Ohio School Plan

Financial Report

with Supplemental Information

December 31, 2012

Dave Yost • Auditor of State

Board of Directors
Ohio School Plan
c/o Hylant Administrative Services
811 Madison Avenue
P.O. Box 2083
Toledo, Ohio 43624

We have reviewed the *Independent Auditor's Report* of the Ohio School Plan, Lucas County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2012 through December 31, 2012. 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 Ohio School Plan is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

May 3, 2013

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Independent Auditor's Report

To the Board of Directors
Ohio School Plan

We have audited the accompanying basic financial statements of Ohio School Plan (the "Plan") as of and for the years ended December 31, 2012 and 2011 and the related notes to the basic financial statements, which collectively comprise the Plan's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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 audit contained in *Governmental 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Ohio School Plan

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan at December 31, 2012 and 2011 and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, casualty claims development information, property claims development information, and statement of reconciliation of net losses and loss adjustment expense liability by type of contract, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2013 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Plante & Moran, PLLC

April 25, 2013

This section of Ohio School Plan's (the "Plan") annual financial report presents our discussion and analysis of the Plan's financial performance during the year ended December 31, 2012. Please read it in conjunction with the Plan's financial statements, which immediately follow this section.

Using this Annual Report

The Plan is an unincorporated nonprofit association that provides property and casualty coverage to its participating members. Membership in the Plan includes public school districts, educational service centers, joint vocational schools, centers of government, boards of developmental disabilities, and community colleges in the state of Ohio. The Plan uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

The basic financial statements, which follow this section, provide both long- and short-term information about the Plan's financial status. The statement of net position and the statement of revenue, expenses, and changes in net position provide information about the financial activities of the Plan. These are followed by the statement of cash flows, which presents detailed information about the changes in the Plan's cash position during the year. These statements reflect only the risk carried by the Plan, which also includes any potential unrecoverable reinsurance claims.

Financial Overview

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The three basic financial statements presented are as follows:

- **Statement of Net Position** - This statement presents information reflecting the Plan's assets, liabilities, and net position and is categorized into current and noncurrent assets and liabilities.

- **Statement of Revenue, Expenses, and Changes in Net Position** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of member premiums, with the major sources of operating expenses being losses and loss adjustment expense, general and administrative expenses, and reinsurance costs. Nonoperating revenue and expenses consist primarily of investment activity and distributions to members.

- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

Condensed Financial Information

The financial statements report the Plan's net position and how it has changed. Net position - the difference between the Plan's assets and liabilities - is one way to measure the Plan's financial health or position. Over time, increases and decreases in the Plan's net position are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information follows:

	December 31		
Condensed Statement of Net Position	2012	2011	2010
Assets			
Cash and cash equivalents and investments	$ 3,827,855	$ 3,293,219	$ 2,840,494
Reinsurance receivable	1,483,777	930,499	988,834
Other assets	39,737	57,158	30,425
Total assets	5,351,369	4,280,876	3,859,753
Liabilities			
Losses and loss adjustment expense	1,279,659	694,690	800,166
Unearned premiums and membership fees	1,098,852	906,552	843,817
Other liabilities	356,441	211,178	88,938
Total liabilities	2,734,952	1,812,420	1,732,921
Net Position - Unrestricted	**$ 2,616,417**	**$ 2,468,456**	**$ 2,126,832**

	Year Ended December 31		
Condensed Statement of Changes in Net Position	2012	2011	2010
Changes in Net Position			
Earned premiums and membership fees	$ 12,139,938	$ 9,951,832	$ 8,611,718
Reinsurance premiums ceded	(8,012,356)	(6,398,083)	(5,428,996)
Total operating revenue	4,127,582	3,553,749	3,182,722
Losses and loss adjustment expense	1,513,962	1,097,770	1,104,871
Operating expenses	2,480,865	2,130,255	1,898,243
Total operating expenses	3,994,827	3,228,025	3,003,114
Total nonoperating revenue	15,206	15,900	14,668
Change in Net Position	**$ 147,961**	**$ 341,624**	**$ 194,276**

In addition to net position, when assessing the overall health of the Plan, the reader needs to consider other nonfinancial factors such as the legal climate in the state, the general state of the financial markets, and the level of risk prevention undertaken by the Plan and its members.

The Plan cannot control the first two factors. However, since its inception, the Plan has been a leader in implementing aggressive risk-prevention programs. It provides extensive training to its members in various areas of school district operations.

Condensed Comparative Financial Highlights

- The Plan's total assets increased $1,070,493, or 25 percent, and $421,123, or 11 percent, in 2012 and 2011, respectively. The 2012 and 2011 increases are related to overall Plan operations.

- In 2012, premiums receivable decreased $16,505, or 30 percent, due to more timely payments by members. Conversely, premiums receivable increased $25,720, or 86 percent, due to the addition of new members in December 2011.

- The Plan's investment portfolio increased $46,183 or 3 percent, due to overall market performance in 2012.

- Reinsurance receivable increased $553,278 or 59 percent, due to recovery of losses from the Plan's property reinsurers related to catastrophic windstorms that occurred during June 2012.

- Unearned premiums and membership fees increased $192,300, or 21 percent, and $62,735, or 7 percent, in 2012 and 2011, respectively. This change is in line with the growth in premium which is a result of 21 new members in 2012.

- In 2012, loss reserves increased $584,969, or 84 percent. Loss reserves related to the 2006 casualty paid loss ratio corridor have been reduced by $32,000, while reserves have been increased for the 2010 casualty corridor by $171,497; the reserve for the 2009 casualty remained the same. The remainder of the change is associated with the Plan's retained property losses.

- In 2012, reinsurance payable increased $162,589, or 102 percent, due to the increase of new members versus the prior year.

- The Plan's net position increased $147,961 and $341,624 in 2012 and 2011, respectively, due to the Plan's operations.

- Earned premiums and membership fees increased $2,188,106, or 22 percent, and increased $1,340,114, or 16 percent, in 2012 and 2011, respectively. 2012 was one of the Plan's most successful years from an earned premium and membership fees standpoint, due to 100 percent member retention and 21 new members.

- Management fees and commission expense have increased on a percentage basis at the same rate as written premiums as these amounts are a function of written premiums.

- The Plan's operations provided cash of $518,514 and $437,838 in 2012 and 2011, respectively, primarily related to the increase in new business.

Reserves for Unpaid Claims

A significant liability in the Plan's statement of net position is the reserves for reported and incurred but not reported losses and loss adjustment expense. IRMS Actuarial Services conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

Budgetary Highlights

Each year, the Plan adopts an annual operating budget for the current year. The budget is presented to the Plan's board of directors for final review and adoption. The Plan's administrator prepares the budget and reviews expenditures on a quarterly basis to assure compliance with the adopted budget.

	Year to Date Actual	Annual Budget	Budget vs. Actual
Operating Revenue			
Earned premiums and membership fees	$ 12,139,938	$ 11,227,405	$ 912,533
Reinsurance premiums ceded	(8,012,356)	(7,237,163)	(775,193)
Total operating revenue	4,127,582	3,990,242	137,340
Operating Expenses			
Losses and loss adjustment expense	1,513,962	1,200,000	313,962
Management fees	1,694,750	1,581,153	113,597
Commission expense	564,917	527,051	37,866
Directors' travel and meetings	11,315	11,500	(185)
Plan marketing fees	150,043	160,000	(9,957)
Professional fees	30,709	32,200	(1,491)
Printing and supplies	37	4,000	(3,963)
Website development and maintenance	-	5,000	(5,000)
Bank charges and miscellaneous	2,990	3,000	(10)
D & O insurance	26,104	23,000	3,104
Total operating expense	3,994,827	3,546,904	447,923
Nonoperating Revenue - Net investment income	15,206	14,000	1,206
Change in Net Position	**$ 147,961**	**$ 457,338**	**$ (309,377)**

The following is an explanation of the significant variances of the budget to actual for 2012.

- Premiums and membership fees exceeded budget due to the addition of 21 members during the year. As premiums have increased, cessions to the Plan's reinsurers increase correspondingly.

- Effective July 1, 2012, the Plan's property aggregate retention was increased to $1.75 million. Loss expenses were also incurred as the prior property treaty earned out during the current fiscal year.

- As management fees and commission expense are both based on premiums, their variance to budget is consistent with the variance generated with respect to the premiums.

Contacting the Plan's Administration

This report is designed to give an overview of the financial condition of Ohio School Plan. If there are additional questions or if you need additional information, please contact the Plan's administrator, Hylant Administrative Services, LLC, 811 Madison Avenue, Toledo, Ohio 43624.

Statement of Net Position

	December 31	
	2012	2011
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 2,225,495	$ 1,737,042
Investments (Note 2)	451,122	604,574
Accrued interest on investments	586	1,502
Accounts receivable:		
Trade	39,151	55,656
Excess insurance	1,483,777	930,499
Total current assets	4,200,131	3,329,273
Noncurrent Assets - Investments (Note 2)	1,151,238	951,603
Total assets	**$ 5,351,369**	**$ 4,280,876**
Liabilities and Net Position		
Current Liabilities		
Losses and loss adjustment expense reserves (Note 3)	$ 666,086	$ 340,286
Unearned premiums and membership fees	1,098,852	906,552
Reinsurance payable (Note 4)	321,816	159,227
Accrued liabilities	34,625	51,951
Total current liabilities	2,121,379	1,458,016
Long-term Liabilities - Losses and loss adjustment expense reserves - Net of current portion (Note 3)	613,573	354,404
Total liabilities	2,734,952	1,812,420
Net Position - Unrestricted	2,616,417	2,468,456
Total liabilities and net position	**$ 5,351,369**	**$ 4,280,876**

The Notes to Financial Statements are an Integral Part of this Statement.

Ohio School Plan

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended December 31	
	2012	2011
Operating Revenue		
Earned premiums and membership fees	$ 12,139,938	$ 9,951,832
Reinsurance premiums ceded	(8,012,356)	(6,398,083)
Total operating revenue	4,127,582	3,553,749
Operating Expenses		
Losses and loss adjustment expense	1,513,962	1,097,770
Management fees	1,694,750	1,409,960
Commission expense	564,917	469,987
Professional fees	30,709	53,623
Plan marketing fees	150,043	158,000
Directors' and officers' coverage	26,104	24,891
Directors' travel and meetings	11,315	11,204
Other	3,027	2,590
Total operating expense	3,994,827	3,228,025
Operating Income	132,755	325,724
Nonoperating Revenue - Net investment income	15,206	15,900
Change in Net Position	147,961	341,624
Net Position - Beginning of year	2,468,456	2,126,832
Net Position - End of year	**$ 2,616,417**	**$ 2,468,456**

Statement of Cash Flows

	Year Ended December 31 2012	2011
Cash Flows from Operating Activities		
Receipts from member premiums	$ 12,348,743	$ 9,988,847
Losses and loss adjustment expense paid	(928,993)	(1,203,246)
Payments to reinsurers - Net	(8,403,045)	(6,261,235)
Payments for expenses	(2,498,191)	(2,086,528)
Net cash provided by operating activities	518,514	437,838
Cash Flows from Investing Activities		
Investment income received	16,122	14,887
Proceeds from sales of investments	2,497,819	3,842,509
Purchase of investments	(2,544,002)	(3,959,530)
Net cash used in investing activities	(30,061)	(102,134)
Net Increase in Cash and Cash Equivalents	488,453	335,704
Cash and Cash Equivalents - Beginning of year	1,737,042	1,401,338
Cash and Cash Equivalents - End of year	**$ 2,225,495**	**$ 1,737,042**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 132,755	$ 325,724
Adjustments to reconcile operating income to net cash from operating activities:		
(Increase) decrease in assets:		
Reinsurance receivable	(553,278)	58,335
Accounts receivable	16,505	(25,720)
Increase (decrease) in liabilities:		
Losses and loss adjustment expense reserves	584,969	(105,476)
Reinsurance payable	162,589	78,513
Unearned premiums and membership fees	192,300	62,735
Accrued liabilities	(17,326)	43,727
Net cash provided by operating activities	**$ 518,514**	**$ 437,838**

The Notes to Financial Statements are an Integral Part of this Statement.

Note 1 - Nature of Entity and Significant Accounting Policies

Ohio School Plan (the "Plan") was organized in January 2002, as authorized by Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated, nonprofit association of its members and an instrumentality for each member for the sole purpose of enabling members of the Plan to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs, and other administrative services. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity for the purpose of enabling its members to obtain self-insurance through a jointly administered self-insurance fund. Members of the Plan include public school districts, educational service centers, joint vocational schools, centers of government, boards of developmental disabilities, and community colleges in the state of Ohio which are eligible to participate under applicable statute, ruling, or law subject to certain underwriting standards as deemed appropriate by the Plan and its administrator. The Plan had 260 participating members as of December 31, 2012.

The Plan was established to provide property, liability, automobile, violence, and other coverage to its members sold through designated agents in the state of Ohio. Coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. The Plan has agreed to pay judgments, settlements, and other expenses resulting from claims arising related to the coverage provided, in excess of the member's deductible.

The Plan has developed the policy forms and endorsements of coverage and sustainability reinsured these coverages. The individual members are only responsible for their self-retention (deductible) amounts that vary from member to member.

Premiums from members are recognized as revenue in the year to which they apply. Member premiums are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Claim losses, along with reinsurance premiums, commissions, and administrative costs are recorded as expenses. The estimated total cost of losses and loss adjustment expense is accrued based on the estimate of claims that will be ultimately filed for an insurance period.

The Plan shall cease activities upon a 3/4 vote of the board to such effect. Any assets or property of the Plan remaining after the Plan is completed shall be distributed as determined by the board to and among the current members at the date of termination.

The accompanying financial statements are presented using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities.

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

The Plan distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the Plan's principal ongoing operations. The principal operating revenue relates to members' premiums. Operating expenses include the cost of services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. Net investment earnings are reported as nonoperating income.

The members are charged an annual membership fee, which is based on a percentage of each member's annual premium and earned on a pro rata basis over the life of the policy. These fees are charged to cover professional fees, directors' travel and meeting expenses, and other administrative and marketing expenses. Written membership fees were $812,319 and $647,159 for the years ended December 31, 2012 and 2011, respectively.

The Plan has an agreement with Hylant Administrative Services, LLC (HAS) to provide underwriting, claim management, risk management, accounting, system support services, sales, and marketing for the Plan. All of these services are paid for by the Plan. HAS also coordinates reinsurance brokerage services for the Plan.

The Plan is comprised exclusively of Ohio public educational entities and boards of developmentally disabled. Although its exposure is concentrated to a single geographical area, such exposure is reduced by the practice of substantially reinsuring coverage provided.

Cash and Cash Equivalents - Cash and cash equivalents include cash and all liquid securities with maturities of 90 days or less when purchased.

Investments - Investments consist of U.S. government agency bonds and U.S. Treasury securities which are stated at fair value. Investment income, including changes in the fair value of investments, is recognized as nonoperating revenue in the statement of revenue, expenses, and changes in net position.

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Accounts Receivable - Receivables from members are stated at net invoice amounts. Receivables from reinsurers and for deductibles are computed based on the applicable treaty. Collectibility of balances is reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. Management has determined all amounts are collectible and no allowance for doubtful accounts is required.

Policy Acquisition Costs - The Plan does not defer agent commissions and certain other administration and underwriting expenses as ceding commissions received from the reinsurers have offset these costs. The net difference between the administration expenses and the ceding commissions does not vary with the individual issuance and maintenance of the contracts of insurance. Therefore, such costs are expensed as incurred. Agent commissions are 5 to 10 percent of gross premiums written, amounting to $564,917 and $469,987 for the years ended December 31, 2012 and 2011, respectively.

Losses and Loss Adjustment Expense Reserves - Losses and loss adjustment expense reserves represent the estimated liability for unpaid claims and related claims expenses from reported claims and claims incurred but not reported, net of salvage and subrogation. The length of time for which such costs must be estimated varies depending on the coverage. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims is implicit in the calculation as reliance is placed both on actual and industry data that reflects past inflation and on other factors that are considered appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. The Plan retains a qualified, independent actuary to perform an annual actuarial review of the risk retained by the Plan. It is at least reasonably possible that a material change in the estimate will occur within the near term; thus, the actual claims paid may be substantially different than these estimates. Any future adjustments to these amounts will affect the reported results of future periods.

Unearned Premiums - Unearned premiums represent the portion of net premiums written by the Plan related to the unexpired risk period of underlying policies. Net premiums are earned on a pro rata basis over the term of the related policies.

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Ceding Commissions - Ceding commissions total $2,259,667 and $1,879,947 for 2012 and 2011, respectively, and are computed at 20 percent of gross premiums written. Fees for all administrative, management, and brokerage-related services provided to the Plan are incurred at a cost of 10 to 15 percent of gross premiums written.

Risk Management - The Plan is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Plan has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Federal Income Tax Status - The Plan is a qualified investment plan under the applicable sections of the Internal Revenue Code. The Plan is required to file a federal income tax return; however, the income of the Plan is exempt under Section 115 of the Internal Revenue Code.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform to the current year presentation. Such reclassifications had no impact on the change in net position.

Accounting and Reporting Change - During the year, the Plan adopted GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, the term “net assets” is now referred to as “net position.” In addition, the pronouncement created the categories of deferred inflows of resources and deferred outflows of resources; however, the Plan has no items that meet those definitions.

Note 2 - Deposits and Investments

The Plan has established an investment policy, and the fundamental objectives are:

1. To preserve the capital in the investment portfolio;

2. To remain sufficiently liquid to enable the Plan to meet its cash flow requirements; and

3. To attain a market rate of return on the investments consistent with the constraints imposed by the Plan's capital preservation objective and cash flow considerations.

The Plan is permitted to invest in United States Treasury bills, notes, bonds, or any other obligations or securities issued by the United States Treasury or any other obligations guaranteed as principal and interest by the United States, bonds or other obligations of the State of Ohio, including the Ohio Subdivision's Fund, STAROhio, and commercial paper notes issued by an entity that has assets exceeding $500 million (limited to 25 percent of the total investment portfolio available for investment and written repurchase agreements with eligible financial institutions). All debt securities must be rated investment grade by a securities rating organization approved by the Securities and Exchange Commission. Money market mutual funds must have a quality rating of AAA or above.

Investment guidelines for cash and cash equivalents provide that managers using cash and cash equivalents in their portfolio are expected to adhere to the American Banking Association investment standards on security type, quality, and maturity for short-term investment funds (STIF), except for money market funds.

The Plan's investments are professionally managed and invested consistent with the safeguards and diversity which aim to, at a minimum, preserve overall portfolio principal. Investments are held in trust by US Bank. Robert W. Baird & Company, Inc. acts as the investment portfolio manager.

The Plan's cash and investments are subject to several types of risk, which are examined in more detail below:

Deposits

Cash and cash equivalents include an operating checking account and a security with a maturity of 90 days or less when purchased. Cash and cash equivalents totaled $2,225,495 and $1,737,042 at December 31, 2012 and 2011, respectively.

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan does not have a formal deposit policy for custodial credit risk of bank deposits. The Plan believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Plan evaluates each financial institution with which it deposits the Plan's assets and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Effective December 31, 2010 through December 31, 2012, the FDIC implemented the "Dodd-Frank Act" which altered the FDIC coverage to fully guarantee all noninterest-bearing transaction accounts, but restricted the guarantee to a maximum of $250,000 on accounts bearing nominal interest rates. Effective January 1, 2013, the FDIC will no longer fully guarantee noninterest-bearing accounts. At December 31, 2012 and 2011, the Plan had bank deposits of $2,179,410 and $1,554,756, respectively, which were uninsured and uncollateralized.

Investments - Investments are reported at fair value. As of December 31, 2012 and 2011, the Plan had the following investments:

	Fair Value	
	2012	2011
U.S. government agency bonds	$ 1,372,261	$ 1,556,177
U.S. Treasury securities	230,099	-
Total fair value of portfolio	$ 1,602,360	$ 1,556,177

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the custodian, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2012 and 2011, all of the Plan's investments were held by the investment's counterparty.

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy requires any investment to mature within five years from the date of settlement as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, the Plan had the following investments subject to interest rate risk:

	2012		2011	
Investment Type	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
U.S. government agency bonds	$ 1,372,261	2.09	$ 1,556,177	1.32
U.S. Treasury securities	230,099	1.33	-	N/A
Money market funds	5,300	N/A	4,554	N/A

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligations. The Plan's investments consist of U.S. government agency bonds that have a credit quality rating of AAA as of December 31, 2012 and 2011. The rating organization used by the Plan to rate its investments is Standard & Poor's.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Plan's investment policy does not place a limit on the amount it may invest in any single issuer. At December 31, 2012, the Plan had investments of $585,746 in Federal Home Loan Bank, $415,331 in Freddie Mac, and $601,282 in Fannie Mae; these investments represent 37 percent, 26 percent, and 38 percent, respectively, of the Plan's total investments. At December 31, 2011, the Plan had investments of $540,367 in Federal Home Loan Bank, $455,387 in Freddie Mac, and $560,423 in Fannie Mae; these investments represent 35 percent, 29 percent, and 36 percent, respectively, of the Plan's total investments.

Note 3 - Losses and Loss Adjustment Expense Reserves

The Plan establishes reserves for unpaid losses and loss adjustment expense for both reported and unreported insured events. A summary of changes in the losses and loss adjustment expense reserves for the Plan for the years ended December 31, 2012, 2011, and 2010 is as follows:

	2012	2011	2010
Unpaid losses and loss adjustment expense - Beginning of fiscal year	$ 694,690	$ 800,166	$ 774,563
Incurred losses and loss adjustment expense:			
Provision for insured events of the current fiscal year	605,673	673,859	700,638
Change in provision for insured events of prior fiscal years	908,289	423,911	404,233
Total incurred losses and loss adjustment expense	1,513,962	1,097,770	1,104,871
Payments:			
Losses and loss adjustment expense attributable to insured events of the current fiscal year	194,955	395,878	392,638
Losses and loss adjustment expense attributable to insured events of prior fiscal years	734,038	807,368	686,630
Total payments	928,993	1,203,246	1,079,268
Unpaid losses and loss adjustment expense - End of fiscal year	$ 1,279,659	$ 694,690	$ 800,166

During 2012 and 2011, there were adverse developments in incurred losses and loss adjustment expense due to prior year incurred amounts that related to the run-out of underlying property policies.

Note 4 - Reinsurance Coverage

With the exception of the Plan's property reinsurance treaty and the paid loss corridor deductible, the Plan fully reinsures its coverage with various reinsurance companies. Effective November 1, 2004, casualty and auto liability coverages were reinsured up to a limit of $5,000,000 per occurrence, per member. Effective March 15, 2003, the Plan began offering property coverage to its members. These coverages are reinsured up to a limit of $250,000,000 per occurrence. The Plan has the ability to access additional property reinsurance capacity if needed.

Note 4 - Reinsurance Coverage (Continued)

Effective January 1, 2004, the Plan elected to participate in a paid loss ratio corridor deductible in its first $1 million layer of casualty reinsurance. The corridor includes losses paid between 65 and 80 percent of premiums earned under this treaty. If the Plan's paid loss ratio reaches 65 percent, the Plan would pay all losses incurred related to this treaty up to the next 15 percent of premiums earned. Reinsurance coverage would resume after a paid loss ratio of 80 percent is exceeded. Effective November 1, 2006, the Plan's loss corridor includes losses paid between 65 and 73 percent of premium earned under this treaty. Effective November 1, 2007, the Plan's loss corridor includes losses paid between 70 and 74 percent of premium earned under this treaty. Effective November 1, 2008, the Plan's loss corridor includes losses paid between 75 and 79 percent of premium earned under this treaty. Effective November 1, 2009, the Plan's loss corridor includes losses paid between 80 and 85 percent of premium earned under this treaty.

Effective July 1, 2007, the Plan began retaining 100 percent of the first $150,000 layer of property reinsurance. The Plan's annual loss aggregate under this property treaty is $750,000. Effective July 1, 2008, the Plan continued to retain 100 percent of the first $150,000 layer of property reinsurance. The Plan's annual loss aggregate under this property treaty is $800,000. Effective July 1, 2009, the Plan's retention remained 100 percent of the first $150,000 layer of property. The Plan's annual loss aggregate under this property treaty is $1 million. Effective July 1, 2010, the Plan's retention remained 100 percent of the first $150,000 layer of property. The Plan's annual loss aggregate under this property treaty is $1.2 million. Effective July 1, 2011, the Plan's annual loss aggregate under this property treaty is $1.5 million. Effective July 1, 2012, the Plan's annual loss aggregate under this property treaty is $1.75 million.

In the event that the reinsurance company should be unable to meet its obligations under the existing reinsurance agreements, the Plan would be liable for such defaulted amounts. Conversely, should the Plan be unable to meet its obligations, amounts due the Plan under reinsurance contracts shall be payable by the reinsurers on the basis of the liability of the Plan under the original Plan policies reinsured without diminution.

The Plan evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. Premiums ceded to reinsurance carriers during the years ended December 31, 2012 and 2011 totaled $8,012,356 and $6,398,083, respectively.

Note 5 - Commitments and Contingencies

The individual members of the Plan are named as defendants in various lawsuits. These actions were considered by the Plan in establishing its losses and loss adjustment expense reserves. The Plan believes the ultimate disposition of these and other pending lawsuits against the Plan's members will not materially impact the Plan's financial position, results of operations, or cash flows.

Note 6 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which is required to be implemented for financial statements for periods beginning after December 15, 2012. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The Pool is currently evaluating the impact this standard will have on the financial statements when adopted during the Plan's 2013 fiscal year.

Required Supplemental Information

Required Supplemental Information
Schedule of Claims Information for Casualty and Property Lines of Coverage

The tables on the following pages illustrate how the Plan's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Plan as of the end of each of the last 10 years. The rows of the tables are defined as follows:

(1) This line shows the total of each fiscal year's gross earned premium revenue and investment revenue, premium revenue ceded to reinsurers, and net earned premium revenue and reported investment revenue.

(2) This line shows each fiscal year's other operating costs, including overhead and claims expense not allocable to individual claims.

(3) This line shows the gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and allocated 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 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

(5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

(6) This section of 10 rows shows how each policy year's net incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.

(7) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Required Supplemental Information
Schedule of Claims Information for Casualty Lines of Coverage

The Plan commenced operations in 2002 and was fully reinsured in 2002 and 2003. Beginning in March 2003, the Plan began offering property coverage to its members. The Plan's net casualty exposure is associated with various casualty corridors beginning in 2004. The Plan's fiscal year ends December 31 and the policy year ends June 30. Required contributions and investment income and unallocated expenses are reported on a fiscal year and include both lines of coverage.

Fiscal Year Ended December 31	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(1) Required premiums and investment revenue:										
Earned	$ 10,051,064	$ 11,272,623	$ 12,509,385	$ 11,512,205	$ 9,317,535	$ 9,237,992	$ 8,316,306	$ 8,626,386	$ 9,966,003	$ 12,155,145
Ceded	(7,704,333)	(8,633,826)	(9,693,397)	(8,469,541)	(6,235,177)	(5,812,842)	(5,133,685)	(5,428,996)	(6,398,083)	(8,012,356)
Net earned	2,346,731	2,638,797	2,815,988	3,042,664	3,082,358	3,425,150	3,182,621	3,197,390	3,567,920	4,142,789
(2) Unallocated expense	2,407,657	2,386,438	2,417,723	2,506,516	2,107,788	2,018,781	1,808,421	1,898,243	2,133,343	2,489,281
Policy Year Ended June 30										
(3) Estimated incurred losses and expense, end of policy year:										
Incurred	5,664,340	5,104,104	5,250,727	2,296,966	2,040,269	1,562,028	1,286,439	1,634,276	2,301,660	2,291,714
Ceded	(5,664,340)	(5,104,104)	(5,250,727)	(2,296,966)	(1,828,379)	(1,562,028)	(1,286,439)	(1,538,278)	(2,248,233)	(2,291,714)
Net incurred	-	-	-	-	211,890	-	-	95,998	53,427	-
(4) Net paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	-	-	-	-	-	-	-	-	-	
Two years later	-	-	-	-	-	-	-	-		
Three years later	-	-	-	-	-	-	-			
Four years later	-	-	-	-	-	-				
Five years later	-	-	-	-	-					
Six years later	-	-	-	-						
Seven years later	-	-	-							
Eight years later	-	-								
Nine years later	-									
(5) Re-estimated ceded losses and expense	1,747,504	2,775,098	2,385,183	1,965,800	3,187,043	2,440,422	2,975,498	3,112,248	4,224,018	2,291,714
(6) Re-estimated incurred losses and expense:										
End of policy year	-	-	-	-	211,890	-	-	95,998	53,427	-
One year later	-	-	254,040	-	292,865	178,843	3,917	169,135	224,924	
Two years later	-	-	-	-	392,251	-	-	169,135		
Three years later	-	-	-	-	392,251	-	-			
Four years later	-	-	-	-	194,146	-				
Five years later	-	-	-	-	162,146					
Six years later	-	-	-	-						
Seven years later	-	-	-							
Eight years later	-	-								
Nine years later	-									
(7) Change in estimated incurred losses and expense, End of policy year	-	-	-	-	(49,744)	-	-	73,137	171,497	-

Required Supplemental Information
Schedule of Claims Information for Property Lines of Coverage

The Plan commenced operations in 2002 and was fully reinsured in 2002 and 2003. Beginning in March 2003, the Plan began offering property coverage to its members. The Plan's net casualty exposure is associated with various casualty corridors beginning in 2004. The Plan's fiscal year ends December 31 and the policy year ends June 30. Required contributions and investment income and unallocated expenses are reported on a fiscal year and include both lines of coverage.

Fiscal Year Ended December 31	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(1) Required premiums and investment revenue:										
Earned	$ 10,051,064	$ 11,272,623	$ 12,509,385	$ 11,512,205	$ 9,317,535	$ 9,237,992	$ 8,316,306	$ 8,626,386	$ 9,966,003	$ 12,155,145
Ceded	(7,704,333)	(8,633,826)	(9,693,397)	(8,469,541)	(6,235,177)	(5,812,842)	(5,133,685)	(5,428,996)	(6,398,083)	(8,012,356)
Net earned	2,346,731	2,638,797	2,815,988	3,042,664	3,082,358	3,425,150	3,182,621	3,197,390	3,567,920	4,142,789
(2) Unallocated expense	2,407,657	2,386,438	2,417,723	2,506,516	2,107,788	2,018,781	1,808,421	1,898,243	2,133,343	2,489,281
Policy Year Ended June 30										
(3) Estimated incurred losses and expense, end of policy year:										
Incurred	-	803,914	642,784	960,601	14,380,753	1,361,738	1,985,553	6,457,211	1,656,291	2,068,345
Ceded	-	(803,914)	(642,784)	(960,601)	(14,005,753)	(611,738)	(1,185,553)	(5,457,211)	(456,291)	(672,083)
Net incurred	-	-	-	-	375,000	750,000	800,000	1,000,000	1,200,000	1,396,262
(4) Net paid (cumulative) as of:										
End of policy year	-	-	-	-	375,000	750,000	800,000	1,000,000	1,200,000	1,127,916
One year later	-	-	-	-	375,000	750,000	800,000	1,000,000	1,200,000	
Two years later	-	-	-	-	375,000	750,000	800,000	1,000,000		
Three years later	-	-	-	-	375,000	750,000	800,000			
Four years later	-	-	-	-	375,000	750,000				
Five years later	-	-	-	-	375,000					
Six years later	-	-	-	-						
Seven years later	-	-	-							
Eight years later	-	-								
Nine years later	-									
(5) Re-estimated ceded losses and expense	-	592,794	666,852	894,022	16,760,661	476,186	1,062,278	5,484,169	447,774	672,083
(6) Re-estimated incurred losses and expense:										
End of policy year	-	-	-	-	375,000	750,000	800,000	1,000,000	1,200,000	1,396,262
One year later	-	-	-	-	375,000	750,000	800,000	1,000,000	1,200,000	
Two years later	-	-	-	-	375,000	750,000	800,000	1,000,000		
Three years later	-	-	-	-	375,000	750,000	800,000			
Four years later	-	-	-	-	375,000	750,000				
Five years later	-	-	-	-	375,000					
Six years later	-	-	-	-						
Seven years later	-	-	-							
Eight years later	-	-								
Nine years later	-									
(7) Change in estimated incurred losses and expense, End of policy year	-	-	-	-	-	-	-	-	-	-

Required Supplemental Information
Statement of Reconciliation of Net Losses and Loss Adjustment Expense by Type of Contract

	Fiscal and Policy Years Ended December 31					
	2012			2011		
	Casualty	Property	Total	Casualty	Property	Total
Net losses and loss adjustment expense - Beginning of fiscal year	$ 416,715	$ 277,975	$ 694,690	$ 492,166	$ 308,000	$ 800,166
Incurred losses and loss adjustment expense:						
Provision for insured events of the current fiscal year	-	605,673	605,673	-	673,859	673,859
Change in provision for insured events of prior fiscal years	139,497	768,792	908,289	(75,451)	499,362	423,911
Total incurred losses and loss adjustment expense	139,497	1,374,465	1,513,962	(75,451)	1,173,221	1,097,770
Payments:						
Losses and loss adjustment expense related to insured events of the current year	-	194,955	194,955	-	395,878	395,878
Losses and loss adjustment expense related to insured events of prior fiscal years	-	734,038	734,038	-	807,368	807,368
Total payments	-	928,993	928,993	-	1,203,246	1,203,246
Net losses and loss adjustment expense - End of year	**$ 556,212**	**$ 723,447**	**$ 1,279,659**	**$ 416,715**	**$ 277,975**	**$ 694,690**

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*

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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*

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United Statements, the basic financial statements of Ohio School Plan (the "Plan") as of and for the year ended December 31, 2012, and related notes to the basic financial statements, and have issued our report thereon dated April 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, which we consider to be a significant deficiency. We also noted certain matters that we reported to management of the Plan in a separate letter dated April 25, 2013.

To the Board of Directors
Ohio School Plan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ohio School Plan's basic financial statements are free from 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*.

Ohio School Plan's Response to Findings

Ohio School Plan's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Ohio School Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

April 25, 2013

Reference Number	Findings
2012-1	**Finding Description** - Lack of adequate independent review

Finding Type - Significant deficiency

Criteria - Section Po20, paragraph .116 of the Governmental Accounting Standards Board codification states that premiums should be recognized as revenue over the contract period in proportion to the amount of risk protection provided.

Conditions - Earned premiums for the one member were not recorded in accordance with generally accepted accounting principles (GAAP).

Context - For earned premiums, the first installment billed for the quarter ended September 30, 2012, representing 40 percent of the premium, was not properly recognized pro rata over the contract period. In addition, the installment billed for the quarter ended December 31, 2012 was not recorded properly in 2012 due to an error in system parameters. This installment was entered into the system with an effective date of January 1, 2013.

Cause - An independent review of unique transactions was not performed.

Effect - Premium revenue was understated by $18,719 and unearned premiums were overstated by $16,230. The net impact of the error in recording premiums, including adjustments for related commissions and ceded premiums, was a $22,203 understatement of net position.

Recommendation - Controls should be implemented to ensure independent review and verification of nonstandard installment plan billings are appropriately accounted for within the system and the financial statements in accordance with generally accepted accounting principles. These controls should include reconciliation of amounts recorded to supporting documentation and independent management review of all amounts recognized, including all relevant contracts, agreements, or other relevant documentation.

Reference Number	Findings
2012-1 (Continued)	**Views of Responsible Officials and Planned Corrective Actions** - We have corrected the understatement of net position noted above which is included in the financial statements presented to the board. In addition, we have reviewed the matter in detail and have noted that the incident noted above was isolated only to installments and only occurred on one client billing for the entire year. During 2012, the Plan exercised, and continues to exercise, the use of mitigating review controls to ensure that a matter such as that noted above could never be pervasive and existent on a material number of transactions such that they would go undetected. While the issue is deemed significant in the eyes of auditing standards, we strongly believe that, considering the isolated nature and the fact of its occurrence on only one billing, the item is not indicative of a lack of oversight, or lack of administrative reviews or controls by our staff. We are currently addressing the systems issue and will do everything we can to ensure what we believe is a relatively minor misstatement does not recur.

Dave Yost • Auditor of State

OHIO SCHOOL PLAN

LUCAS 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
MAY 16, 2013

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