# SCHOOLS OF OHIO RISK SHARING AUTHORITY
# FRANKLIN COUNTY, OHIO

***BASIC FINANCIAL STATEMENTS***
**(*AUDITED)***

*FOR THE FISCAL YEAR ENDED*
*JUNE 30, 2014*

**THOMAS STRUP, EXECUTIVE DIRECTOR**

# 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 *Independent Auditor's Report* of the Schools of Ohio Risk Sharing Authority, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 2014. 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.

Dave Yost

Dave Yost
Auditor of State

February 19, 2015

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**SCHOOLS OF OHIO RISK SHARING AUTHORITY**
**FRANKLIN COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Schools of Ohio Risk Sharing Authority
Franklin County
8050 North High Street, Suite 160
Columbus, Ohio 43235

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Schools of Ohio Risk Sharing Authority, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Schools of Ohio Risk Sharing Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Schools of Ohio Risk Sharing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Schools of Ohio Risk Sharing Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schools of Ohio Risk Sharing Authority, Franklin County, Ohio, as of June 30, 2014, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Predecessor Auditor*

The financial statements of the Schools of Ohio Risk Sharing Authority, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2013 were audited by a predecessor auditor whose report dated October 18, 2013, expressed an unmodified opinion on those statements.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and *Claims Development*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014, on our consideration of the Schools of Ohio Risk Sharing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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 the Schools of Ohio Risk Sharing Authority's internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 11, 2014

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 Coordinator.

At June 30, 2014, 2013, and 2012, SORSA had 112, 106, and 98 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.

York Risk Services Group 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. Additional legal firms are contracted as needed against SORSA members.

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

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 Position, Statements of Revenue, Expenses, and Changes in Net Position, and the Statements of Cash Flows provide an indication of SORSA's financial health. The Statements of Net Position 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 Position 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, 2014, 2013, and 2012.

Table 1:

| | 6/30/2014 | 6/30/2013 | 6/30/2012 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 2,188,979 | $ 1,628,644 | $ 1,713,527 |
| Other assets | 631,683 | 467,571 | 426,060 |
| Total assets | 2,820,662 | 2,096,215 | 2,139,587 |
| **Liabilities** | 1,647,624 | 1,504,519 | 1,767,481 |
| **Net Position** | $ 1,173,038 | $ 591,696 | $ 372,106 |

SORSA's assets are categorized in the "current assets" category and the "other assets" category. The "current assets" 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, 2014, 2013, and 2012 to be $2,188,979, $1,628,644 and $1,713,527 respectively. The primary component is cash in banks and investments. Assets in the "other assets" category are $631,683, $467,571 and $426,060 at June 30, 2014, 2013, and 2012, respectively.

The current liabilities include accounts payable to outside companies for various services, unearned premiums, and reserves for unpaid claims. Accounts payable totaled $24,373, $22,916, and $18,877 at June 30, 2014, 2013, and 2012 respectively. Unearned premiums totaled $0, $115,130, and $501,271 at June 30, 2014, 2013, and 2012, 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 $1,623,251, $1,366,473 and $1,247,333 at June 30, 2014, 2013 and 2012, respectively.

As of June 30, 2014, 2013, and 2012, SORSA had a net position of $1,173,038, $591,696 and $372,106, respectively.

## Statement of Revenues, Expenses, and Changes in Net Position

The following table shows the changes in net assets for the years ended June 30, 2014, 2013, and 2012.

Table 2:

| | Fiscal Year Ended 6/30/2014 | Fiscal Year Ended 6/30/2013 | Fiscal Year Ended 6/30/2012 |
|---|---|---|---|
| **Revenues** | | | |
| Member premiums | $ 5,390,719 | $ 4,590,052 | $ 3,881,485 |
| Ceded premiums | (2,503,611) | (2,059,895) | (1,791,485) |
| Net premiums earned | 2,887,108 | 2,530,157 | 2,090,000 |
| **Expenses** | | | |
| Loss adjustments | 1,267,456 | 1,345,117 | 1,727,827 |
| Agency commission | 447,362 | 369,901 | 338,713 |
| Claims administration | 153,893 | 142,928 | 144,379 |
| Pool administration | 221,475 | 193,068 | 194,755 |
| Salaries and benefits | 181,404 | 172,913 | 169,962 |
| Legal and professional | 54,787 | 48,745 | 52,206 |
| General and administrative | 84,841 | 73,543 | 80,262 |
| Travel and meetings | 19,696 | 22,261 | 18,961 |
| Appraisal fees | 29,675 | 3,640 | 220 |
| General insurance | 13,306 | 9,820 | 10,024 |
| Sales and marketing | 14,698 | 13,264 | 13,809 |
| Depreciation | 426 | 586 | 1,733 |
| **Total expenses** | 2,489,019 | 2,395,786 | 2,752,851 |
| **Excess of revenues over expenses** | 398,089 | 134,371 | (662,851) |
| **Other Revenue** | | | |
| Non-operating gains (net) | 183,253 | 85,219 | 89,481 |
| Change in net position | 581,342 | 219,590 | (573,370) |
| Net position at beginning of period | 591,696 | 372,106 | 945,476 |
| Net position at end of period | $ 1,173,038 | $ 591,696 | $ 372,106 |

Member premiums represent the amount of premium revenue earned during 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. 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 earnings on SORSA's various checking and investment accounts. For the fiscal period ending June 30, 2014, 2013 and 2012, SORSA held its funds in either fixed income federal obligations, certificates of deposits, or 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.

SORSA's change in net position was $581,342, $219,590, and ($573,370) for the years ending June 30, 2014, 2013, and 2012, respectively. Increases over the past two years are a result of positive operating results and investment returns.

### 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 net cash flows for the years ended June 30, 2014, 2013, and 2012, totaling $751,164, ($409,091), and ($412,820), respectively. For these years the net cash provided by/(expended) by operating activities was $732,449, ($663,055), and ($684,956), respectively. Net cash flows provided by operating activities changed mainly due to operating income (loss).

For these years net cash provided by investing activities was $18,715, $253,964, and $272,136 respectively. Net cash flows provided by investing activities changed mainly due to the sale of investments.

### 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. While pricing in the insurance market for schools has been stable for several years, changes are underway that will tend to increase pricing for all Ohio schools. Deterioration in weather patterns across Ohio in prior years increased claim frequency and severity.

### Funding

SORSA consults with professional actuaries to assist with the determination of the amount needed to fund the $100,000 pool self-insured retention. Because of an upward trend in claims, primarily property related, the SORSA Board of Directors has opted to fund at an increased confidence level. This selection of a higher actuarial confidence level provides additional loss fund contributions to support the increase in claims activity.

## 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, and by full utilization of statutory immunities available to our members.

SORSA also engages in several risk management and loss control training programs. These include training in the areas of student transportation, school athletics safety, employment practices, sexual molestation prevention and other topics of concern to k-12 public schools.

SORSA manages operational expenses as the pool has grown. Expenses have been reduced as a result of a reduction of loss adjustments.

## 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 Position

**June 30, 2014 and 2013**

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,505,390 | $ 754,226 |
| Accounts Receivables | 564,060 | 834,513 |
| Prepaid Expenses | 119,529 | 39,905 |
| **Total Current Assets** | 2,188,979 | 1,628,644 |
| **Other Assets** | | |
| Other Receivable | 629,978 | 465,440 |
| Capital Assets, Net | 1,705 | 2,131 |
| **Total Other Assets** | 631,683 | 467,571 |
| **TOTAL ASSETS** | **$ 2,820,662** | **$ 2,096,215** |
| **LIABILITIES & NET POSITION** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 24,373 | $ 22,916 |
| Unearned Premium | 0 | 115,130 |
| Reserve for Unpaid Claims (see Note 3) | 1,623,251 | 1,366,473 |
| **Total Liabilities** | **1,647,624** | **1,504,519** |
| **Net Position** | | |
| Net Investments in Capital Assets | 1,705 | 2,131 |
| Unrestricted | 1,171,333 | 589,565 |
| **Total Net Assets** | **1,173,038** | **591,696** |
| **TOTAL LIABILITIES & NET POSITION** | **$ 2,820,662** | **$ 2,096,215** |

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

# SCHOOLS OF OHIO RISK SHARING AUTHORITY
## Statements of Revenues, Expenses and Changes in Net Position
### For the Fiscal Years Ended June 30, 2014 and 2013

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Member premiums | $ 5,390,719 | $ 4,590,052 |
| Ceded premiums | (2,503,611) | (2,059,895) |
| **TOTAL OPERATING REVENUES** | **2,887,108** | **2,530,157** |
| **OPERATING EXPENSES:** | | |
| Loss adjustments | 1,267,456 | 1,345,117 |
| Agency commissions | 447,362 | 369,901 |
| Claims administration | 153,893 | 142,928 |
| Pool administration | 221,475 | 193,068 |
| Salaries and Benefits | 181,404 | 172,913 |
| Legal and professional | 54,787 | 48,745 |
| General and administration | 84,841 | 73,543 |
| Travel and meetings | 19,696 | 22,261 |
| Appraisal Fees | 29,675 | 3,640 |
| General insurance | 13,306 | 9,820 |
| Sales and marketing | 14,698 | 13,264 |
| Depreciation | 426 | 586 |
| **TOTAL OPERATING EXPENSES** | **2,489,019** | **2,395,786** |
| **OPERATING INCOME** | **398,089** | **134,371** |
| **NON-OPERATING REVENUES:** | | |
| Investment Income | 183,253 | 85,219 |
| **TOTAL NON-OPERATING REVENUES** | **183,253** | **85,219** |
| **CHANGE IN NET POSITION** | **581,342** | **219,590** |
| **NET POSITION - BEGINNING** | 591,696 | 372,106 |
| **NET ASSETS - ENDING** | **$ 1,173,038** | **$ 591,696** |

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

# SCHOOLS OF OHIO RISK SHARING AUTHORITY
## Statements of Cash Flow
### For the Fiscal Years Ended June 30, 2014 and 2013

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received for premiums | $ 5,546,042 | $ 3,631,335 |
| Cash paid for claims | (1,010,678) | (1,225,977) |
| Cash payments to vendors for services and goods | (1,123,558) | (835,605) |
| Cash paid for excess insurance | (2,503,611) | (2,059,895) |
| Cash paid to employees for wages and benefits | (175,746) | (172,913) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | **732,449** | **(663,055)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Other receivable | (164,538) | (81,983) |
| Investment Income | 183,253 | 335,947 |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | **18,715** | **253,964** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **751,164** | **(409,091)** |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 754,226 | 1,163,317 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **$ 1,505,390** | **$ 754,226** |
| **RECONCILIATION OF CHANGE IN OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Operating income | $ 398,089 | $ 134,371 |
| Depreciation | 426 | 586 |
| **CHANGES IN OPERATING ASSETS AND LIABILITIES** | | |
| Accounts receivable | 270,453 | (572,576) |
| Prepaid assets | (79,624) | 37,526 |
| Accounts payable and accrued expenses | 1,457 | 4,039 |
| Unearned premium | (115,130) | (386,141) |
| Reserve for unpaid claims | 256,778 | 119,140 |
| **NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES** | **$ 732,449** | **$ (663,055)** |

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

## NOTE 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.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation

SORSA uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

### B. 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.

### C. 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.

### D. 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 position as a component of other revenue.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - (Continued)

### E. 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.

### F. Accounts Receivable

SORSA pays third party claims at their full value and then bills members for their deductible portion. Accounts receivable is recognized when a deductible is due. Based on historical factors and SORSA's allowance experience, no allowance for uncollectible receivables has been reserved.

### G. 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.

### H. 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 position in the period in which estimates are changed. Reserves are not discounted.

### I. Other Assets

Other assets represent SORSA's ownership interest in a subscriber's account with United Educators. Unrealized gains and losses and realized gains and losses are determined on the identified cost basis and are reflected in the statements of revenues, expenses, and changes in net position.

### J. Net Position

Net position represents the excess of revenues over expenses since inception. It is displayed in two components as follows:

*Net investment in capital assets* - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings related to the acquisition, construction, or improvement of those assets.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*Unrestricted* - This consists of net assets that do not meet the definition of "net investment in capital assets".

As of June 30, 2014, SORSA does not have any "restricted" net position. The SORSA Board of Directors may authorize the distribution of the net position to those members who constituted the self-insurance pool during the years when such net position were earned, provided that such members must also be members of SORSA in the year in which said distribution was made.

In the event of dissolution of SORSA, any funds which remain unencumbered after all claims and all other SORSA obligations have been paid shall be distributed only to the entities which are members of SORSA immediately prior to its dissolution. Any such surplus funds shall be distributed to members in proportion to their interest in the surplus funds.

The consortium applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**K. Income Taxes**

SORSA is organized as a not-for-profit corporation under Section 501 (c) (3) of the United States Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by SORSA and recognize a tax liability if SORSA has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by SORSA, and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

SORSA is generally exempt from income taxes. SORSA is subject to routine audits by taxing jurisdictions. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress.

**L. Subsequent Events**

SORSA has evaluated events or transactions occurring subsequent to June 30, 2014 for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is December 11, 2014.

**M. 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. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There has been no significant reduction in coverage from the prior year.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the consortium. For SORSA, these revenues are member premiums from the associated entities for group insurance. Operating expenses are necessary costs that have been incurred in order to support the consortium's primary mission. Revenues and expenses not meeting the definition are reporting as nonoperating.

**NOTE 3 - RESERVE FOR UNPAID CLAIMS**

As discussed in Note 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:

| | 2014 | 2013 |
|---|---|---|
| Unpaid claims and claim adjustment expenses at beginning of period | $1,366,473 | $1,247,333 |
| Incurred losses and loss adjustment expense | 1,267,456 | 1,345,117 |
| Less payment of claims | (1,010,678) | (1,225,977) |
| Unpaid claims and claim adjustment expenses at end of period | $1,623,251 | $1,366,473 |

**NOTE 4 - DEPOSITS**

At June 30, 2014, the bank balance of SORSA's demand deposits and money market accounts totaled $1,637,724. Of this balance, $253,448 was covered by federal depository insurance.

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, 2014, $1,384,276 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.

**NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation 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). The three levels of the fair value hierarchy are described as follows:

***Level* 1**: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SORSA has the ability to access.

## NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

***Level* 2**: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

***Level* 3**: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014:

***Money Market Funds****:* Generally transact subscription and redemption activity at a $1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

The following table sets forth by level, within the hierarchy, SORSA’s assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 are as follows:

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money Market Funds | $ - | $ 455,027 | $ - | $ 455,027 |

SORSA's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2014.

## NOTE 6 - CAPITAL ASSETS

Capital Assets at June 30, 2014 were as follows:

| | Balance 06/30/13 | Additions | Deductions | Balance 06/30/14 |
|---|---|---|---|---|
| Capital Assets, Being Depreciated: | | | | |
| Furniture and Fixtures | $ 25,493 | $ - | $ - | $ 25,493 |
| Less: Accumulated Depreciation | (23,362) | (426) | - | (23,788) |
| Capital Assets, Net | $ 2,131 | $ (426) | $ - | $ 1,705 |

## NOTE 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.

## NOTE 8 - COMMITMENTS AND CONTINGENCIES

SORSA leases office space from Ohio School Boards Association. Rent expense under the lease was $28,421 for 2014.

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

| | |
|---|---|
| 2015 | $ 16,027 |
| 2016 | 16,027 |
| 2017 | 16,027 |
| 2018 | 16,027 |
| 2019 | 16,027 |
| 2020 | 8,014 |
| Total | $ 88,149 |

# REQUIRED SUPPLEMENTARY INFORMATION

## SCHOOLS OF OHIO RISK SHARING AUTHORITY

## CLAIMS DEVELOPMENT
## YEARS ENDED JUNE 2005 THROUGH 2014

Ten Year Claims Development Information

The following table 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 section 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 section 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 2005 THROUGH 2014

| | Fiscal Year Ended 6/30/2014 | Fiscal Year Ended 6/30/2013 | Fiscal Year Ended 6/30/2012 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Required contribution and investment revenue | | | | | | | | | | |
| Earned | $ 5,390,719 | $ 4,590,052 | $ 3,881,485 | $ 3,415,944 | $ 3,364,805 | $ 3,348,075 | $ 3,314,942 | $ 3,094,235 | $ 2,958,419 | $ 3,673,926 |
| Ceded | 2,503,611 | 2,059,895 | 1,791,485 | 1,635,933 | 1,572,098 | 1,447,117 | 1,452,458 | 1,169,570 | 955,265 | 1,590,395 |
| Net earned | 2,887,108 | 2,530,157 | 2,090,000 | 1,780,011 | 1,792,707 | 1,900,958 | 1,862,484 | 1,924,665 | 2,003,154 | 2,083,531 |
| 2. Unallocated expenses | 1,221,563 | 1,050,669 | 1,025,024 | 971,639 | 946,719 | 1,008,892 | 928,160 | 883,248 | 871,413 | 981,423 |
| 3. Estimated claims and expenses end of policy year: | | | | | | | | | | |
| Incurred | 1,267,456 | 1,345,117 | 1,727,827 | 1,171,386 | 1,026,000 | 905,000 | 413,000 | 1,101,139 | 911,791 | 1,017,776 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | 1,267,456 | 1,345,117 | 1,727,827 | 1,171,386 | 1,026,000 | 905,000 | 413,000 | 1,101,139 | 911,791 | 1,017,776 |
| 4. Net paid claims as of: (cumulative) | | | | | | | | | | |
| End of policy year | 683,674 | 579,293 | 947,036 | 925,088 | 519,876 | 781,821 | 464,528 | 312,965 | 267,176 | 292,930 |
| One year later | - | 748,753 | 1,280,628 | 1,488,136 | 996,798 | 962,899 | 651,885 | 411,983 | 396,843 | 392,020 |
| Two years later | - | - | 1,339,945 | 1,618,206 | 1,084,164 | 1,060,497 | 967,835 | 460,722 | 474,574 | 396,931 |
| Three years later | - | - | - | 1,681,635 | 1,243,660 | 1,109,043 | 827,356 | 543,742 | 508,166 | 512,634 |
| Four years later | - | - | - | - | 1,261,313 | 1,132,569 | 832,380 | 546,503 | 521,819 | 513,711 |
| Five years later | - | - | - | - | - | 1,131,714 | 832,380 | 571,896 | 521,819 | 521,451 |
| Six years later | - | - | - | - | - | - | 832,380 | 571,896 | 521,819 | 521,451 |
| Seven years later | - | - | - | - | - | - | - | 589,896 | 521,819 | 521,451 |
| Eight years later | - | - | - | - | - | - | - | - | 521,819 | 521,451 |
| Nine years later | - | - | - | - | - | - | - | - | - | 521,451 |
| 5. Re-estimated net incurred claims and expense, as of: | | | | | | | | | | |
| End of policy year | 1,267,456 | 1,345,117 | 1,727,827 | 1,171,386 | 1,026,000 | 905,000 | 913,000 | 1,101,139 | 911,791 | 1,017,776 |
| One year later | - | 1,345,117 | 1,727,827 | 1,488,136 | 1,026,000 | 1,005,000 | 913,000 | 1,101,139 | 911,791 | 1,017,776 |
| Two years later | - | - | - | 1,488,136 | 1,085,000 | 1,005,000 | 1,013,000 | 1,101,139 | 661,791 | 1,017,776 |
| Three years later | - | - | - | - | 1,085,000 | 1,110,000 | 1,013,000 | 1,001,139 | 661,791 | 702,884 |
| Four years later | - | - | - | - | - | 1,110,000 | 833,000 | 1,001,139 | 661,791 | 702,884 |
| Five years later | - | - | - | - | - | - | 833,000 | 684,390 | 661,791 | 602,884 |
| Six years later | - | - | - | - | - | - | - | 684,390 | 677,790 | 602,884 |
| Seven years later | - | - | - | - | - | - | - | - | 677,790 | 602,884 |
| Eight years later | - | - | - | - | - | - | - | - | - | 602,884 |
| Nine years later | - | - | - | - | - | - | - | - | - | - |
| 6. Increase (decrease) in estimated incurred claims and expense from end of policy year | $ - | $ - | $ - | $ 316,750 | $ 59,000 | $ 205,000 | $ (80,000) | $ (416,749) | $ (234,001) | $ (414,892) |

Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

Schools of Ohio Risk Sharing Authority
Franklin County
8050 North High Street, Suite 160
Columbus, Ohio 43235

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Schools of Ohio Risk Sharing Authority, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Schools of Ohio Risk Sharing Authority's basic financial statement and have issued our report thereon dated December 11, 2014. Our report includes a reference to other auditors who audited the financial statements of the Schools of Ohio Risk Sharing Authority as of and for the fiscal year ended June 30, 2013, as described in our report on the Schools of Ohio Risk Sharing Authority's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that were reported on separately by those auditors.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Schools of Ohio Risk Sharing Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Schools of Ohio Risk Sharing Authority's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Schools of Ohio Risk Sharing Authority's financial statements. 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 was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors
Schools of Ohio Risk Sharing Authority

***Compliance and Other Matters***

As part of reasonably assuring whether the Schools of Ohio Risk Sharing Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Schools of Ohio Risk Sharing Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Schools of Ohio Risk Sharing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Julian & Grube, Inc.
December 11, 2014

# 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**
**MARCH 3, 2015**

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov