carrier an opportunity to review and comment. If the Excess carrier decided to hire their own Independent adjuster or Construction Consultant, the Claims adjuster will work with that team to ensure they are in agreement on the scope of damages and/or the LKQ calculation.
- 3) Authorization to Proceed - Prior to an authorization to proceed with a rebuild, the claims adjuster and the Claims Manager will present the Scope/LKQ independent analysis to the Claims Committee for final approval.

Supervision:

- 1) The Executive Director approved the allocation of two budgeted FTE's for new Supervisors positions that will enable the P/L claim department to more closely monitor staff and claims processing to ensure that we are adhering to established P/L Claims Standards and Practices.

STATISTICAL SECTION

CIS TRUST
STATISTICAL SECTION NARRATIVE
JUNE 30, 2019

STATISTICAL SECTION

This part of CIS's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about CIS's overall financial health.

Financial Trends

These schedules and graphs contain trend information to help the reader understand how CIS's financial performance and well-being have changed over time. They highlight the change in net position over the past 10 years.

	Page
Consolidated CIS Assets, Liabilities and Net Position	51
Consolidated CIS Revenues, Expenses, and Changes in Net Position	51
Historical Net Position– 10-year trend graph	51
CIS Assets, Liabilities and Net Position– 10-year trend graph	52
CIS Revenues, Expenses, and Changes in Net Position – 10-year trend graph	52

Demographic and Economic Information

These graphs offer information to help the reader understand the environment within which CIS's financial activities take place. The following graphs illustrate CIS P/C gross contribution revenue as compared to increasing exposures over the past 10 years.

	Page
General Liability Gross Contribution Revenue Comparison to Risk Adjusted Exposure Units	53
Property Gross Contribution Revenue Comparison to Total Insured Property Value	53
Workers' compensation Gross Contribution Revenue Comparison to Payroll	53

CIS TRUST
FINANCIAL TRENDS
JUNE 30, 2019

Consolidated CIS Assets, Liabilities and Net Position

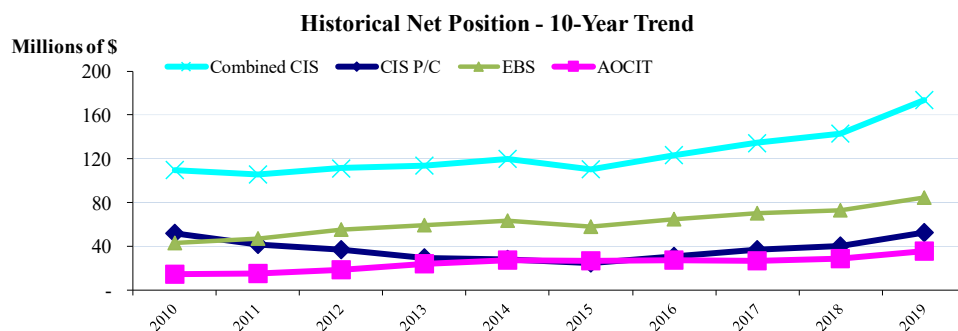
For the fiscal year ended June 30,
(Expressed in Thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Assets										
Current assets	\$ 70,196	\$ 56,556	\$ 75,443	\$ 54,626	\$ 24,222	\$ 27,542	\$ 21,988	\$ 14,534	\$ 15,761	\$ 27,000
Investments	166,124	147,082	119,940	128,785	146,740	143,550	128,912	132,080	128,490	106,401
Restricted investments	-	-	-	-	-	-	8,812	8,922	4,991	3,732
Capital assets, net	3,793	3,557	3,330	3,467	3,519	3,399	3,422	3,600	3,581	3,614
Other assets	1,795	1,700	1,579	1,453	1,435	1,492	1,571	988	710	710
Total Assets	241,908	208,895	200,292	188,331	175,916	175,983	164,705	160,124	153,533	141,457
Liabilities										
Accounts & Accrued expenses	3,094	3,280	2,374	3,020	2,945	3,359	1,509	2,384	1,394	3,310
Unearned contributions	4,915	3,601	4,492	3,587	4,161	4,294	2,908	3,365	3,046	1,685
Claims liabilities - current portion	24,470	23,830	23,360	22,950	22,993	19,678	20,412	18,074	20,316	8,288
Member dividends payable	-	-	-	-	-	-	755	1,587	5,582	5,401
Total Current Liabilities	32,479	30,711	30,226	29,557	30,099	27,331	25,584	25,410	30,338	18,684
Claims liabilities	31,759	31,468	32,011	32,470	34,482	28,694	25,189	23,195	17,631	12,855
Net pension plan assets, liabilities and deferred resources	3,905	3,807	3,489	2,928	617	-	-	-	-	-
Total Liabilities	68,143	65,986	65,726	64,955	65,198	56,025	50,773	48,605	47,969	31,539
Net Position	\$ 173,765	\$ 142,909	\$ 134,565	\$ 123,376	\$ 110,717	\$ 119,960	\$ 113,932	\$ 111,519	\$ 105,565	\$ 109,918

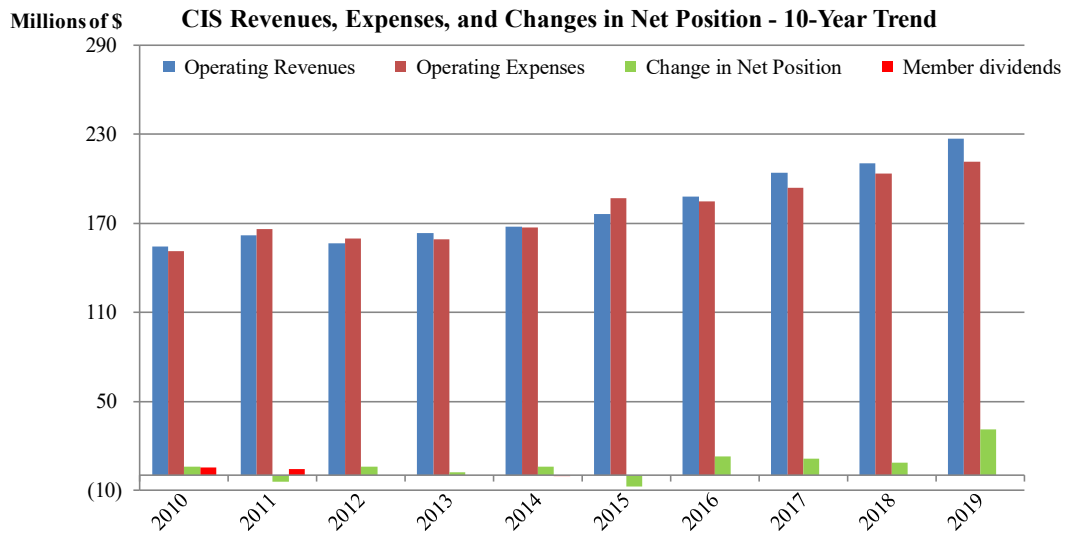
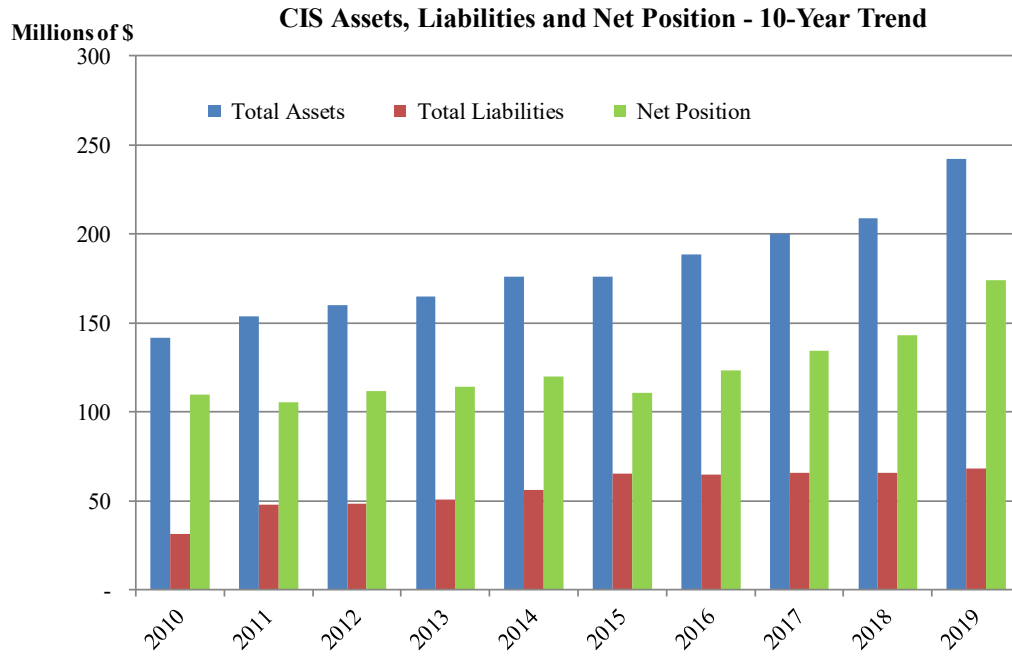
Consolidated CIS Revenues, Expenses, and Changes in Net Position

For the fiscal year ended June 30,
(Expressed in Thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Operating Revenues	\$ 226,900	\$ 210,604	\$ 203,851	\$ 187,809	\$ 176,117	\$ 167,769	\$ 163,528	\$ 156,312	\$ 161,906	\$ 154,367
Operating Expenses	211,622	203,404	194,095	184,921	186,878	166,983	159,319	159,772	166,386	151,351
Nonoperating Income (Loss)	15,578	1,297	1,433	9,770	3,550	4,943	(1,795)	9,414	4,624	8,197
Excess Revenue over Expenses before										
Member Dividends	30,856	8,498	11,189	12,659	(7,212)	5,730	2,413	5,954	144	11,213
Member dividends	-	-	-	-	-	(298)	-	-	4,497	5,401
Change in Net Position	30,856	8,498	11,189	12,659	(7,212)	6,028	2,413	5,954	(4,353)	5,812
Beginning Net Position	142,909	134,565	123,376	110,717	119,960	113,932	111,519	105,565	109,918	104,106
Prior Period Adjustments	-	(154)	-	-	(2,031)	-	-	-	-	-
Beginning Net Position - Adjusted	142,909	134,411	123,376	110,717	117,929	113,932	111,519	105,565	109,918	104,106
Net Position - end of year	\$ 173,765	\$ 142,909	\$ 134,565	\$ 123,376	\$ 110,717	\$ 119,960	\$ 113,932	\$ 111,519	\$ 105,565	\$ 109,918

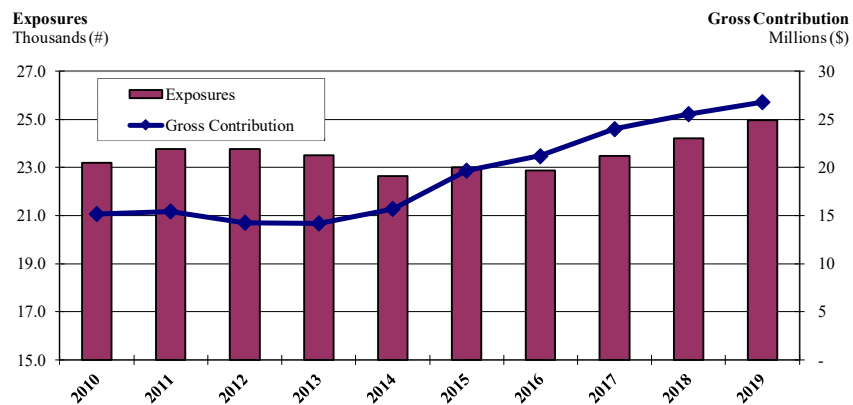


**CIS TRUST
FINANCIAL TRENDS
JUNE 30, 2019**

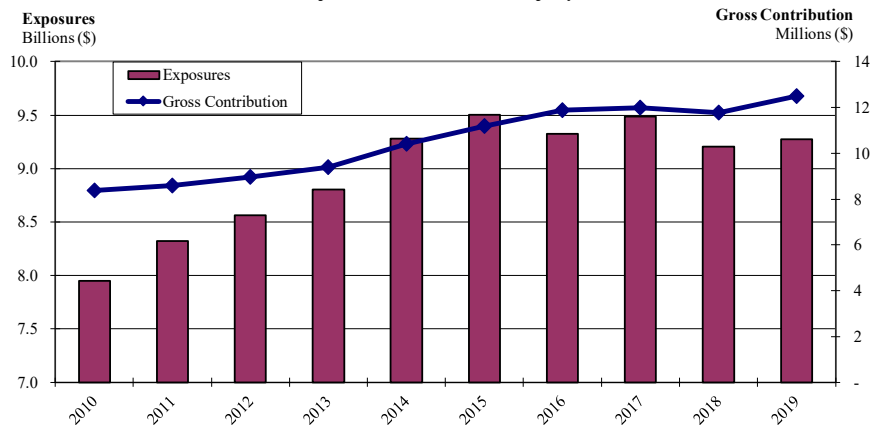


CIS TRUST
DEMOGRAPHIC AND ECONOMIC INFORMATION
JUNE 30, 2019

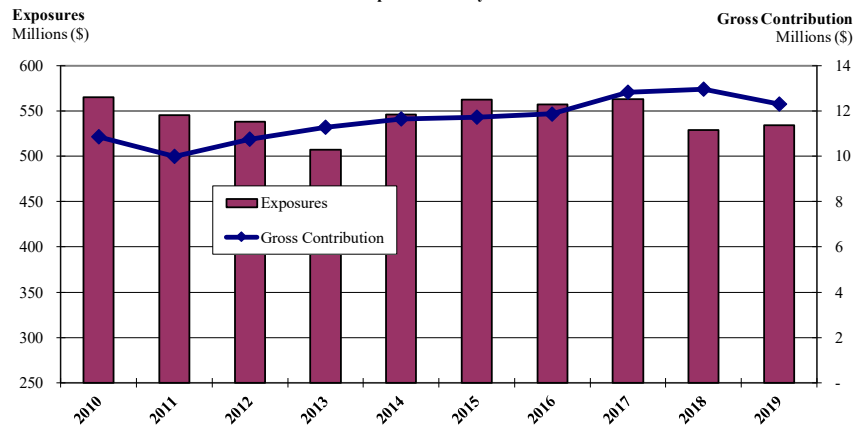
General Liability Gross Contribution Revenue
Comparison to Risk Adjusted Composite Exposure Units



Property Gross Contribution Revenue
Comparison to Total Insured Property Value



Workers' Compensation Gross Contribution Revenue
Comparison to Payroll



**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

INDEPENDENT AUDITOR'S REVIEW OF FISCAL AFFAIRS

Oregon Administrative Rules 162-10-0000 through 162-10-0330 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the standards for conducting all audits of municipal corporations and prescribe the form of all audit reports. The required statements and schedules are set forth in the Basic Financial Statements section of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth on the following pages.



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

Independent Auditor's Review of Fiscal Affairs Required by Oregon State Regulations

We have audited the basic financial statements of the CIS Trust as of and for the years ended June 30, 2019 and 2018 and have issued our report thereon dated January 10, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the CIS Trust financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-0000 through 162-10-0320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **ORS Chapter 294 concerning the preparation and adoption of a budget is not applicable to this entity as a Public Corporation or Council of Governments and no budget is required under ORS 190 since the organization is not involved in providing services to individuals as defined under OAR 150-294-0800.**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway funds (Not applicable)**
- **Authorized investment of surplus funds (ORS Chapter 294). (See note 1 below)**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

Note 1: We noted certain investments that do not comply with ORS 294.035, however the CIS Trust has received a legal opinion that ORS 294.035 does not apply to this entity, therefore compliance with this statute is not subject to our audit.

In connection with our testing nothing came to our attention that caused us to believe the Trust was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-0000 through 162-10-0320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

In planning and performing our audit of the financial statements, we considered CIS 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 CIS Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of CIS 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.

This report is intended solely for the information and use of the board of directors and management of CIS Trust and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



James P. Marta
Certified Public Accountant
Sacramento, California
January 10, 2020