# SCHOOLS OF OHIO RISK SHARING AUTHORITY

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL SCHEDULES

JUNE 30, 2008 AND 2007

Mary Taylor, CPA
Auditor of State

Board of Directors
Schools of Ohio Risk Sharing Authority
8050 N. High Street, Suite 160
Columbus, OH 43235-6483

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, 2007 through June 30, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 20, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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# SCHOOLS OF OHIO RISK SHARING AUTHORITY

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June 30, 2008 and 2007

CPAs / ADVISORS

blue

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

# 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, 2008 and 2007, 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, 2008 and 2007 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.

Management's discussion and analysis, on pages i through vi, is not a required part of the basic financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008, on our consideration of the 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 considered in assessing the results of our audit.

Blue & Co., LLC

November 14, 2008

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, 2008, 2007, and 2006, SORSA had 82, 78, and 65 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.

The Frank Gates Service Company (Frank Gates) provides insurance claims settlement and adjustment services to SORSA. Under contract, Frank Gates pays SORSA members' claims directly from a SORSA claims checking account.

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.

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, 2008, 2007, and 2006.

Table 1:

| | 6/30/08 | 6/30/07 | 6/30/06 |
|---|---|---|---|
| **Assets** | | | |
| Current | $ 744,032 | $ 841,737 | $ 1,800,021 |
| Other assets | 2,415,976 | 1,803,324 | 510,180 |
| Total assets | 3,160,008 | 2,645,061 | 2,310,201 |
| **Liabilities** | 2,089,552 | 2,233,733 | 1,975,607 |
| **Net assets** | $ 1,070,456 | $ 411,328 | $ 334,594 |

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, 2008, 2007, and 2006 to be $744,032, $841,737 and $1,800,021, respectively. The primary component is cash in banks and investments. Assets in the long-term category are $2,415,976, $1,803,324, and $510,180 at June 30, 2008, 2007, and 2006, respectively.

The current liabilities include accounts payable to outside companies for various services, unearned premiums, and reserves for unpaid claims. Accounts payable totaled $27,613; $19,835, and $17,700 at June 30, 2008, 2007, and 2006 respectively. Unearned premiums totaled $432,282; $271,544; and $326,022 at June 30, 2008, 2007, and 2006, 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 $1,629,657; $1,942,354; and $1,631,885 at June 30, 2008, 2007 and 2006, respectively.

As of June 30, 2008, 2007, and 2006, SORSA had net assets of $1,070,456; $411,328; and $334,594, respectively.

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

The following table shows the changes in net assets for the years ended June 30, 2008, 2007, and 2006.

Table 2:

| | Fiscal Year Ended June 30, 2008 | Fiscal Year Ended June 30, 2007 | Fiscal Year Ended June 30, 2006 |
|---|---|---|---|
| **Revenues** | | | |
| Member premiums | $ 3,314,942 | $ 3,094,235 | $ 2,958,419 |
| Ceded premiums | (1,452,458) | (1,169,570) | (955,265) |
| Net premiums earned | 1,862,484 | 1,924,665 | 2,003,154 |
| **Expenses** | | | |
| Loss adjustments | 413,000 | 1,101,139 | 911,791 |
| Agency commission | 255,180 | 236,899 | 235,130 |
| Claims administration | 130,793 | 124,411 | 122,360 |
| Pool administration | 174,497 | 177,748 | 177,391 |
| Salaries and benefits | 159,770 | 147,820 | 139,388 |
| Legal and professional | 61,853 | 69,704 | 59,307 |
| General and administrative | 96,208 | 83,424 | 92,789 |
| Travel and meetings | 8,118 | 10,875 | 9,661 |
| Appraisal fees | 16,100 | 14,485 | 19,740 |
| General insurance | 8,057 | 8,079 | 8,116 |
| Sales and marketing | 14,356 | 6,237 | 3,017 |
| Depreciation | 3,228 | 3,566 | 4,314 |
| **Total expenses** | 1,341,160 | 1,984,387 | 1,783,004 |
| **Excess of revenues over expenses** | 521,324 | (59,722) | 220,150 |
| **Other revenue** | | | |
| Non-operating gains (net) | 137,804 | 136,456 | 65,027 |
| Change in net assets | 659,128 | 76,734 | 285,177 |
| Net assets at beginning of period | 411,328 | 334,594 | 49,417 |
| Net assets at end of period | $ 1,070,456 | $ 411,328 | $ 334,594 |

Member premiums are the amount paid or due for the June 30, 2008 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 SORSA collectively self-insures the first $250,000 of each claim; the reinsurer reimburses amounts above this level. For equipment breakdown claims SORSA reinsures 100% of this exposure and does not retain any level of self-insurance.

For the July 1, 2007 to June 30, 2008 policy year, SORSA reduced its third-party liability self-insured amount from $250,000 to $100,000 of each claim by taking advantage of market conditions and improving overall risk for its members.

Non-operating gain consists of the interest earned on SORSA's various checking and investment accounts. For the fiscal period ending June 30, 2008 and 2007, and 2006 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, 2008, SORSA's change in net assets was $659,128.

**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, 2008 totaling $167,332. The net cash generated by operating activities was $297,334. Other cash flows included the purchase of investments of approximately $128,000.

## 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, 2008 AND 2007

### ASSETS

| | 2008 | 2007 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 628,093 | $ 460,761 |
| Accounts receivable | 7,967 | - |
| Investments | 32,891 | 380,966 |
| Prepaid assets | 75,081 | 10 |
| Total current assets | 744,032 | 841,737 |
| **Other assets** | | |
| Capital assets, net | 11,013 | 12,870 |
| Investments | 2,404,963 | 1,790,454 |
| Total other assets | 2,415,976 | 1,803,324 |
| Total assets | $ 3,160,008 | $ 2,645,061 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities** | | |
| Accounts payable | $ 27,613 | $ 19,835 |
| Unearned premium | 432,282 | 271,544 |
| Reserve for unpaid claims | 1,629,657 | 1,942,354 |
| Total liabilities | 2,089,552 | 2,233,733 |
| **Net assets** | | |
| Net assets - unrestricted | 1,059,443 | 398,458 |
| Net assets - invested in capital assets net of related debt | 11,013 | 12,870 |
| Total net assets | 1,070,456 | 411,328 |
| Total liabilities and net assets | $ 3,160,008 | $ 2,645,061 |

*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, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **Revenues** | | |
| Member premiums | $ 3,314,942 | $ 3,094,235 |
| Ceded premiums | (1,452,458) | (1,169,570) |
| Net premiums earned | 1,862,484 | 1,924,665 |
| **Expenses** | | |
| Loss adjustments | 413,000 | 1,101,139 |
| Agency commission | 255,180 | 236,899 |
| Claims administration | 130,793 | 124,411 |
| Pool administration | 174,497 | 177,748 |
| Salaries and benefits | 159,770 | 147,820 |
| Legal and professional | 61,853 | 69,704 |
| General and administrative | 96,208 | 83,424 |
| Travel and meetings | 8,118 | 10,875 |
| Appraisal fees | 16,100 | 14,485 |
| General insurance | 8,057 | 8,079 |
| Sales and marketing | 14,356 | 6,237 |
| Depreciation | 3,228 | 3,566 |
| Total expenses | 1,341,160 | 1,984,387 |
| **Excess (deficit) of revenues over expenses** | 521,324 | (59,722) |
| **Other revenue** | | |
| Non-operating gains | 137,804 | 136,456 |
| Change in net assets | 659,128 | 76,734 |
| **Net assets at beginning of period** | 411,328 | 334,594 |
| **Net assets at end of period** | $ 1,070,456 | $ 411,328 |

*See accompanying notes to financial statements.*

## SCHOOLS OF OHIO RISK SHARING AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **Operating activities** | | |
| Cash received for premiums | $ 3,467,713 | $ 3,040,006 |
| Cash paid for claims | (725,697) | (790,670) |
| Cash payments to vendors for services and goods | (832,454) | (729,727) |
| Cash paid for excess insurance | (1,452,458) | (1,169,570) |
| Cash paid to employees for wages and benefits | (159,770) | (147,820) |
| Net cash flows from operating activities | 297,334 | 202,219 |
| **Capital and related financing activities** | | |
| Purchase of capital assets | (1,372) | (3,397) |
| Net cash flows from investing activities | (1,372) | (3,397) |
| **Investing activities** | | |
| Purchases of investments | (128,630) | (306,077) |
| Net change in cash and cash equivalents | 167,332 | (107,255) |
| **Cash and cash equivalents - beginning of period** | 460,761 | 568,016 |
| **Cash and cash equivalents - end of period** | $ 628,093 | $ 460,761 |
| **Reconciliation of change in net assets to net cash flows from operating activities:** | | |
| Excess (deficit) of revenue over expenses | $ 521,324 | $ (59,722) |
| Depreciation | 3,228 | 3,566 |
| **Changes in operating assets and liabilities** | | - |
| Accounts receivable | (7,967) | 249 |
| Prepaid assets | (75,071) | - |
| Accounts payable | 7,779 | 2,135 |
| Unearned premium | 160,738 | (54,478) |
| Reserve for unpaid claims | (312,697) | 310,469 |
| Net cash provided by operating activities | $ 297,334 | $ 202,219 |

*See accompanying notes to financial statements.*

## 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 all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, 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.

## 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. Investments are carried at fair value and consist of fixed income securities at June 30, 2008 and 2007.

## 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 then $500 with a useful life greater then 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.

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.

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:

| | 2008 | 2007 |
|---|---|---|
| Unpaid claims and claim adjustment expenses at beginning of period | $ 1,942,354 | $ 1,631,885 |
| Incurred losses and loss adjustment expense | 413,000 | 1,101,139 |
| Less payment of claims | 725,697 | 790,670 |
| Unpaid claims and claim adjustment expenses at end of period | $ 1,629,657 | $ 1,942,354 |

# 4. DEPOSITS

SORSA's deposits are cash and cash equivalents and consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not cleared, or of deposits in-transit) | $ 511,410 | $ 485,150 |
| Amount of deposits covered by federal depository insurance | 100,000 | 100,000 |
| Amount of deposits uninsured | $ 411,410 | $ 385,150 |

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

| Moody's | S&P | Fitch | Investment | Fair Value | Maturities < than 1 year | Maturities 1 - 5 years | As part of Total Investments |
|---|---|---|---|---|---|---|---|
| Aaa | AAA | AAA | Federal Home Loan MTGE Corp | $ 1,049,569 | $ - | $ 1,049,569 | 43% |
| Aaa | AAA | AAA | Federal Home Loan Bank | 1,388,285 | 32,891 | 1,355,394 | 57% |
| | | | Fixed income securities | $ 2,437,854 | $ 32,891 | $ 2,404,963 | 100% |

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. SORSA does not have a deposit policy for custodial credit risk. As of June 30, 2008 and 2007 respectively, $511,410 and $385,150 of SORSA's bank balance was exposed to custodial credit risk.

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.

## 5. CAPITAL ASSETS

Capital assets at June 30, 2008 and 2007 was as follows:

| | 2007 | Additions | Retirements | 2008 |
|---|---|---|---|---|
| Furniture and fixtures | $ 22,869 | $ 1,371 | $ - | $ 24,240 |
| Less: accumulated depreciation | 9,999 | 3,228 | - | 13,227 |
| Capital assets, net | $ 12,870 | | | $ 11,013 |

| | 2006 | Additions | Retirements | 2007 |
|---|---|---|---|---|
| Furniture and fixtures | $ 19,472 | $ 3,397 | $ - | $ 22,869 |
| Less: accumulated depreciation | 6,433 | 3,566 | - | 9,999 |
| Capital assets, net | $ 13,039 | | | $ 12,870 |

## 6. 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 SORSA collectively self-insures $250,000 of each claim; the reinsurer reimburses amounts above this level. For equipment breakdown claims SORSA reinsures 100% of this exposure and does not retain any level of self-insurance.

## 7. COMMITMENTS AND CONTINGENCIES

SORSA leases office space from Ohio School Boards Association. Rent expense under the lease was $23,694 and $26,682 for 2008 and 2007, respectively.

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

| | |
|---|---|
| 2008 | 16,032 |
| 2009 | 16,032 |
| 2010 | 16,032 |
| 2011 | 16,032 |
| 2012 | 16,032 |
| 2013 | 16,032 |
| 2014 | 16,032 |
| 2015 | 8,016 |
| | $ 120,240 |

CPAs ADVISORS

blue

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885 BLUE (2583) fax 614.885.0580 email blue@blueandco.com

# REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

Board of Directors
SCHOOLS OF OHIO RISK SHARING AUTHORITY
Columbus, Ohio

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 14 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blue & Co., LLC

November 14, 2008

# SCHOOLS OF OHIO RISK SHARING AUTHORITY

## RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF CONTRACT
## YEARS ENDED JUNE 30, 2008 AND 2007

The schedule below presents the changes in claims liabilities for SORSA's contracts for the periods ending June 30, 2008 and June 30, 2007.

| | Property and Liability |
|---|---|
| June 30, 2008 | |
| Unpaid losses and loss adjustment expenses, beginning of fiscal period | $ 1,942,354 |
| Plus: Incurred losses and loss adjustment expenses | |
| Provision for insured events of the period | 413,000 |
| Less: Payments | |
| Benefits attributable to insured events | 725,697 |
| Total unpaid losses and loss adjustment expenses, end of fiscal period | $ 1,629,657 |

| | Property and Liability |
|---|---|
| June 30, 2007 | |
| Unpaid losses and loss adjustment expenses, beginning of fiscal period | $ 1,631,885 |
| Plus: Incurred losses and loss adjustment expenses | |
| Provision for insured events of the period | 1,101,139 |
| Less: Payments | |
| Benefits attributable to insured events | 790,670 |
| Total unpaid losses and loss adjustment expenses, end of fiscal period | $ 1,942,354 |

See report of independent auditors on other financial information on page 13.

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 year's incurred claims increased or decreased as of the end of the successive years. This annual reestimation 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.

6) This line compares the latest reestimated 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 reestimated 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 2008

| | 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 | $ 3,314,942 | $ 3,094,235 | $ 2,958,419 | $ 3,673,926 | $ 1,632,600 |
| Ceded | 1,452,458 | 1,169,570 | 955,265 | 1,590,395 | 913,321 |
| Net earned | 1,862,484 | 1,924,665 | 2,003,154 | 2,083,531 | 719,279 |
| 2. Unallocated expenses | 928,160 | 883,248 | 871,413 | 981,423 | 514,783 |
| 3. Estimated claims and expenses end of policy year: | | | | | |
| Incurred | 413,000 | 1,101,139 | 911,791 | 1,017,776 | 420,442 |
| Ceded | - | - | - | - | - |
| Net incurred | 413,000 | 1,101,139 | 911,791 | 1,017,776 | 420,442 |
| 4. Net paid claims as of: (cumulative) | | | | | |
| End of policy year | 464,528 | 312,965 | 267,176 | 292,930 | 93,093 |
| One year later | - | 411,983 | 396,843 | 392,020 | 372,979 |
| Two years later | - | - | 474,574 | 396,931 | 437,591 |
| Three years later | - | - | - | 512,634 | 472,304 |
| Four years later | - | - | - | - | 485,334 |
| Five years later | - | - | - | - | - |
| Six years later | - | - | - | - | - |
| Seven years later | - | - | - | - | - |
| Eight years later | - | - | - | - | - |
| Nine years later | - | - | - | - | - |
| 5. Re-estimated net incurred claims and expense, as of: | | | | | |
| End of policy year | 913,000 | 1,101,139 | 911,791 | 1,017,776 | 535,004 |
| One year later | - | 1,101,139 | 911,791 | 1,017,776 | 535,004 |
| Two years later | - | - | 661,791 | 1,017,776 | 535,004 |
| Three years later | - | - | - | 702,884 | 535,004 |
| Four years later | - | - | - | - | 599,896 |
| Five years later | - | - | - | - | - |
| Six years later | - | - | - | - | - |
| Seven years later | - | - | - | - | - |
| Eight years later | - | - | - | - | - |
| Nine years later | - | - | - | - | - |
| 6. Increase (decrease) in estimated incurred claims and expense from end of policy year | $ - | $ - | $ (250,000) | $ (314,892) | $ 64,892 |

See report of independent auditors on other financial information on page 13.

CPAs ADVISORS

blue

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

# 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 June 30, 2008 and 2007 and have issued our report thereon dated November 14, 2008. 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

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies 2008:1 – 2008:3 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

## 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*.

We noted certain matters that we reported to management of the Organization in a separate letter dated November 14, 2008.

SORSA's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and responses. We did not audit SORSA's responses and, accordingly, we express no opinion on them.

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.

Blue & Co., LLC

November 14, 2008

## Schools of Ohio Risk Sharing Authority
## Schedule of Audit Findings and Responses
## June 30, 2008

2008:1 General Ledger Reconciliation - Cash

We noted a certain premium payment that was properly reflected within the bank reconciliation and not posted to the general ledger. An audit entry was proposed to correct the general ledger to match the bank reconciliation. If uncorrected, this would have understated cash and unearned revenue by $44,271. We recommend that management review its reconciliation process to determine if additional procedures are necessary to detect such differences and record them within the general ledger.

Management's Response

The method of accounting for these transactions will be changed to match external reporting.

2008:2 Accounts Receivable

We noted that amounts due from school districts were posted to unearned revenue rather than premiums receivable. An audit entry was proposed to reclassify these amounts to premiums receivable. If uncorrected, this condition would have understated accounts receivable and unearned revenue by $388,011. In order to conform internal reporting with external reporting requirements, we recommend that billed, unpaid premiums be classified as premium receivable.

Management's Response

The method of accounting for these transactions will be changed to match external reporting.

2008:3 Deposits

We noted that certain deposits were posted to unearned revenue rather than deposits. An entry was proposed to reclassify the related amounts from unearned revenue to deposits. If uncorrected, this would have understated deposits and unearned revenue by $75,071. In order to conform internal reporting to external reporting requirements, we recommend that amounts prepaid for future expenditures be recorded as deposits.

Management's Response

The method of accounting for these transactions will be changed to match external reporting.

Mary Taylor, CPA
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**
**FEBRUARY 3, 2009**

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us