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November 26, 2013

Cindy Donovan, Commissioner
Indiana Political Subdivision Risk Management Commission
311 West Washington St., Ste 300
Indianapolis, IN 46204

Dear Ms. Donovan:

We have received the audit report prepared by Somerset, Certified Public Accountants, for the period January 1, 2012 to December 31, 2012. Per the auditors' opinions, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly, in all material respects, the financial position of the Indiana Political Subdivision Risk Management Commission Funds as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

**INDIANA POLITICAL SUBDIVISION
RISK MANAGEMENT COMMISSION
Financial Statements
Year Ended December 31, 2012**

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION

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Independent Auditors' Report

To the Board of Directors
INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Indianapolis, Indiana

We have audited the accompanying financial statements of INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION (IPSRMC), which comprise the statement of net position as of December 31, 2012, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Architecture/Engineering
Assurance
Business Advisory
Construction
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Dental

Employee Benefits
Entrepreneurial
Health Care
Information Solutions
Litigation, Valuation & Forensic

Manufacturing & Distribution
Not-for-Profit
Real Estate
Small Business
Tax
Wealth Management



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

The Management's Discussion and Analysis presented on pages 3 to 5 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplemental information; however, we did not audit the information and express no opinion on it.

Also, the supplementary schedules of historical information presented on pages 13 to 14 of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information was not subjected to the auditing procedures applied in our audit of the basic financial statements and; accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Somers CPA PC". The signature is written in a cursive, flowing style.

August 16, 2013

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION

Management's Discussion and Analysis (Unaudited)

December 31, 2012

This section of the Indiana Political Risk Management Commission (IPSRMC) annual financial report presents management's discussion and analysis of IPSRMC's financial performance during the calendar year ended December 31, 2012. This information should be read in conjunction with the IPSRMC's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Proceeds from premiums earned during the year totaled \$139,292, which consisted of \$100,017 and \$39,275 for the risk management and the catastrophic fund, respectively.
- Legal fees and claims totaled \$59,996, including an amount of \$40,000 paid to settle a claim.
- Management fees totaled \$75,000.
- Public officials insurance totaled \$61,032.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and notes, as well as, other supplementary information. The IPSRMC follows enterprise fund reporting; accordingly, the financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the IPSRMC. These statements are presented in a manner similar to a private business.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about IPSRMC's financial status and the change in financial status. The Statement of Net Position includes all of the IPSRMC's assets, liabilities and net position. Assets and liabilities are classified as either current or noncurrent. The Statement of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time period. The Statement of Cash Flows reports the cash provided and used by operating activities as well as other cash sources and uses. The financial statements also include notes that explain and support the information in the statements and are followed by a section of supplementary information that further details the Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Management's Discussion and Analysis (Unaudited)
December 31, 2012

FINANCIAL ANALYSIS

The following table is a condensed summary of financial information for the calendar year ended December 31, 2012.

	<u>2012</u>
Net Position	
Current assets	\$ 9,511,505
Total Assets	9,511,505
Current liabilities	50,231
Total Liabilities	50,231
Unrestricted	9,461,274
Total Net Position	\$ 9,461,274
Revenues, Expenses and Changes in Net Position	
Operating revenues:	
Investment income	\$ 32,674
Premiums earned	139,292
Deductible received	5,000
Total Operating Revenues	176,966
Operating expenses:	
Management fees	75,000
Legal fees and claims	59,996
General and administrative fees	71,940
Total Operating Expenses	206,936
Operating Loss	(29,970)
Change in Net Position	(29,970)
Net Position, Beginning of Year	9,491,244
Net Position, End of Year	\$ 9,461,274

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Management's Discussion and Analysis (Unaudited)
December 31, 2012

POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION

Management's Discussion and Analysis(Unaudited)

December 31, 2012

STATEMENT OF NET POSITION

Total assets and total liabilities, and net position increased by approximately \$43,000 in 2012 from 2011. The increase is primarily due to increase in premiums received resulting from two additional members in the "Catastrophic Fund" and one additional member in the "Basic Fund" during 2012. Included in total assets are cash and cash equivalents, accrued interest receivable and investments. Accordingly, accrued expenses are included in current liabilities as well.

Statement of Net Position Reconciliation - 2012

Total Assets as of December 31, 2011	\$ 9,496,244
Increase in investments	15,261
Total Assets as of December 31, 2012	\$ 9,511,505
Total Liabilities and Net Position as of December 31, 2011	\$ 9,496,244
Increase in accrued expenses	15,261
Total Liabilities and Net Position as of December 31, 2012	\$ 9,511,505

Operating revenues consist of investment income earned on investments, premiums and deductibles received. Premiums received increased 13% from prior year.

Operating expenses include commissions, management fees, legal fees and claims, public officials insurance and general expenses. Management fees increased 32%, legal fees and claims increased 200%. The increase in public officials insurance was due to the payment of premiums for 2011 and 2012 during 2012. The increase in legal fees and claims was attributed to the payment of a \$40,000 settlement.

Management of IPSRMC continues to monitor the level of reserves maintained and feels there are sufficient assets to protect the fund and satisfy its obligations into the future. IPSRMC has not maintained re-insurance since 2007 due to what it believes is sufficient reserves. Management continues to monitor the current status of any claims activity and may at some point in the future decide to again carry such insurance. Presently, management feels there are no other significant concerns that could affect the entity in a material manner.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION

Statement of Net Position

December 31, 2012

	Risk Management Fund	Catastrophic Liability Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and short-term investments	\$ 1,175,418	\$ 8,330,823	\$ 9,506,241
Accrued investment income	0	5,264	5,264
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,175,418</u>	<u>\$ 8,336,087</u>	<u>\$ 9,511,505</u>
Liabilities			
Accrued expenses	\$ 50,231	\$ 0	\$ 50,231
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>50,231</u>	<u>0</u>	<u>50,231</u>
Net Position			
Unrestricted	528,312	8,336,087	8,864,399
Unrestricted contributed surplus	596,875	0	596,875
	<u> </u>	<u> </u>	<u> </u>
Total Unrestricted	<u>1,125,187</u>	<u>8,336,087</u>	<u>9,461,274</u>
Total Net Position	<u>1,125,187</u>	<u>8,336,087</u>	<u>9,461,274</u>
Total Liabilities and Net Position	<u>\$ 1,175,418</u>	<u>\$ 8,336,087</u>	<u>\$ 9,511,505</u>

See accompanying notes.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2012

	Risk Management Fund	Catastrophic Liability Fund	Total
Revenues			
Premiums earned	\$ 100,017	\$ 39,275	\$ 139,292
Deductible received	5,000	-	5,000
Investment income	4,185	28,489	32,674
	109,202	67,764	176,966
Expenses			
Commissions	7,818	3,040	10,858
Management fees	54,000	21,000	75,000
Legal fees and claims	59,996	-	59,996
Public officials insurance	43,943	17,089	61,032
General expenses	36	14	50
	165,793	41,143	206,936
Excess (Deficit) of Revenues Over Expenses	(56,591)	26,621	(29,970)
Net Position at Beginning of Year	1,181,778	8,309,466	9,491,244
Net Position at End of Year	\$ 1,125,187	\$ 8,336,087	\$ 9,461,274

See accompanying notes.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION

Statement of Cash Flows

For the Year Ended December 31, 2012

	<u>Risk Management Fund</u>	<u>Catastrophic Liability Fund</u>	<u>Total</u>
Net Cash from Operating Activities			
Excess (deficit) of revenues over expenses	\$ (56,591)	\$ 26,621	\$ (29,970)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash from operating activities:			
Change in net assets and liabilities:			
Decrease in accrued investment income	0	1,414	1,414
Increase in accrued expenses	45,231	0	45,231
	<u>(11,360)</u>	<u>28,035</u>	<u>16,675</u>
Net change in cash and investments			
Cash and Investments at Beginning of Year	<u>1,186,778</u>	<u>8,302,788</u>	<u>9,489,566</u>
Cash and Investments at End of Year	<u>\$ 1,175,418</u>	<u>\$ 8,330,823</u>	<u>\$ 9,506,241</u>

See accompanying notes.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Notes to Financial Statements
December 31, 2012

Note A - Nature of Operations and Summary of Significant Accounting Policies:

Business Activity

The financial statements include the accounts of the Political Subdivision Risk Management Fund (Basic Fund or Risk Management Fund) and the Political Subdivision Catastrophic Liability Fund (Catastrophic Fund). The funds are administered by the Indiana Political Subdivision Risk Management Commission (IPSRMC) and operate under authority created by the legislature of the State of Indiana. The funds were established to aid political subdivisions in protecting themselves against liabilities. Members may withdraw from the funds by providing written notice of their intent to withdraw 90 days prior to the end of the policy period. At December 31, 2012, there were three members participating in the Catastrophic Fund and three members in the Basic/Risk Management Fund.

Effective July 1, 1998, the legislature granted IPSRMC the authority to close the Basic Fund. The Basic Fund was suspended January 1, 1999. However, on February 12, 2003, IPSRMC reactivated the Basic Fund.

Basis of Presentation and Accounting

The financial statements of IPSRMC have been prepared on the accrual basis of accounting. Accordingly, the IPSRMC recognizes revenue in the period earned and expenses in the period incurred. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board.

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

In accordance with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the IPSRMC has applied all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB No. 20, the IPSRMC has elected not to comply with the FASB pronouncements issued subsequent to November 30, 1989. In addition, GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* has been implemented.

Additionally, the IPSRMC reports information regarding its net position according to three components of net position: net investment in capital, restricted and unrestricted. The IPSRMC had only the unrestricted component of net position as of December 31, 2012.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Notes to Financial Statements
December 31, 2012

Note A - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Investments

Investments are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at December 31, 2012, fair value approximates cost. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net position.

The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in prior year(s) and the current year.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Recognition of Premium Revenues

Annual premiums are recognized as revenues when they are received. IPSRMC has the authority to retroactively assess members for fund operating deficits. These special assessments are recognized as revenues when assessed.

Short-term Investments

IPSRMC deposits all funds with the Treasurer of State of Indiana for investment in interest-bearing accounts.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reserve for Losses and Other Claims

The decrease in memberships and insufficient past experience has precluded IPSRMC from making a reasonable estimate to reserve for losses incurred but not reported for loss adjustment expenses. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The maximum amounts payable for any liability of the Basic Fund is \$700,000 per person and \$1,000,000 per occurrence. Generally, the Catastrophic Fund covers liabilities in excess of primary coverage up to \$5,000,000.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Notes to Financial Statements
December 31, 2012

Note A - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Contributed Surplus

Contributed surplus represents annual assessments levied against members of the Basic Fund. There were no surplus assessments for 2012.

Income Taxes

The IPSRMC is exempt from federal and state income taxes.

Premium Receivable

IPSRMC accounts for premium receivable based on amounts billed to customers. Most billings and past due receivables are determined based on contractual terms. IPSRMC does not accrue interest on any of its premium receivable.

Subsequent Events

The Organization has evaluated subsequent events through August 16, 2013, the date on which the financial statements were available to be issued.

Note B - Reserve for Losses and Other Claims:

There was no activity in the reserve for losses for calendar year ending 2012. There was a \$40,000 settlement claim paid from the "Basic Fund" for the calendar year ending 2012.

Note C - Management Agreement:

IPSRMC renewed its management agreement with Public Risk Underwriters of Indiana, Inc., d/b/a Downey Insurance Services February 1, 2013, which expires January 31, 2015. Under terms of the agreement, Downey Insurance receives a flat management fee in the amount of \$75,000 per year. Total management fees for the year ending December 31, 2012, were \$75,000.

Note D - Insurance

As of December 31, 2012, the Basic Fund and Catastrophic Fund had not purchased reinsurance to reduce its exposure to claim settlements and related expenses. The last reinsurance policy purchased expired June 30, 2007.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Notes to Financial Statements
December 31, 2012

Note E - Fair Value Measurements:

IPSRMC has categorized its assets and liabilities that are measured at fair value, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. If the inputs used to measure the assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the assets and liabilities. Assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

- Level 1 - Assets or liabilities whose values are based on unadjusted quoted prices available in active markets for identical assets or liabilities.
- Level 2 - Assets or liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3 - Assets or liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

At December 31, 2012, IPSRMC assets and liabilities that are measured at fair value on a recurring basis were categorized as follows:

Assets at Fair Value as of December 31, 2012

	Level 1	Total
Money market funds	\$ 4,997,093	\$ 4,997,093
Mutual funds:		
Government bond	2,503,775	2,503,775
	\$ 7,500,868	\$ 7,500,868

The fair values of the money market funds, mutual fund shares and bonds were based on unadjusted quoted market prices. There have been no changes in the methodologies used at December 31, 2012.

At December 31, 2012, IPSRMC had no liabilities that are measured at fair value on a recurring basis.

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Supplemental Schedule of Historical Information - Basic
December 31, 1998 through 2012
(Unaudited)

Year	Premium Earned	Investment Income	Loss Adjustment Expenses, Net	Claims Paid	Totals	Cumulative
1988	\$ 355,897	\$ 18,530	\$ (557)	\$ 8,614	\$ 8,057	\$ 8,057
1989	353,016	31,009	17,246	433	17,679	25,736
1990	326,377	75,305	68,482	89,272	157,754	183,490
1991	159,986	77,194	60,539	59,862	120,401	303,891
1992	156,045	38,452	23,636	63,058	86,694	390,585
1993	128,167	26,165	46,737	90,027	136,764	527,349
1994	134,001	31,869	21,385	96,963	118,348	645,697
1995	118,375	37,159	52,093	22,660	74,753	720,450
1996	153,384	40,891	19,417	79,539	98,956	819,406
1997	83,879	5,070	44,188	18,165	62,353	881,759
1998	20,477	27,417	4,326	1,031	5,357	887,116
1999	0	33,110	75,492	0	75,492	962,608
2000	0	24,551	700	0	700	963,308
2001	0	29,252	0	0	0	963,308
2002	0	10,837	0	4,764	4,764	968,072
2003	0	5,757	0	10,781	10,781	978,853
2004	66,400	4,849	0	508	508	979,361
2005	66,400	17,790	0	708	708	980,069
2006	66,400	59,330	0	0	0	980,069
2007	66,400	62,499	0	0	0	980,069
2008	0	19,364	0	0	0	980,069
2009	0	6,754	0	0	0	980,069
2010	79,762	0	0	0	0	980,069
2011	90,763	38,182	0	0	0	980,069
2012	100,017	4,185	0	40,000	0	1,020,069

INDIANA POLITICAL SUBDIVISION RISK MANAGEMENT COMMISSION
Supplemental Schedule of Historical Information - Catastrophic
December 31, 1998 through 2012
(Unaudited)

Year	Premium Earned	Investment Income	Loss Adjustment Expenses, Net	Claims Paid	Totals	Cumulative
1988	\$ 568,509	\$ 15,785	\$ 0	\$ 0	\$ 0	\$ 0
1989	755,740	65,894	0	0	0	0
1990	859,866	84,919	357	0	357	357
1991	700,932	120,739	2,191	0	2,191	2,548
1992	626,592	62,738	0	0	0	2,548
1993	675,399	78,500	0	0	0	2,548
1994	662,181	112,992	0	0	0	2,548
1995	678,385	234,243	0	0	0	2,548
1996	717,908	243,361	4,608	1,311,663	1,316,271	1,318,819
1997	624,505	355,196	0	0	0	1,318,819
1998	514,988	207,894	39,385	0	39,385	1,358,204
1999	555,257	321,199	0	0	0	1,358,204
2000	590,279	235,940	0	0	0	1,358,204
2001	621,058	288,031	0	0	0	1,358,204
2002	573,509	110,751	0	0	0	1,358,204
2003	576,190	61,569	0	0	0	1,358,204
2004	593,873	49,026	0	0	0	1,358,204
2005	661,852	179,876	0	0	0	1,358,204
2006	481,617	370,603	0	0	0	1,358,204
2007	183,320	383,918	0	0	0	1,358,204
2008	63,989	220,735	0	0	0	1,358,204
2009	0	59,974	0	0	0	1,358,204
2010	54,953	14,267	0	0	0	1,358,204
2011	32,347	269,735	0	0	0	1,358,204
2012	39,275	28,489	0	0	0	1,358,204