

# **SCHOOLS OF OHIO RISK SHARING AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2011 AND 2010**





# Dave Yost • Auditor of State

Board of Directors  
Schools of Ohio Risk Sharing Authority  
8050 North High Street, Suite 160  
Columbus, Ohio 43235

We have reviewed the *Report of Independent Auditors* of the Schools of Ohio Risk Sharing Authority, Franklin County, prepared by Blue & Co., LLC, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Schools of Ohio Risk Sharing Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 7, 2011

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# SCHOOLS OF OHIO RISK SHARING AUTHORITY

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FORTY YEARS &amp; COUNTING

Blue &amp; Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Schools of Ohio Risk Sharing Authority  
Columbus, Ohio

We have audited the accompanying statements of net assets of Schools of Ohio Risk Sharing Authority as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Schools of Ohio Risk Sharing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

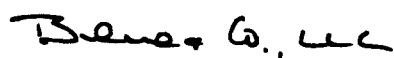
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Schools of Ohio Risk Sharing Authority as of June 30, 2011 and 2010 and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vi 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 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of Schools of Ohio Risk Sharing Authority's internal control over financial reporting and on our tests of its compliance with certain 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* and should be read in conjunction with this report when considering the results of our audit.



October 26, 2011



## **SCHOOLS OF OHIO RISK SHARING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The management's discussion and analysis of Schools of Ohio Risk Sharing Authority (SORSA) provides an overall review of SORSA's financial activities. The intent of this discussion and analysis is to provide further information on SORSA's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of SORSA's financial performance.

### **Overview of the Organization**

SORSA is a 100% member-owned, non-profit insurance risk pool owned and governed by school district members. SORSA is dedicated to providing broad insurance coverage and high quality risk management services while maintaining long-term financial stability. Various plan options are available to members. SORSA was incorporated on January 31, 2002. Operations and plan coverage officially began on February 1, 2002.

SORSA employs a full-time Executive Director and a part-time Member Services Assistant.

At June 30, 2011, 2010, and 2009, SORSA had 95, 88, and 87 members, respectively.

SORSA has agreements with several separate organizations whereby each provides certain administrative, executive, accounting or other services to SORSA.

The insurance brokerage firm of Willis Pooling is contracted to provide reinsurance brokerage, underwriting, rating, billing and consulting services.

Avizent provides claims processing services to SORSA. The Verhoff Group provides bookkeeping, payroll, consulting and accounting services to SORSA. The Verhoff Group records and tracks accounts receivable from billings to SORSA members for annual premiums and monitors and maintains several bank accounts in the name of SORSA. The Verhoff Group also furnishes SORSA bank reconciliations for these accounts.

SORSA contracts with the law firm Isaac, Brant, Ledman & Teetor to provide lead defense counsel for third-party claims against members.

SORSA contracts with the law firm Peck, Shaffer, & Williams to provide legal counsel to the SORSA Board of Directors.

## SCHOOLS OF OHIO RISK SHARING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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Actuarial services are provided by the firm SIGMA Actuarial Consulting Services, Inc.

Marketing of the SORSA program is by a selected panel of local independent insurance agents across Ohio along with SORSA's own internal staff.

Property replacement cost appraisals are provided by the firm American Appraisal Associates.

Risk management consulting services are provided by KLA Risk Consulting, Inc.

### Overview of the Financial Statements

This annual report consists of financial statements and notes to those statements. The financial statements include the accounts and transactions of SORSA. The Statements of Net Assets, Statements of Revenue, Expenses, and Changes in Net Assets, and the Statements of Cash Flows provide an indication of SORSA's financial health. The Statements of Net Assets include SORSA's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes. The Statements of Revenue, Expenses, and Changes in Net Assets report the revenues and expenses during the time periods indicated. The Statement of Cash Flows report the sources and uses of cash during the periods indicated.

### Financial Analysis of SORSA

Table 1 provides a summary of SORSA's Statement of Net Assets as of June 30, 2011, 2010, and 2009.

Table 1:

	<u>6/30/11</u>	<u>6/30/10</u>	<u>6/30/09</u>
<b>Assets</b>			
Current	\$ 2,135,380	\$ 2,317,093	\$ 1,738,708
Other assets	12,643	296,807	1,167,373
Total assets	<u>2,148,023</u>	<u>2,613,900</u>	<u>2,906,081</u>
<b>Liabilities</b>	<u>1,518,850</u>	<u>1,609,952</u>	<u>1,757,783</u>
<b>Net assets</b>	<u>\$ 629,173</u>	<u>\$ 1,003,948</u>	<u>\$ 1,148,298</u>

**SCHOOLS OF OHIO RISK SHARING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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SORSA's assets are categorized in the "current asset" category and the capital asset category. The "current asset" category means that they are either cash, can be converted to cash quickly, or are expected to become cash soon. The statement shows SORSA's total current assets at June 30, 2011, 2010, and 2009 to be \$2,135,380, \$2,317,093 and \$1,738,708, respectively. The primary component is cash in banks and investments. Assets in the long-term category are \$12,643, \$296,807, and \$1,167,373 at June 30, 2011, 2010, and 2009, respectively.

The current liabilities include accounts payable to outside companies for various services, unearned premiums, and reserves for unpaid claims. Accounts payable totaled \$17,922, \$26,857, and \$11,320 at June 30, 2011, 2010, and 2009 respectively. Unearned premiums totaled \$305,009, \$196,672, and \$264,723 at June 30, 2011, 2010, and 2009, respectively. Unearned premium is the amount of premiums collected in advance of coverage periods that have been received but have not yet been earned. The reserve for unpaid claims totaled \$1,195,919, \$1,386,423 and \$1,481,740 at June 30, 2011, 2010 and 2009, respectively.

As of June 30, 2011, 2010, and 2009, SORSA had net assets of \$629,173, \$1,003,948, and \$1,148,298, respectively.

**SCHOOLS OF OHIO RISK SHARING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Revenues, Expenses, and Changes in Net Assets**

The following table shows the changes in net assets for the years ended June 30, 2011, 2010, and 2009.

Table 2:

	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
<b>Revenues</b>			
Member premiums	\$ 3,415,944	\$ 3,364,805	\$ 3,348,075
Ceded premiums	(1,635,933)	(1,572,098)	(1,447,117)
Net premiums earned	1,780,011	1,792,707	1,900,958
<b>Expenses</b>			
Loss adjustments	1,191,821	1,026,000	905,000
Agency commission	294,354	290,835	256,142
Claims administration	126,531	126,679	139,673
Pool administration	172,498	166,861	178,494
Salaries and benefits	169,939	173,535	170,331
Legal and professional	54,404	51,098	70,341
General and administrative	78,060	79,408	89,055
Travel and meetings	17,865	22,754	13,729
Appraisal fees	29,550	4,676	59,084
General insurance	8,154	8,967	8,103
Sales and marketing	17,745	19,354	21,171
Depreciation	2,539	2,552	2,725
<b>Total expenses</b>	<u>2,163,460</u>	<u>1,972,719</u>	<u>1,913,848</u>
<b>Excess of expenses over revenues</b>	(383,449)	(180,012)	(12,890)
<b>Other revenue</b>			
Non-operating gains (net)	8,674	35,662	90,732
Change in net assets	(374,775)	(144,350)	77,842
Net assets at beginning of period	<u>1,003,948</u>	<u>1,148,298</u>	<u>1,070,456</u>
Net assets at end of period	<u>\$ 629,173</u>	<u>\$ 1,003,948</u>	<u>\$ 1,148,298</u>

## **SCHOOLS OF OHIO RISK SHARING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Member premiums are the amount paid or due for the fiscal period. SORSA purchases reinsurance to cover the cost of large claims. For property and automobile physical damage claims SORSA collectively self-insures the first \$100,000 of each claim; the reinsurer reimburses amounts above this level. For third-party liability claims other than Uninsured/Underinsured Motorists coverage, SORSA collectively self-insures the first \$100,000 of each claim; the reinsurer reimburses amounts above this level. For third-party Uninsured/Underinsured Motorists coverage, SORSA collectively self-insures the first \$200,000 of each claim. For equipment breakdown claims SORSA reinsures 100% of this exposure and does not retain any level of self-insurance.

Non-operating gains consist of the interest earned on SORSA's various checking and investment accounts. For the fiscal period ending June 30, 2011, 2010 and 2009 SORSA held its funds in fixed income federal obligations and various liquid cash accounts.

Loss adjustment expenses consist of claims paid during the year, plus the ultimate cost of claims determined to be incurred for the current year but not yet reported.

Claims administration and reinsurance broker fees are fees paid to vendors who process claims and provide underwriting, rating, billing, reinsurance brokering and consulting services for SORSA. Other expenses are general and administrative costs incurred during the year.

For the year ending June 30, 2011, SORSA's change in net assets was (\$374,775).

### **The Statement of Cash Flows**

This statement shows how SORSA's cash balance changed in each period. It is divided into three different sections, each indicating the source or use of cash during the period. These sections relate to SORSA's operations, investing activities, and capital and related financing activities. This statement provides detail regarding the increases and decreases in SORSA's cash position during the period.

SORSA had a net cash inflow for the year ended June 30, 2011 totaling \$1,210,037. The net cash expended by operating activities was \$461,517. Other cash flows included the sale of investments of \$1,671,554.

# **SCHOOLS OF OHIO RISK SHARING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **Going Forward**

### **Insurance Market for Ohio School Districts**

The environment in which SORSA operates is moderately competitive. There are options available to school districts for both pooling alternatives as well as traditional insurance.

### **Member Dividends**

In order to maintain conservative funding for the SORSA pool, the Board of Directors has taken the position that there will be no dividends declared for distribution to members during the first several program years. When the SORSA Board of Directors determines that a dividend may be declared, SORSA will rely upon conservative actuarial estimates to formulate the plan for dividend distribution.

### **Cost Containment**

SORSA endeavors to contain loss costs by utilizing claims administrators and defense attorneys who are very experienced in handling third-party liability cases for political subdivisions, by full utilization of statutory immunities and by implementing loss control and risk management training programs.

### **Legal Environment**

The legal environment in which SORSA operates is relatively stable, with recent modest improvements in statutory immunity for school districts and other political subdivisions.

### **Contacting SORSA Financial Management**

This financial report is designed to provide the users of SORSA's services, governments, taxpayers and creditors with a general overview of the organization's finances. If you have any questions about this report or need additional information, contact the SORSA Executive Director at 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## STATEMENTS OF NET ASSETS JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,576,137	\$ 366,100
Accounts receivable	21,171	-
Investments	500,537	1,911,134
Prepaid assets	<u>37,535</u>	<u>39,859</u>
Total current assets	2,135,380	2,317,093
<b>Other assets</b>		
Prepaid assets	8,193	37,535
Capital assets, net	4,450	6,989
Investments	-	252,283
Total other assets	<u>12,643</u>	<u>296,807</u>
Total assets	<u>\$ 2,148,023</u>	<u>\$ 2,613,900</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 17,922	\$ 26,857
Unearned premium	305,009	196,672
Reserve for unpaid claims	<u>1,195,919</u>	<u>1,386,423</u>
Total liabilities	1,518,850	1,609,952
<b>Net assets</b>		
Unrestricted	624,723	996,959
Invested in capital assets net of related debt	<u>4,450</u>	<u>6,989</u>
Total net assets	<u>629,173</u>	<u>1,003,948</u>
Total liabilities and net assets	<u>\$ 2,148,023</u>	<u>\$ 2,613,900</u>

*See accompanying notes to financial statements.*

## SCHOOLS OF OHIO RISK SHARING AUTHORITY

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
<b>Revenues</b>		
Member premiums	\$ 3,415,944	\$ 3,364,805
Ceded premiums	(1,635,933)	(1,572,098)
Net premiums earned	1,780,011	1,792,707
<b>Expenses</b>		
Loss adjustments	1,191,821	1,026,000
Agency commission	294,354	290,835
Claims administration	126,531	126,679
Pool administration	172,498	166,861
Salaries and benefits	169,939	173,535
Legal and professional	54,404	51,098
General and administrative	78,060	79,408
Travel and meetings	17,865	22,754
Appraisal fees	29,550	4,676
General insurance	8,154	8,967
Sales and marketing	17,745	19,354
Depreciation	2,539	2,552
Total expenses	2,163,460	1,972,719
<b>Excess expenses over revenue</b>	(383,449)	(180,012)
<b>Other revenue</b>		
Non-operating gains	8,674	35,662
Change in net assets	(374,775)	(144,350)
<b>Net assets at beginning of period</b>	1,003,948	1,148,298
<b>Net assets at end of period</b>	\$ 629,173	\$ 1,003,948

*See accompanying notes to financial statements.*



# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
<b>Operating activities</b>		
Cash received for premiums	\$ 3,503,110	\$ 3,299,388
Cash paid for claims	(1,382,325)	(1,121,317)
Cash payments to vendors for services and goods	(776,430)	(794,944)
Cash paid for excess insurance	(1,635,933)	(1,572,098)
Cash paid to employees for wages and benefits	(169,939)	(173,535)
Net cash flows from operating activities	(461,517)	(362,506)
<b>Capital and related financing activities</b>		
Purchase of capital assets	-	(1,253)
Net cash flows from capital and related financing activities	-	(1,253)
<b>Investing activities</b>		
Sales of investments	1,671,554	116,381
Net change in cash and cash equivalents	1,210,037	(247,378)
<b>Cash and cash equivalents - beginning of period</b>	366,100	613,478
<b>Cash and cash equivalents - end of period</b>	\$ 1,576,137	\$ 366,100
<b>Reconciliation of change in net assets to net cash flows from operating activities:</b>		
Excess expenses over revenues	\$ (383,449)	\$ (180,012)
Depreciation	2,539	2,552
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	(21,171)	2,634
Prepaid assets	31,666	(39,849)
Accounts payable	(8,935)	15,537
Unearned premium	108,337	(68,051)
Reserve for unpaid claims	(190,504)	(95,317)
Net cash provided by operating activities	\$ (461,517)	\$ (362,506)

*See accompanying notes to financial statements.*

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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### 1. ORGANIZATION AND PLAN OF OPERATION

The Schools of Ohio Risk Sharing Authority (SORSA) is an Ohio non-profit organization formed by Ohio school districts to provide cost effective pooled insurance to its members. SORSA is a self-funded, group insurance consortium that offers property, electronic data processing, boiler and machinery, crime, general liability, automobile liability and physical damage, and school board errors and omissions insurance coverage. SORSA is governed by a Board of Directors comprised of representatives of school districts that participate in the program.

Premiums are paid on an annual basis. Pursuant to participation agreements with SORSA, each member agrees to pay all funding rates associated with the coverage elected, as such funding rates are set and billed to the members by SORSA. The assigned funding rates consist of the following components: administrative fees, stop loss fees, expected claims costs, and reserves. Reserves are determined by an independent actuary and allocated based on expected claim activity. Rates are calculated to cover the administrative expenses and expected claims costs of the program as well as provide additional member equity.

SORSA was incorporated as a governmental insurance pool on January 31, 2002. Operations and plan coverage officially began on February 1, 2002.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

SORSA uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Authority has elected to apply the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification that do not conflict with or contradict GASB pronouncements.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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### Cash and Cash Equivalents

Cash and cash equivalents consist of funds on deposits in banks and money market funds. SORSA maintains cash balances which are in excess of those insured by the Federal Depository Insurance Corporation. However, to date, no losses have been experienced.

### Investments

Investment income or loss (including realized gains and losses on investments, interest and dividends) is recognized in the statement of revenues, expenses and changes in net assets as a component of other revenue.

### Capital Assets

SORSA's capital assets are reported at historical cost net of depreciation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. SORSA's capitalization policy is to capitalize all items greater than \$500 with a useful life greater than one year. SORSA's capital assets consist of fixtures and are depreciated over a five year useful life.

### Reserve for Unpaid Claims

SORSA's reserve for unpaid claims is determined using estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. The reserve represents an estimate of the ultimate cost of all claims incurred which were unpaid at each fiscal period end. While information is available for the known losses, the liability for which has been established on a case-by-case basis, the unknown losses are based on SORSA's best estimate of such liabilities. Although SORSA considers its experience and industry data in determining such reserves, assumptions and projections as to future events are necessary and ultimate losses may differ significantly from amounts projected. The effects of changes in reserve estimates are included in the statement of revenues, expenses, and changes in net assets in the period in which estimates are changed. Reserves are not discounted.

### Premiums Revenue and Unearned Premiums

Premiums are paid annually by participating entities and are recognized as revenue over the policy period. Receivables are recorded when earned. Premiums collected in advance of applicable coverage periods are classified as unearned premiums.

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# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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### Income Taxes

SORSA is a not-for-profit corporation as defined under Section 501(c)(3) of the Internal Revenue Code. Accordingly, SORSA is exempt from federal, state and local taxes.

### Subsequent Events

SORSA has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is October 26, 2011.

### Risk Management

SORSA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters.

## 3. RESERVE FOR UNPAID CLAIMS

As discussed in footnote 2, SORSA establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those liabilities for SORSA:

	<u>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenses at beginning of period	\$ 1,386,423	\$ 1,481,740
Incurred losses and loss adjustment expense	1,191,821	1,026,000
Less payment of claims	<u>1,382,325</u>	<u>1,121,317</u>
Unpaid claims and claim adjustment expenses at end of period	<u>\$ 1,195,919</u>	<u>\$ 1,386,423</u>

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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### 4. DEPOSITS

At June 30, 2011, the bank balance of SORSA's demand deposits and money market accounts totaled \$1,611,125. Of this balance, \$260,322 was covered by federal depository insurance.

SORSA had the following investments and maturities, all of which were held in SORSA's name by custodial banks that are agents of SORSA:

Investment	Fair Value	Maturities		As part of Total Investments
		< than 1 year	1 - 5 years	
GE Money Bank	\$ 250,132	\$ 250,132	\$ -	50%
Park Bank	250,405	250,405	-	50%
Certificates of deposit	<u>\$ 500,537</u>	<u>\$ 500,537</u>	<u>\$ -</u>	<u>100%</u>

Interest rate risk – SORSA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Concentration of credit risk – SORSA places no limit on the amount it may invest in any one issuer. SORSA maintains its investments, which at times may exceed federally insured limits. SORSA has not experienced any losses in such accounts. SORSA believes it is not exposed to any significant credit risk on investments.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, SORSA's deposits may not be returned. As of June 30, 2011 and 2010, respectively, \$1,350,803 and \$4,524 of SORSA's bank balance was exposed to custodial credit risk. SORSA understands this and has reduced its exposure by adopting an investment policy in accordance with Chapter 135 of the Ohio Revised Code applicable to public schools in the State of Ohio and has obtained collateral agreements with its banks and investment firm.

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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### 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 are as follows:

<b>Description</b>	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 500,537	\$ -	\$ 500,537

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 are as follows:

<b>Description</b>	Level 1	Level 2	Level 3	Total
Fixed income	\$ -	\$ 304,438	\$ -	\$ 304,438
Certificates of deposit	-	1,858,979	-	1,858,979

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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### 6. CAPITAL ASSETS

Capital assets at June 30, 2011 and 2010 were as follows:

	2010	Additions	Retirements	2011
Furniture and fixtures	\$ 25,493	\$ -	\$ -	\$ 25,493
Less: accumulated depreciation	18,504	2,539	-	21,043
Capital assets, net	<u>\$ 6,989</u>			<u>\$ 4,450</u>

	2009	Additions	Retirements	2010
Furniture and fixtures	\$ 24,240	\$ 1,253	\$ -	\$ 25,493
Less: accumulated depreciation	15,952	2,552	-	18,504
Capital assets, net	<u>\$ 8,288</u>			<u>\$ 6,989</u>

### 7. EXCESS INSURANCE COVERAGE

SORSA purchases reinsurance to cover the cost of large claims. For property and automobile physical damage claims SORSA collectively self-insures the first \$100,000 of each claim; the reinsurer reimburses amounts above this level. For third-party liability claims other than Uninsured/Underinsured Motorists coverage SORSA collectively self-insures \$100,000 of each claim; the reinsurer reimburses amounts above this level. For third-party Uninsured/Underinsured Motorists coverage, SORSA collectively self-insures the first \$200,000 of each claim. For equipment breakdown claims SORSA reinsures 100% of this exposure and does not retain any level of self-insurance.

### 8. COMMITMENTS AND CONTINGENCIES

SORSA leases office space from Ohio School Boards Association. Rent expense under the lease was \$28,174 and \$27,646 for 2011 and 2010, respectively.

Approximate future annual minimum lease payments under the lease are as follows:

2012	\$ 16,032
2013	16,032
2014	16,032
2015	8,016
	<u>\$ 56,112</u>

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF CONTRACT YEARS ENDED JUNE 30, 2011 AND 2010

The schedule below presents the changes in claims liabilities for SORSA's contracts for the periods ending June 30, 2011 and June 30, 2010.

	<u>Property and Liability</u>
<u>June 30, 2011</u>	
Unpaid losses and loss adjustment expenses, beginning of fiscal period	\$ 1,386,423
Plus: Incurred losses and loss adjustment expenses	
Provision for insured events of the period	1,191,821
Less: Payments	
Benefits attributable to insured events	<u>1,382,325</u>
Total unpaid losses and loss adjustment expenses, end of fiscal period	<u>\$ 1,195,919</u>
<u>June 30, 2010</u>	
Unpaid losses and loss adjustment expenses, beginning of fiscal period	\$ 1,481,740
Plus: Incurred losses and loss adjustment expenses	
Provision for insured events of the period	1,026,000
Less: Payments	
Benefits attributable to insured events	<u>1,121,317</u>
Total unpaid losses and loss adjustment expenses, end of fiscal period	<u>\$ 1,386,423</u>

*See report of independent auditors on page 1.*



# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## CLAIMS DEVELOPMENT YEARS ENDED JUNE 2004 THROUGH 2011

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### Ten Year Claims Development Information

The table below illustrates how SORSA's earned revenues and investment income compare to related costs of loss and other expenses assumed by SORSA. The rows of the table are defined as follows:

- 1) This line shows the total of each fiscal year's earned contract revenues and investment revenues.
- 2) This line shows each fiscal year's other operating costs of SORSA including overhead and claims expense not allocable to individual claims.
- 3) This line shows SORSA's 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) This section of rows show the cumulative amounts paid as of the end of successive years for each policy year.
- 5) This section of rows shows how each policy years incurred claims increased or decreased as of the end of the successive years. This annual re-estimation result from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- 6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether the latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between the original estimated and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## CLAIMS DEVELOPMENT YEARS ENDED JUNE 2004 THROUGH 2011

	Fiscal Year Ended 6/30/2011	Fiscal Year Ended 6/30/2010	Fiscal Year Ended 6/30/2009	Fiscal Year Ended 6/30/2008	Fiscal Year Ended 6/30/2007	Fiscal Year Ended 6/30/2006	Fiscal Year Ended 6/30/2005	Five Month Period Ended 6/30/2004
1. Required contribution and investment revenue								
Earned	\$ 3,415,944	\$ 3,364,805	\$ 3,348,075	\$ 3,314,942	\$ 3,094,235	\$ 2,958,419	\$ 3,673,926	\$ 1,632,600
Ceded	1,645,716	1,572,098	1,447,117	1,452,458	1,169,570	955,265	1,590,395	913,321
Net earned	1,770,228	1,792,707	1,900,958	1,862,484	1,924,665	2,003,154	2,083,531	719,279
2. Unallocated expenses	971,639	946,719	1,008,892	928,160	883,248	871,413	981,423	514,783
3. Estimated claims and expenses end of policy year:								
Incurred	1,171,386	1,026,000	905,000	413,000	1,101,139	911,791	1,017,776	420,442
Ceded	-	-	-	-	-	-	-	-
Net incurred	1,171,386	1,026,000	905,000	413,000	1,101,139	911,791	1,017,776	420,442
4. Net paid claims as of: (cumulative)								
End of policy year	925,088	519,876	781,821	464,528	312,965	267,176	292,930	93,093
One year later	-	996,798	962,899	651,885	411,983	396,843	392,020	372,979
Two years later	-	-	1,060,497	967,835	460,722	474,574	396,931	437,591
Three years later	-	-	-	827,356	543,742	508,166	512,634	472,304
Four years later	-	-	-	-	546,503	521,819	513,711	485,334
Five years later	-	-	-	-	-	521,819	521,451	485,665
Six years later	-	-	-	-	-	-	521,451	485,665
Seven years later	-	-	-	-	-	-	-	485,665
Eight years later	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-
5. Re-estimated net incurred claims and expense, as of:								
End of policy year	1,171,386	1,026,000	905,000	913,000	1,101,139	911,791	1,017,776	535,004
One year later	-	1,026,000	1,005,000	913,000	1,101,139	911,791	1,017,776	535,004
Two years later	-	-	1,005,000	1,013,000	1,101,139	661,791	1,017,776	535,004
Three years later	-	-	-	1,013,000	1,001,139	661,791	702,884	535,004
Four years later	-	-	-	-	1,001,139	661,791	702,884	599,896
Five years later	-	-	-	-	-	661,791	602,884	599,896
Six years later	-	-	-	-	-	-	602,884	599,896
Seven years later	-	-	-	-	-	-	-	599,896
Eight years later	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ -	\$ -	\$ 100,000	\$ 100,000	\$ (100,000)	\$ (250,000)	\$ (414,892)	\$ 64,892

*See report of independent auditors on page 1.*



FORTY YEARS &amp; COUNTING

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**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**

To the Board of Directors  
Schools of Ohio Risk Sharing Authority  
Columbus, Ohio

We have audited the financial statements Schools of Ohio Risk Sharing Authority (SORSA) as of and for the years ended June 30, 2011 and 2010 and have issued our report thereon dated October 26, 2011. We conducted our audits 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.

**Internal Control Over Financial Reporting**

Management of SORSA is responsible for establishing and maintaining effective control over financial reporting. In planning and performing our audit, we considered SORSA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SORSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SORSA's internal control over financial reporting.

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 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.

Our consideration of the 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 the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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***

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SORSA'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*.

This report is intended solely for the information and use of the Board of Directors, management and The Ohio Auditor of State is not intended to be and should not be used by anyone other than those specified parties.

*Bene G. LLC*

October 26, 2011



# Dave Yost • Auditor of State

**SCHOOLS OF OHIO RISK SHARING AUTHORITY**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 20, 2011**