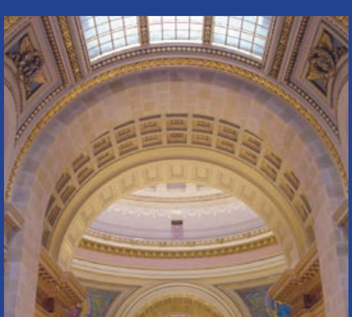
Report 15-16
November 2015

Local Government Property Insurance Fund

Office of the Commissioner of Insurance

State of Wisconsin


Legislative Audit Bureau

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STATE OF WISCONSIN
Legislative Audit Bureau

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Joe Chrisman
State Auditor

November 20, 2015

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by s. 13.94 (1) (de), Wis. Stats., we have completed a financial audit of the Local Government Property Insurance Fund, which is administered by the Office of the Commissioner of Insurance (OCI) and provides property insurance to counties, cities, towns, villages, school districts, and other units of local government. We conduct this audit at least once every three years.

We have provided an unmodified opinion on the Property Fund's financial statements for the fiscal years (FYs) ended June 30, 2014, June 30, 2013, and June 30, 2012. However, we note that the Property Fund is involved in a lawsuit with an excess-of-loss provider related to a $20.0 million loss at the Milwaukee County Courthouse. If the Property Fund does not prevail in the lawsuit, the Property Fund's net position may decline. We also note that OCI did not take steps to address our prior internal control concerns related to maintaining claims documentation in an orderly manner and applying aggregate deductibles. Further, we identified noncompliance with statutes related to assessing interest on past-due premiums. OCI indicates our concerns in these areas either have been or will be addressed.

As of June 30, 2014, the Property Fund insured $51.9 billion in property owned by 983 units of local government. The Property Fund's net position as of June 30, 2014, was a deficit of $703,000. Throughout FY 2014-15, and subsequent to the end of our audit period, the Property Fund's net position continued to decline, and OCI estimates the deficit was $5.9 million as of June 30, 2015. In September 2015, the Property Fund's cash was depleted and it borrowed $2.0 million from the General Fund, as required by statute. We recommend that OCI report certain information to the Joint Legislative Audit Committee by July 8, 2016, after which we will provide an interim update to the Legislature on the financial condition of the Property Fund.

We appreciate the courtesy and cooperation extended to us by OCI staff and the private contractors responsible for administration of the Property Fund.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/BN/ss

Introduction ■

The Local Government Property Insurance Fund was created from the State Property Insurance Fund in 1979.

The Local Government Property Insurance Fund (Property Fund), which is administered by the Office of the Commissioner of Insurance (OCI), was established in 1979 to insure government properties not owned by the State. It was created from the former State Property Insurance Fund, which made insurance coverage available to counties, cities, towns, villages, school districts, and library boards in 1911 and 1913, when it was difficult for these units of government to obtain reasonably priced coverage in the private sector.

OCI assigns one full-time employee to work with contractors that provide services for the Property Fund and to answer technical questions raised by contractors and policyholders. In addition, during our audit period, two OCI committees provided guidance in managing the Property Fund: the Advisory Committee, which consisted of representatives of participating units of local government; and the Oversight Committee, which consisted of OCI staff and representatives of the Advisory Committee. In September 2015, these committees were temporarily suspended while being reorganized into a single committee.

As of June 30, 2014, the Property Fund insured $51.9 billion in property owned by 983 units of local government.

The Property Fund makes property insurance available for local government property such as municipal buildings, schools, libraries, and motor vehicles. It covers property losses except, among other things, those resulting from flood, earthquake, wear and tear, extremes in temperature, mold, war, nuclear reactions, and embezzlement or theft by an employee. Examples of covered property losses include large-scale wind damage to a building and minor accidental damage to a car. The Property Fund does not advertise or pay sales commissions to insurance agents and does not actively solicit business. Units of local government generally become aware of the Property Fund by word of mouth or from information available on OCI's website. As of June 30, 2014, the Property Fund insured $51.9 billion in property owned by 983 units of local government, as shown in Table 1.

Table 1

Number of Policyholders by Unit of Local Government
As of June 30

Governmental Unit	2012	2013	2014
Counties	71	70	69
Cities	154	134	128
Towns	176	167	161
Villages	260	247	242
School Districts	295	274	252
Other	129	129	131
Total	**1,085**	**1,021**	**983**
Insurance in Force (in billions)	$51.2	$53.3	$51.9

Enrollment in the Property Fund declined from 1,085 units of local government as of June 30, 2012, to 983 as of June 30, 2014, or by 102. Factors that may have affected enrollment during our audit period include the availability of other insurance options in the market and increasing Property Fund premiums. Generally, the value of insurance in force increased during our audit period due to inflation and new construction. However, some of this increase was offset as some units of local government left the Property Fund.

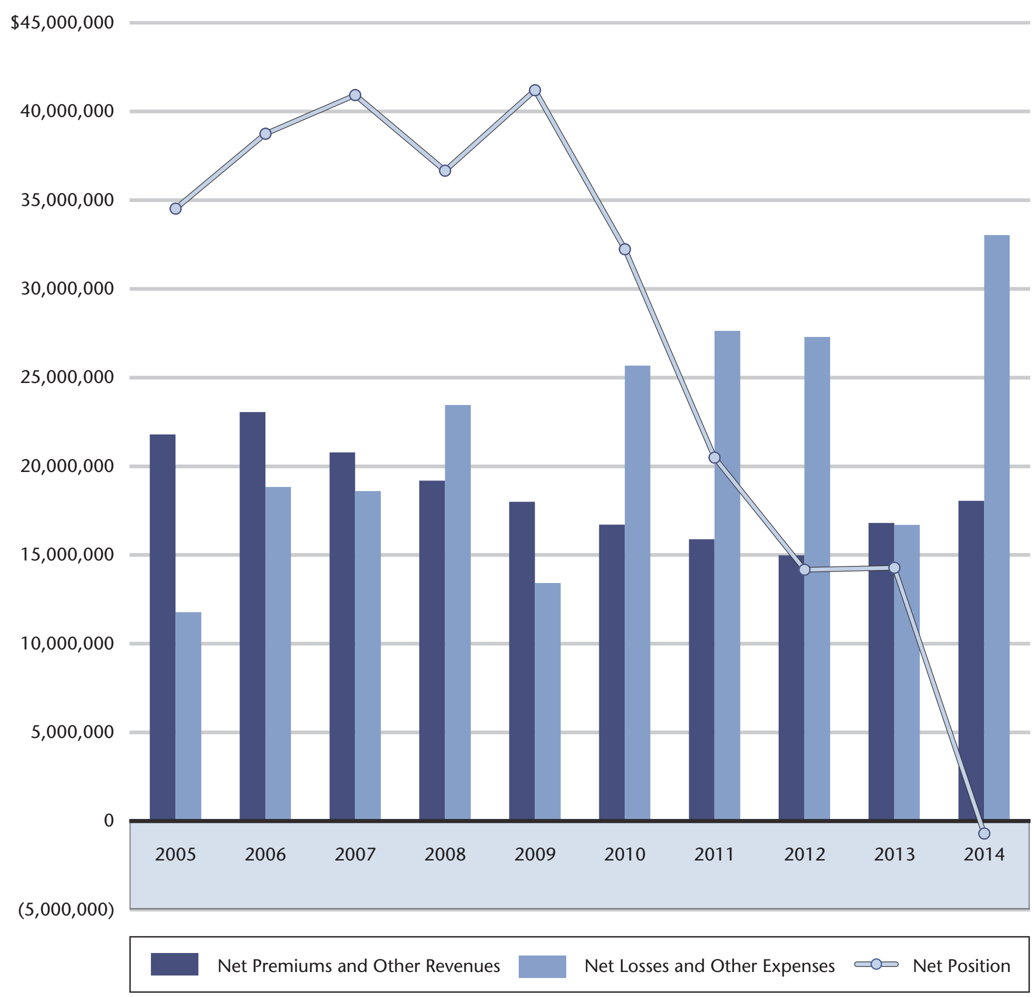
Financial Status

Units of local government that enroll in the Property Fund pay annual premiums based on the value of their insured property. When net premiums and other revenues exceed net losses and other expenses, the Property Fund's net position increases. When net losses and other expenses exceed net premiums and other revenues, the Property Fund's net position decreases. Ideally, the Property Fund's net position would be sufficient to ensure resources are available when unexpectedly large losses or a series of losses occur. If the Property Fund's cash balance becomes insufficient to pay claims, the Department of Administration must transfer from the General Fund, as provided under s. 605.30, Wis. Stats, an amount sufficient to pay the claims. The Property Fund must repay the General Fund as soon as cash is available.

From fiscal year (FY) 2004-05 through FY 2008-09, net premiums and other revenues exceeded net losses and other expenses in all years, except FY 2007-08, as shown in Figure 1. As a result, the Property Fund's net position, previously referred to as net assets, increased from $34.5 million at the end of FY 2004-05 to $41.2 million at the end of FY 2008-09.

Figure 1

Net Position
As of June 30



In recognition of the increasing surplus balance and challenging economic conditions during the last recession, the Legislature considered the establishment of a premium holiday for policyholders. In response, the Commissioner of Insurance declared a one-time $12.0 million dividend in FY 2009-10. As a result, the Property Fund's net position declined.

After the $12.0 million dividend was declared, significant insurance losses occurred in FY 2010-11, FY 2011-12, and FY 2013-14. As a result, net losses and other expenses significantly exceeded net premiums and other revenues, and the Property Fund's net position further deteriorated.

The Property Fund experienced its highest level of net losses in FY 2013-14, with $30.8 million in net losses.

Net losses reached a high of $30.8 million in FY 2013-14. Several fire-related losses contributed significantly to this amount, including a loss resulting from a fire at the Milwaukee County Courthouse in July 2013. As of September 30, 2015, this loss was estimated to be $20.0 million. The Property Fund maintains excess-of-loss insurance to limit its exposure in such circumstances. For this loss, the Property Fund paid a deductible of $1.8 million and received $5.0 million during FY 2013-14 from the excess-of-loss provider.

OCI is currently in litigation with an excess-of-loss provider over a loss at the Milwaukee County Courthouse.

OCI expects to be reimbursed by the excess-of-loss insurance provider for most of the remaining amount. However, there is a dispute as to the cause of the loss and regarding approximately $12.4 million paid by the Property Fund to Milwaukee County. Also, approximately $500,000 paid in loss adjustment expenses has not been reimbursed by the excess-of-loss provider. The Property Fund filed a lawsuit against the excess-of-loss provider in state court seeking recovery of these amounts. The lawsuit has since been moved to federal court. Although OCI staff believe the State will prevail, an estimate of the amount, if any, not collectible from the excess-of-loss provider is not available and will not be available until the lawsuit is resolved.

The Statement of Net Position reflects that the Property Fund anticipated collecting $12.5 million from the excess-of-loss provider as of June 30, 2014. The amount subsequently increased slightly to $12.9 million as of September 30, 2015, as additional invoices related to the claim were received. If this amount is not collected, the effect on the Property Fund's net position is unknown at this time. However, the net position may decline in the event the State does not prevail in the lawsuit. Although we express an unmodified opinion on the Property Fund's financial statements we emphasize that the final outcome of the lawsuit is not known.

Net Position

As of June 30, 2014, the Property Fund had a deficit balance of $703,000.

Because claims are unpredictable, an adequate surplus balance, or net position, is needed to ensure the Property Fund can pay claims while maintaining steady premium rates for local government policyholders. For insurance companies, in general, the Wisconsin Administrative Code requires that no single risk assumed by an insurance company may exceed 10 percent of its surplus balance. Because the Property Fund has excess-of-loss insurance coverage for individual claims or events exceeding $1.8 million, the minimum balance based on this measure is $18.0 million. The high level of claims incurred during recent years, along with the $12.0 million dividend declared in FY 2009-10, contributed to the deterioration in the Property Fund's net position, which has been less than $18.0 million since the end of FY 2011-12. As of June 30, 2014, which was the end of our audit period, the Property Fund was in a deficit position of $703,000.

OCI indicated that the Property Fund has a number of unique characteristics that warrant a larger surplus balance than is required for insurance companies under the Wisconsin Administrative Code. For example, unlike an insurance company, the Property Fund cannot refuse to insure riskier entities or cancel coverage. Further, the Property Fund is more susceptible to risks that cannot be offset by diversification because it cannot offer other types of insurance or offer insurance outside of Wisconsin.

The actual balance has been less than the minimum targeted balance since the end of FY 2010-11.

In monitoring the adequacy of an insurance fund balance, an insurance industry standard is to compare the level of premiums to the surplus (deficit) balance. In April 2009, the Property Fund formally established a targeted premium-to-surplus ratio of 1 to 2. In April 2010, the Property Fund reduced the targeted premium-to-surplus ratio to between 1 to 1.4 and 1 to 1.6, which means that, for every $1 in total premiums, the Property Fund seeks to have between $1.40 and $1.60 in surplus. As shown in Table 2, the actual balance (net position) has been less than the minimum targeted balance since the end of FY 2010-11.

Table 2

Minimum Targeted Balance Compared to Actual Balance[1]
As of June 30

Year	Total Premiums[2]	Minimum Targeted Balance	Actual Balance[1]	Difference
2008	$21,594,902	$30,232,863	$36,661,193	$ 6,428,330
2009	21,913,029	30,678,241	41,200,388	10,522,147
2010	21,272,008	29,780,811	32,237,915	2,457,104
2011	21,001,576	29,402,206	20,488,703	(8,913,503)
2012	21,304,624	29,826,474	14,174,647	(15,651,827)
2013	23,862,315	33,407,241	14,283,905	(19,123,336)
2014	26,229,047	36,720,666	(703,180)	(37,423,846)

[1] Actual balance based on net position.

[2] Does not reflect premiums paid to the Property Fund's excess-of-loss insurers, which reduce premiums shown in the financial statements.

In an effort to improve the Property Fund's net position, OCI established overall rate increases, including increases of 4.9 percent beginning July 1, 2011; 13.0 percent beginning July 1, 2012; 13.7 percent beginning July 1, 2013; and 11.9 percent beginning July 1, 2014.

Internal Control Issues

During the course of our audit, we identified three internal control issues. First, OCI did not implement our prior audit recommendation, and the documentation maintained electronically in the claims processing system continued to be unorganized. The lack of organization made it difficult to substantiate the claims payments made to units of local government without extensive effort.

Second, we found that the prior claims administrator did not follow OCI's written procedures in applying claims to the aggregate deductible. The order in which claims are applied towards the aggregate deductible can affect the total deductible amount paid by the units of local government.

Finally, we found that the policy administrator did not monitor accounts receivable and follow up to collect past-due amounts because of time restrictions. As a result, accumulated past-due premiums totaled $263,955 as of June 30, 2014. The policy administrator indicated that it did not comply with statutes requiring interest to be charged for past-due premiums because of the complexity of the interest calculation.

OCI management indicated that they are in the process of addressing the claims documentation and past-due premiums findings. Also, OCI indicated that the current claims administrator is applying the aggregate deductible correctly.

Events Subsequent to June 30, 2014

As noted, this audit considered the financial activity of the Property Fund for the fiscal years ending on June 30, 2014, June 30, 2013, and June 30, 2012. However, several noteworthy events occurred after June 30, 2014, and subsequent to our audit period. For example:

- As part of the 2015-17 biennial budget proposal, the Governor proposed no insurance coverage be issued by the Property Fund on or after July 1, 2015, no existing coverage be renewed after December 31, 2015, no coverage be terminated later than July 1, 2017, and no claim filed after July 1, 2017, be paid. However, these provisions were removed by the Legislature during its budget deliberations.

- OCI estimates that the deficit in the Property Fund increased to $5.9 million as of June 30, 2015. Further, the Property Fund's cash was depleted in September 2015, at which time it borrowed $2.0 million from the State's General Fund, as provided for under s. 605.30, Wis. Stats. We note that statutes do not establish a limit on the extent to which the Property Fund may borrow from the General Fund for purposes of paying claims when Property Fund assets are insufficient.

- OCI established an overall rate increase of 73.4 percent beginning July 1, 2015. In addition, OCI revalued its insurance in force, which will likely result in increased premium collections for some high-value properties. OCI also plans to begin using a new method to determine base insurance rates on July 1, 2016. OCI acknowledges that premium rate increases have led to decreased enrollment. The number of units of local government insured by the Property Fund declined from 983 as of June 30, 2014, to an estimated 955 as of June 30, 2015. OCI indicates that it intends to monitor premium rates at least every six months.

Given the deficit balance in the Property Fund, the potential for future borrowing from the General Fund, and a decrease in enrollment, we believe additional oversight of the Property Fund is warranted.

☑ Recommendation

We recommend the Office of the Commissioner of Insurance report by July 8, 2016, to the Joint Legislative Audit Committee on the sufficiency of the Local Government Property Insurance Fund's minimum targeted premium-to-surplus ratio and the steps taken to address the deficit balance and reach the targeted minimum balance.

Statutes require the Legislative Audit Bureau to audit the Property Fund at least once every three years. In the interim, we will review the information OCI submits to the Joint Legislative Audit Committee and will provide an update to the Legislature on the financial condition of the Property Fund.

▪ ▪ ▪ ▪

Audit Opinion ■

STATE OF WISCONSIN
Legislative Audit Bureau
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Celebrating 50 Years of Service 1966-2016

Joe Chrisman
State Auditor

Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the State of Wisconsin Local Government Property Insurance Fund as of and for the years ended June 30, 2014, June 30, 2013, and June 30, 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the Local Government Property Insurance Fund 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. 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 the 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 opinion on these financial statements.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Local Government Property Insurance Fund as of June 30, 2014, June 30, 2013, and June 30, 2012, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 2A to the financial statements, the financial statements referred to in the first paragraph present only the Local Government Property Insurance Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2014, June 30, 2013, and June 30, 2012, the changes in its financial position, or where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, management of the Local Government Property Insurance Fund implemented Governmental Accounting Standards Board (GASB) Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changed the format of its financial statements.

As discussed in Note 7 to the financial statements, the State of Wisconsin is party in a lawsuit with an excess-of-loss provider related to a loss involving the Milwaukee County Courthouse. Property Fund management believes that, as of September 30, 2015, the Property Fund is owed approximately $12.9 million from the excess-of-loss provider. The outcome of this lawsuit may result in a significant decline in the net position of the Local Government Property Insurance Fund.

Our opinion is not modified with respect to these matters.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Local Government Property Insurance Fund. The supplementary information included as Management's Discussion and Analysis on pages 17 through 29 and the Ten-Year Claims Development Information on pages 49 through 51 are not required parts of the financial statements of the Local Government Property Insurance Fund, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. However, 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 do so.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2015, on our consideration of the Local Government Property Insurance Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; 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 used when considering the Local Government Property Insurance Fund's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Joe Chrisman
State Auditor

November 9, 2015

Management's Discussion and Analysis ▪

Prepared by Management of the Local Government Property Insurance Fund

Management's Discussion and Analysis is an element of the financial reporting model adopted by the Governmental Accounting Standards Board (GASB). This section presents management's discussion and analysis of the financial performance of the Local Government Property Insurance Fund during the fiscal years (FYs) ended June 30, 2014, June 30, 2013, and June 30, 2012. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of the Property Fund.

Overview of the Fund

The Property Fund is a segregated fund administered by the State of Wisconsin, Office of the Commissioner of Insurance (OCI). The Property Fund was created to provide units of local government access to reasonably priced mono-line property insurance coverage for government buildings, schools, libraries, motor vehicles, and other property. The Property Fund provides policy and claim service to the policyholders. It does not have agents, does not advertise, and is not permitted to selectively underwrite risks. Otherwise, it operates like an insurance company by collecting premiums from its policyholders and paying losses when they occur. It also incurs costs or expenses to service policies and to adjust or settle loss claims. Participation in the Property Fund is voluntary and requires that a local unit of government submit an approved resolution authorizing coverage. A unit of local government may terminate coverage at any time by a majority vote of its governing board and by certifying such action to the Property Fund.

The Commissioner of Insurance acts as the Fund Administrator with the support of the Insurance Program Manager, who is a full-time OCI staff member, and various contracted vendors. The Property Fund was administered by two contracted companies during the audit period. The policy administrator was located in Madison, Wisconsin, and the claims administrator was located in Brookfield, Wisconsin. During the audit period, Property Fund management was also supported by the Property Fund's Advisory Committee and Oversight Committee.

The Oversight Committee consisted of six members: four OCI staff members and two representatives from the Advisory Committee. The Oversight Committee reviewed recommendations on policies and procedures from the Advisory Committee and made recommendations to the Commissioner as to the management and operational activities of the Property Fund. The Oversight Committee generally met two times per year to formulate its recommendations to the Commissioner.

The Advisory Committee was a 21-member committee consisting of representative members insured by the Property Fund. The Advisory Committee made recommendations to the Oversight Committee on policies, procedures, and items of members' interest regarding operations of the Property Fund. The Advisory Committee also generally met two times per year. The Advisory Committee had established six subcommittees that included both members of the Advisory Committee and other policyholders. The subcommittees were Bylaws, Policy and Underwriting, Rate Analysis, Loss Control and Claims, Information Technology, and Excess-of-Loss.

The Property Fund operates on a July 1 through June 30 fiscal year basis. Administrative, operating, and claim costs are funded through direct premiums charged to policyholders. The Property Fund is unique in that it does not specifically underwrite each of the risks that are insured by the Property Fund. As noted, units of local government can participate in the Property Fund by passing a resolution to enter into the Fund, and cannot be rejected or terminated by the Fund itself. The Property Fund's insurance in force represents property that is insured against loss. To reduce insurance risk, the Property Fund purchases excess-of-loss coverage, analogous to "reinsurance," through an insurance broker.

Policy Count and Insurance in Force

The State has provided a stable property insurance outlet for Wisconsin units of local government dating back to the early 1900s. Table A shows the Property Fund's policy counts and insurance in force as of June 30, 2014, June 30, 2013, June 30, 2012, and June 30, 2011.

Table A

Key Financial Statistics
Fiscal Year Ended June 30

	2014	2013	2012	2011
Policies	983	1,021	1,085	1,124
Insurance in Force	$51.9 billion	$53.3 billion	$51.2 billion	$50.0 billion

As of June 30, 2014, 983 policyholders were insured: 128 cities, 69 counties, 252 school districts, 161 towns, 242 villages, and 131 miscellaneous local government tax-supported entities (such as library boards and water, sanitation or fire department districts). Additionally, the Property Fund began writing builder's risk policies during FY 2009-10 for new building construction and renovations. These policies are not included in the count above as they are written in addition to the coverage for the various policies above. The number of builder's risk policies has fluctuated since inception in FY 2009-10. There were 61 builder's risk policies as of June 30, 2014.

The Property Fund's total insurance in force has increased 4 percent since June 30, 2011. The upward trend is primarily due to inflationary increases in the insurance property base and new construction over the last several years.

Financial Statements

The Property Fund's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The Property Fund also prepares statutory basis financial statements as prescribed by OCI for internal management purposes and files with OCI an annual statement in the form prescribed by the National Association of Insurance Commissioners (NAIC). The differences between the statutory financial statements and those prepared in accordance with generally accepted accounting principles (GAAP) have not been material in prior years, with the primary differences being: 1) investments are recorded at amortized cost for the statutory statements and at market value for the GAAP statements, 2) receivables due from policyholders are recorded net of any amounts owed to the Property Fund greater than 90 days past due for the statutory statements and gross for the GAAP statements, and 3) estimated uncollectible amounts from excess-of-loss providers for amounts greater than 90 days past due under statutory accounting are not required under GAAP. The difference between statutory surplus and GAAP net position as of June, 30, 2014, was approximately $680,000 due to the change in receivables greater than 90 days past due and estimated uncollectible amounts from excess-of-loss insurers, with statutory surplus being lower than the GAAP net position. The GAAP-based financial statements are prepared based on the economic resources measurement focus and the full accrual basis of accounting, and consist of the following:

- the Statement of Net Position, which reports on all assets and liabilities of the Property Fund;
- the Statement of Revenues, Expenses, and Changes in Fund Net Position, which presents all revenues earned and expenses incurred during the year, as well as changes in fund net position; and
- the Statement of Cash Flows, which presents information related to cash inflows and outflows summarized by operating, noncapital financing, and investing activities.

The notes to the financial statements provide additional detail to accompany the information in the financial statements.

Financial Position

Assets

The Property Fund's assets consist primarily of excess-of-loss recoverables on paid claims under the excess-of-loss contract and cash and cash equivalents that are invested in the State Investment Fund (SIF), which is a short-term pool of state and local funds. The SIF is managed by the State of Wisconsin Investment Board in accordance with state statutes. The Property Fund also held fixed income securities during FY 2011-12. However, as of June 30, 2014, the Property Fund held no investments in fixed income securities. Other assets include premiums receivable from policyholders and accrued investment income.

Table B shows total assets decreased by $16.0 million, or 41.5 percent, from June 30, 2011, to June 30, 2014. Assets decreased due to increased claim payments as a result of significant loss experiences mainly from storm and fire activity. The increase in loss activity was funded from the Property Fund's holdings in the SIF.

Table B

Assets
As of June 30

	2014	2013	2012	2011
Cash and Cash Equivalents	$ 8,109,649	$26,964,366	$24,737,092	$21,163,586
Investments	0	0	5,558,750	16,305,787
Other Receivables	14,480,824	1,530,307	721,581	1,158,983
Total Assets	**$22,590,473**	**$28,494,673**	**$31,017,423**	**$38,628,356**
Change from Prior Year	(20.7)%	(8.1)%	(19.7)%	–

Liabilities

Table C shows total liabilities have increased by 28.4 percent from June 30, 2011, to June 30, 2014. As an insurance entity, the Property Fund's primary liabilities are unpaid loss liabilities and unearned premiums, which are recorded net of corresponding excess-of-loss coverage.

Table C

Liabilities
As of June 30

	2014	2013	2012	2011
Net Unpaid Loss Liabilities	$13,444,474	$ 8,965,078	$13,005,007	$13,374,614
Unearned Premiums	2,987,885	3,689,334	3,355,426	3,652,539
Dividend Payable	0	0	0	0
Other Current and Long-Term Liabilities	6,861,294	1,556,356	482,343	1,112,500
Total Liabilities	**$23,293,653**	**$14,210,768**	**$16,842,776**	**$18,139,653**
Change Total Liabilities from Prior Year	63.9%	(15.6)%	(7.1)%	–

The loss liabilities include amounts for individual case estimates for reported losses, as well as estimates for losses that were incurred but not yet reported. Loss liabilities also include a provision for the estimated future payment of losses and loss expenses associated with the outstanding claims from insured localities.

The unpaid loss liabilities are the amounts expected to be paid in the future for incidents that have already occurred. The unpaid loss liabilities can fluctuate based on whether there are significant loss claims, such as those for major fires or windstorms, open at the end of the fiscal year. Overall, the Property Fund experienced both an increase in severity and frequency of weather-related storms and fire losses in FY 2013-14 compared to FY 2012-13. As a result, net unpaid loss liabilities increased considerably as of June 30, 2014, compared to the amount as of June 30, 2013. The Property Fund incurred four fire losses and one weather-related storm event during FY 2013-14, each of which incurred losses that exceeded the excess-of-loss retention of $1.8 million. This resulted in the Property Fund recording additional recoveries from the excess-of-loss insurers. The Property Fund had an overall increase in the number of open claims at year end with 459 open claims as of June 30, 2014, compared to 343 for the prior year end. The increase in open claims is due to the increase in overall frequency of claims reported during the year as well as the timing of settlement of reported claims.

The following large events occurred in FY 2013-14 and FY 2011-12. A portion of the loss for each event was established as a liability as of June 30th for each corresponding fiscal year-end.

- On May 29, 2012, significant fire damage in the Siren School District resulted in $2.8 million of incurred losses.

- On July 6, 2013, significant fire damage to the Milwaukee County Courthouse resulted in $20.0 million of damage, for which the Property Fund received $5.0 million from the excess-of-loss insurer as of June 30, 2014.

- On August 1, 2013, significant fire damage in the Waukesha School District resulted in $6.2 million of incurred losses.

- On February 27, 2014, significant fire damage in the Racine Unified School District resulted in approximately $11.0 million of incurred losses, for which $0 had been received as of June 30, 2014.

- On April 16, 2014, significant fire damage in the Oconto Unified School District resulted in $5.0 million of incurred losses.

- From June 14, 2014 through June 18, 2014, severe storms that occurred within a 72-hour period in Dane County resulted in $4.2 million of incurred losses.

The change in unearned premiums fluctuates with changes in premiums written and unearned excess-of-loss premium ceded to the excess-of-loss insurer.

Net Position

The Property Fund's net position represents the difference between assets and liabilities. If assets are larger than liabilities, the net position is positive. If assets are less than the liabilities, the net position is a deficit. Changes in its net position, known as surplus on the statutory financial statements, are mainly attributable to the difference between its revenues and expenses for the year. The Property Fund's net position decreased by $21.2 million from a surplus of $20.5 million as of June 30, 2011, to a deficit of $703,000 as of June 30, 2014. The decrease is primarily attributed to significant losses that were incurred during FY 2011-12 and FY 2013-14. Table D summarizes changes in the Property Fund's net position over the three-year period from June 30, 2011, through June 30, 2014.

Table D

Net Position
Fiscal Year Ended June 30

	2014	2013	2012	2011
Fund Net Position	$(703,180)	$14,283,905	$14,174,647	$20,488,703
Change from Prior Year	(104.9)%	0.8%	(30.8)%	–

The Property Fund management considers several factors in establishing an appropriate surplus level to maintain. First, in accordance with s. Ins 6.72 (1), Wis. Adm. Code, minimum surplus is established, using a measurement date prior to the annual reinsurance renewal, using the criteria that "no single risk assumed by any insurance company (net of excess-of-loss insurance) shall exceed 10 percent of surplus as regards policyholders." Although the Administrative Code does not specifically apply to the Property Fund, it has been the Property Fund's objective to adhere to the Code. In the Property Fund's case, its net retention is $1.8 million per occurrence effective with the March 31, 2012, reinsurance program renewal (previously $2 million per occurrence), which yields a minimum surplus level of $18.0 million. The Property Fund's surplus has remained under this level since June 30, 2012. As a result, rate increases were approved for each fiscal year since the surplus dropped below $18.0 million. This includes policies in effect as of July 1, 2014, July 1, 2013, and July 1, 2012, and policies that will be issued in future years.

Second, the Property Fund seeks to maintain its surplus at a level consistent with the insurance exposures in force and annual premiums written. As insurance in force has increased by $1.9 billion between June 30, 2011, and June 30, 2014, management has sought to maintain a higher surplus level. Finally, management also takes into consideration the fact that the Property Fund is a mono-line property insurer and operates solely in Wisconsin. These are elements that can cause increased volatility in annual loss experience, as was the case for FY 2013-14 with significant loss activity, because the Property Fund does not have other lines of business or geographical regions to smooth out losses in a given year. The Property Fund also strives to smooth any rate changes over time and, thereby, avoid large fluctuations in premiums charged to units of local government. For further discussion of surplus, see the section labeled "Change in Fund Net Position."

Change in Financial Position

Revenues

The Property Fund's operating revenues consist of premiums from insured units of local government, net of excess-of-loss insurance premiums ceded. All Property Fund policyholders are billed annually, but not all are billed in the same renewal month because insurance policies are issued or renewed throughout the year. The Building and Contents line of insurance for the Property Fund's primary policy types uses rates obtained annually for each insured from an independent insurance rating organization. Other lines of insurance use rates established by an independent actuary, and approved by the Oversight and Advisory Committees.

The Property Fund has implemented the following changes:

- On July 1, 2011, the Property Fund adopted updated loss costs and lowered its Loss Cost Multiplier to 1.058, which increased the Building and Content rate by 6.8 percent.

- On July 1, 2012, the Property Fund adopted a Loss Cost Multiplier of 1.217, which increased the Building and Content rate by 15.0 percent. In addition, the Property Fund altered its deductible credits to encourage local governments to change the frequency and severity of claims submitted, and reduced Auto and Inland Marine rates.

- On July 1, 2013, the Property Fund adopted a Loss Cost Multiplier of 1.4131, which increased the Building and Content rate by 17.6 percent. The Property Fund again altered its deductible credits, and again reduced Auto and Inland Marine rates.

Table E presents operating revenues for the three-year period ended June 30, 2014. The decline in operating revenues in FY 2011-12 is attributable to an increase in costs to maintain excess-of-loss coverage, Insurance Services Office, Inc. base rate fluctuations, an increase in higher deductible plans, and a reduction in the number of policyholders with high property values. The increase in FY 2012-13 and FY 2013-14 can be attributed to rate increases taken on all policies, except Auto and Inland Marine, effective during the years to rebuild the surplus position.

Table E

Operating Revenues
Fiscal Year Ended June 30

	2014	2013	2012	2011
Operating Revenues	$18,038,546	$16,771,300	$14,910,305	$15,701,278
Change from Prior Year	7.6%	12.5%	(5.0)%	–

The Property Fund's nonoperating revenues consist of investment income earned from interest on shares in the State Investment Fund and interest or market gains on investments in high-grade fixed income securities. As shown in Table F, there has been significant variability in investment income each year.

Table F

Investment Income
Fiscal Year Ended June 30

	2014	2013	2012	2011
Investment Income	$8,471	$36,045	$65,196	$178,242
Change from Prior Year	(76.5)%	(44.7)%	(63.4)%	–

Investment income fluctuates based on market conditions and the amount of funds available for investment. During FY 2008-09, the Property Fund began investing a portion of its available funds in longer-term high-grade securities managed by the State of Wisconsin Investment Board. As of June 30, 2014, and June 30, 2013, the Property Fund did not have any investments in long-term-investment securities compared to $5.6 million invested as of June 30, 2012. The decline in long-term investments was due to securities that matured in FY 2012-13, from which the proceeds were used to pay claims. The Property Fund's investment in the SIF continued to decrease in FY 2013-14 in order to pay claims as a result of the increase in frequency and severity of losses. The Property Fund will continue to monitor its ability to pay claims and work with the State of Wisconsin Investment Board to determine future investment decisions based on established investment guidelines.

Expenses

The Property Fund has two main categories of operating expenses: loss and loss adjustment expenses; and "other" operating expenses consisting of contracted services, personnel, and other expenses not related to losses or loss adjustment expenses. The Property Fund's largest operating expenses consist of loss and loss adjustment expenses paid, plus changes to the loss liabilities. Table G shows operating expenses and the ratios of those expenses to operating revenues for FY 2013-14, FY 2012-13, FY 2011-12, and FY 2010-11.

Table G

Operating Expenses
Fiscal Year Ended June 30

	2014	2013	2012	2011
Operating Expenses				
Net Losses and Loss Adjustment Expenses	$30,840,553	$14,740,742	$19,673,812	$25,732,743
Other Operating Expenses	2,190,267	1,954,635	1,613,459	1,908,621
Total Operating Expenses	**$33,030,820**	**$16,695,377**	**$21,287,271**	**$27,641,364**
Ratios of Operating Expenses to Total Operating Revenues				
Net Losses and Loss Adjustment Expenses	171.0%	87.9%	131.9%	163.9%
Dividends to Policyholders	0.0	0.0	0.0	(0.1)
Other Operating Expenses	12.1	11.7	10.8	12.2
Total Operating Expenses	**183.1%**	**99.6%**	**142.7%**	**175.9%**

Loss and loss adjustment expenses can vary widely depending both on claims paid and on claims reported during any given year. Further, loss adjustment expenses are affected by the changes to loss liabilities, which can be either positive or negative depending on changes in the reserves and estimated losses incurred but not reported. Any excess-of-loss insurance recoveries are netted in loss and loss adjustment expense (see the "Excess-of-Loss Program" section for more information). Generally, weather-related claims account for a significant portion of total losses. However, in more recent years, significant fire-related losses increased in both frequency and severity, which was the result especially for FY 2013-14. Other operating expenses have remained relatively stable.

The ratios in Table G measure operating expenses, including loss, loss adjustment expenses and other expenses, compared to premiums. A ratio above 100 percent means the Property Fund is paying out more in losses than it is receiving in premiums. The ratio for FY 2013-14 indicates that the Property Fund paid out $1.83 in losses and expenses for every $1.00 in premium it received.

Excess-of-Loss Program

To transfer insurance risk, the Property Fund purchases excess-of-loss coverage in the commercial market. Note 6 to the Property Fund's financial statements contains a table showing terms of the excess-of-loss policies in effect during FY 2011-12 through FY 2013-14. On the Statement of Revenues, Expenses, and Changes in Fund Net Position, premiums paid to excess-of-loss insurers are reported as a reduction of premium revenue, and claims paid by excess-of-loss insurers are reported as a reduction to losses and loss adjustment expenses paid by the Property Fund.

The Property Fund uses excess-of-loss insurance to help reduce its exposure to significant loss events. Table H compares the excess-of-loss insurance loss recoveries to excess-of-loss insurance premiums paid over the four years from FY 2010-11 though FY 2013-14.

Table H

Excess-of-Loss Insurance Loss and Loss Adjustment Expense Recoveries Compared to Premiums

Fiscal Year Ended June 30	Recoveries from Excess-of-Loss Insurers	Excess-of-Loss Insurance Premiums Ceded	Inflow from (Outflow to) Reinsurers
2011	$18,858,960	$5,300,298	$13,558,662
2012	(107,270)	6,394,319	(6,501,589)
2013	2,054,999	7,091,015	(5,036,016)
2014	40,058,467	8,190,501	31,867,966

The Property Fund annually reviews with its excess-of-loss broker the per risk and aggregate excess-of-loss insurance retentions in relation to excess-of-loss insurance market pricing and selects a balance between risk retention and excess-of-loss insurance cost. For FY 2013-14, the Property Fund financed its reinsurance costs through a premium financing agency compared to prior years in which the Property Fund had paid the entire cost up front. The decision was made given the loss activity during the year and the need to monitor cash flow requirements for loss payments. As a result of using the financing agency, the Property Fund incurred interest expense of $102,000 in FY 2013-14.

For FY 2013-14, the Property Fund experienced an increase in both the frequency and severity of fire-related losses, including four that exceeded the excess-of-loss per occurrence retention of $1.8 million on a paid basis and one storm event that exceeded retention on an incurred basis. The Property Fund recorded an increase of recoveries from excess-of-loss reinsurers as a result of these claims as well as other claims for weather-related storm events that developed adversely during FY 2013-14.

Change in Fund Net Position

The change in fund net position reflects all revenues (operating and nonoperating), less expenses and transfers. Table I shows the increase or decrease in net position for FY 2013-14, FY 2012-13, FY 2011-12, and FY 2010-11.

Table I

Change in Net Position
Fiscal Year Ended June 30

	2014	2013	2012	2011
Increase (Decrease) in Net Position	$(14,987,085)	$109,258	$(6,314,056)	$(11,749,212)

In FY 2011-12, the Property Fund continued to experience more significant-than-usual claim activity; however, it was less severe than for FY 2010-11. The Property Fund recorded an increase in net position for FY 2012-13 as rate increases during the year increased operating revenues, which exceeded the claim activity during the year. The rate changes were made to initially build net position and thereafter maintain a target point at which total revenues equal total expenses. Overall, the significant decrease in net position for FY 2013-14 resulted from several fire-related losses and the development of weather-related losses from prior years. These losses far exceeded premiums earned despite rate increases taken to offset these losses, and the recoveries incurred under the excess-of-loss coverage.

Summary

The Property Fund continues to operate for its stated purpose of making reasonably priced property insurance available for units of local government. It will continue to monitor its fund balance and adjust rates accordingly. Factors that will influence future rates will be changes to the net position and the structure, cost, and availability of excess-of-loss (reinsurance) coverage.

Factors Affecting Future Periods

The decline in surplus in recent years will affect the Property Fund's rates. The Property Fund actuarially determines the rate increases or decreases in order to maintain adequate levels of surplus. The following rate increases and other policy changes were approved by the Oversight Committee as a way to resolve the inadequate surplus position:

- The Property Fund implemented a Loss Experience Modifier (LEM) in FY 2014-15 to create premium equity among insureds, encourage better loss control, and help retain risks that are profitable for the Property Fund.

- The Property Fund approved the restructuring of the deductible credits, also in FY 2014-15.

- For FY 2015-16, the LEM and deductible credits were further changed for an expected overall increase in premiums of 73.4 percent.

Consistent with best practices, the Property Fund revalued its insurance in force. The project to revalue, which began in FY 2011-12, included on-site appraisals of all local governmental properties valued at more than $750,000.

Contact Information

This financial report is designed to provide a general overview of the Local Government Property Insurance Fund's financial performance for FY 2011-12 through FY 2013-14. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Brynn Bruijn-Hansen, Insurance Program Manager
Local Government Property Insurance Fund
125 South Webster Street
Madison, Wisconsin 53703-3474

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Financial Statements ■

Statement of Net Position
June 30, 2014, June 30, 2013, and June 30, 2012

	June 30, 2014	June 30, 2013	June 30, 2012
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Notes 2 and 4)	$ 8,109,649	$ 26,964,366	$ 24,737,092
Investments (Notes 2 and 4)	0	0	5,558,750
Receivables:			
Due from Policyholders	1,391,617	1,109,804	682,229
Investment Income Receivable	0	0	33,783
Excess-of-Loss Insurance Recoverable on Paid Claims (Notes 2, 6, and 7)	13,089,207	420,503	5,569
Due from Other Funds	0	0	0
Total Receivables	14,480,824	1,530,307	721,581
Total Current Assets	22,590,473	28,494,673	31,017,423
Noncurrent Assets:			
Investments (Notes 2 and 4)	0	0	0
TOTAL ASSETS	$ 22,590,473	$ 28,494,673	$ 31,017,423
LIABILITIES AND NET POSITION			
Current Liabilities:			
Unpaid Loss Liabilities (Notes 2, 5, 6, and 7)	$ 13,444,474	$ 8,965,078	$ 13,005,007
Unearned Premiums (Notes 2 and 6)	2,987,885	3,689,334	3,355,426
Dividends Payable (taxes and other deposits)	0	0	0
Premiums Received in Advance (Note 2)	946,315	1,157,587	48,813
Excess-of-Loss Insurance Payable	5,252,154	0	0
Contracted and Other Services Payable	644,277	374,045	418,204
Compensated Absences	157	4,515	(15)
Due to Other Funds	10,459	12,011	9,834
Total Current Liabilities	23,285,721	14,202,570	16,837,269
Noncurrent Liabilities:			
Compensated Absences	592	249	133
Other Postemployment Benefits	7,340	7,949	5,374
Total Noncurrent Liabilities	7,932	8,198	5,507
Total Liabilities	23,293,653	14,210,768	16,842,776
Net Position:			
Unrestricted	(703,180)	0	0
Restricted for Fund Purposes	0	14,283,905	14,174,647
TOTAL LIABILITIES AND NET POSITION	$ 22,590,473	$ 28,494,673	$ 31,017,423

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Position for the Years Ended June 30, 2014, June 30, 2013, and June 30, 2012

	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012
OPERATING REVENUES			
Net Premiums Earned (Notes 2 and 6)	$ 18,038,546	$ 16,771,300	$ 14,910,305
Total Operating Revenues	**18,038,546**	**16,771,300**	**14,910,305**
OPERATING EXPENSES			
Losses and Loss Expenses (Notes 2, 5, and 6)	30,840,553	14,740,742	19,673,812
Contracted Services	1,840,498	1,613,468	1,267,299
Personnel Services	105,350	96,929	85,161
Other Expenses	244,419	244,238	260,999
Dividends to Policyholders	0	0	0
Total Operating Expenses	**33,030,820**	**16,695,377**	**21,287,271**
OPERATING INCOME (LOSS)	**(14,992,274)**	**75,923**	**(6,376,966)**
NONOPERATING REVENUES (EXPENSES)			
Investment Income	8,471	36,045	65,196
Total Nonoperating Revenues	**8,471**	**36,045**	**65,196**
Income (Loss) Before Transfers	(14,983,803)	111,968	(6,311,770)
Transfers	(3,282)	(2,710)	(2,286)
CHANGE IN NET POSITION	**(14,987,085)**	**109,258**	**(6,314,056)**
NET POSITION			
Net Position—Beginning of the Year	14,283,905	14,174,647	20,488,703
Net Position—End of the Year	$ (703,180)	$ 14,283,905	$ 14,174,647

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Years Ended June 30, 2014, June 30, 2013, and June 30, 2012

	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Premiums	$ 22,096,166	$ 17,786,407	$ 13,709,084
Losses and Loss Expenses Paid	(38,536,288)	(19,195,605)	(19,450,447)
Cash Payments for Contracted Services	(2,056,181)	(1,657,627)	(1,162,157)
Cash Payments to Employee for Services	(109,974)	(89,708)	(92,363)
Cash Payments for Dividends to Policyholders	0	0	0
Other Operating Revenues (Expenses)	(253,629)	(242,061)	(277,035)
Net Cash Used by Operating Activities	**(18,859,906)**	**(3,398,594)**	**(7,272,918)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers Out	(3,282)	(2,710)	(2,286)
Net Cash Used by Noncapital Financing Activities	**(3,282)**	**(2,710)**	**(2,286)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale and Maturities of Investments	0	5,500,000	10,500,000
Investment Income Received	8,471	128,578	348,710
Purchase of Investments	0	0	0
Net Cash Provided (Used) by Investing Activities	**8,471**	**5,628,578**	**10,848,710**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(18,854,717)**	**2,227,274**	**3,573,506**
Cash and Cash Equivalents at the Beginning of the Year	26,964,366	24,737,092	21,163,586
Cash and Cash Equivalents at the End of the Year	$ 8,109,649	$ 26,964,366	$ 24,737,092

The accompanying notes are an integral part of this statement.

RECONCILIATION OF NET OPERATING INCOME TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012
Operating Income (Loss)	$ (14,992,274)	$ 75,923	$ (6,376,966)
Adjustments to Reconcile Net Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Changes in Assets and Liabilities:			
Decrease (Increase) in Due from Policyholders	(281,813)	(427,575)	(192,136)
Decrease (Increase) in Excess-of-Loss Insurance Recoverable on Paid Claims	(12,668,704)	(414,934)	592,792
Decrease (Increase) in Due from Other Funds	0	0	89
Increase (Decrease) in Unpaid Loss Liabilities	4,479,396	(4,039,929)	(369,607)
Increase (Decrease) in Unearned Premiums	(701,449)	333,908	(297,113)
Increase (Decrease) in Dividends Payable	0	0	0
Increase (Decrease) in Premiums Received in Advance	(211,272)	1,108,774	(711,972)
Increase (Decrease) in Excess-of-Loss Insurance Payable	5,252,154	0	0
Increase (Decrease) in Contracted and Other Services Payable	270,232	(44,159)	91,888
Increase (Decrease) in Compensated Absences Liability	(4,015)	4,646	(5,183)
Increase (Decrease) in Due to Other Funds	(1,552)	2,177	(2,691)
Increase (Decrease) in Other Postemployment Benefits Liability	(609)	2,575	(2,019)
Total Adjustments	(3,867,632)	(3,474,517)	(895,952)
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	**$ (18,859,906)**	**$ (3,398,594)**	**$ (7,272,918)**
Noncash Investing, Capital, and Financing Activities:			
Net Change in Unrealized Gains and Losses	$ 0	$ (22,152)	$ (128,017)

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. Description of the Fund

The Local Government Property Insurance Fund is part of the State of Wisconsin's financial reporting entity and is reported as an other enterprise fund in the State's basic financial statements. The purpose of the Property Fund is to provide property insurance coverage to tax-supported units of local government such as counties, towns, cities, villages, school districts, and library boards. Coverage is available on an optional basis. It grew out of the State Property Insurance Fund, which was created in 1903. Chapter 221, Laws of 1979, transferred coverage for state-owned property from the State Property Insurance Fund to a self-funded program administered by the Wisconsin Department of Administration. In addition, the State Property Insurance Fund was re-created as the Local Government Property Insurance Fund to insure the remaining non-state government properties previously covered by the State Property Insurance Fund.

The Property Fund is managed by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI), which contracts with private companies to administer the fund.

The Property Fund provides insurance coverage to units of local government against all property losses except, among other exclusions, flood, earthquake, wear and tear, extremes in temperature, mold, war, nuclear reaction, and embezzlement. Motor vehicle and inland marine property coverage, and builder's risk policies for new building construction and renovations, are also available.

The Property Fund functions similarly to a commercial insurer. Policyholders receive insurance protection for an insurance premium. The Property Fund bears the risk of loss for property covered by the policies, subject to policy deductibles that vary from $500 to $100,000 per loss. Policyholders are obligated to pay the annual insurance premium and to report losses in a timely manner.

Policyholders are not subject to any premium assessments should a premium deficiency exist. Pursuant to s. 605.30, Wis. Stats., if the Property Fund does not have sufficient assets to pay losses that are due, the Department of Administration is to transfer from the State's General Fund to the Property Fund amounts sufficient to pay the losses. The Property Fund would have to repay the General Fund. For this and other reasons, the Property Fund seeks to ensure that net assets are maintained at a sufficient level to minimize the potential for a premium deficiency to develop or to require transfers from the General Fund.

Policy counts for the Property Fund, along with total insurance in force as of June 30, 2014, June 30, 2013, and June 30, 2012, can be seen in the table that follows:

	June 30, 2014	June 30, 2013	June 30, 2012
Cities	128	134	154
Counties	69	70	71
Other	131	129	129
School Districts	252	274	295
Towns	161	167	176
Villages	242	247	260
Total Insureds	983	1,021	1,085
Builders Risk	61	53	71
Insurance in Force	$51.9 billion	$53.3 billion	$51.2 billion

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Financial Reporting Entity

The accompanying financial statements of the Property Fund have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). These statements present the net position and revenues, expenses, and changes in net position of only the activity of the Property Fund and are not intended to present the financial activity for the State of Wisconsin as a whole.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Fund is accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Position. The Fund is reported on the full accrual basis of accounting. This basis of accounting recognizes revenues and overpayment recoveries when they are measurable and due, regardless of when cash is received. Expenses are recognized in the period incurred, regardless of when cash is paid.

The Statement of Revenues, Expenses, and Changes in Fund Net Position classifies revenues and expenses as either operating or nonoperating. Transactions categorized as operating revenues and expenses are those related to the Property Fund's primary purpose of collecting premiums and making claims payments. Certain revenues that are not related to the Property Fund's principal operation, such as investment earnings, are reported as nonoperating revenues.

C. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in future years are the liabilities for unpaid losses and loss expenses. In estimating these liabilities, management uses the methodology discussed in Note 2G, Note 5, and Note 6.

D. Cash and Cash Equivalents

Cash and cash equivalents includes shares in the State Investment Fund, a short-term investment pool of state and local funds, and cash deposited in the State of Wisconsin's bank awaiting transfer to the State Investment Fund.

E. Investment Valuation

Investments of the Property Fund consist of high-grade, fixed income securities managed by the State of Wisconsin Investment Board. Fixed income securities are reported at fair value consistent with the provisions of GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Fair value information is determined using quoted market prices.

F. Premiums

Policies are written for annual terms. Premiums are recognized as revenue over the terms of the insurance policies by calculating the earned premium on each policy. The daily pro rata portion of premiums written that are applicable to the unexpired terms of insurance policies in force as of the date of the Statement of

Net Position are reported as unearned premiums. Premiums received on policies that are not yet in force as of the date of the Statement of Net Position are reported as a liability for premiums received in advance.

G. Unpaid Loss Liabilities

The Property Fund establishes the liabilities for unpaid losses and loss expenses based on estimates of the ultimate cost of insureds' losses and costs associated with settling losses that have been reported but not settled (case reserves) and of losses and related loss expenses that have been incurred but not reported (IBNR). The period of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of excess-of-loss insurance recoverable on unpaid losses and loss expenses are deducted from these liabilities, as discussed further in Notes 5 and 6. The liabilities for unpaid losses and loss expenses are not discounted to present value.

While management believes that the liabilities for unpaid losses and loss expenses are adequate to cover the ultimate net cost of all incurred losses at year-end, the liabilities are estimates and no representation is made that the ultimate liabilities may not exceed such estimates. These liabilities are recomputed periodically to produce current estimates that reflect recent settlements, loss frequency, and other economic factors. A provision for inflation in the calculation of estimated future loss costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Changes in estimates of losses and loss expenses resulting from the review process and from differences between estimates and payments for losses are charged or credited to expenses in the periods in which the estimates are changed or payments are made.

H. Excess-of-Loss Insurance Coverage

The Property Fund purchases excess-of-loss insurance coverage, the operation of which is analogous to "reinsurance," to reduce its exposure to large losses on all types of insured events. Earned premiums ceded to excess-of-loss insurers are netted within earned premiums on the Statement of Revenues, Expenses, and Changes in Fund Net Position. The unearned portion of excess-of-loss insurance premiums paid is netted within the unearned premiums liability on the Statement of Net Position. Loss and loss expense recoveries from excess-of-loss insurance are netted within losses and loss expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position. Excess-of-loss insurance recoverable on paid claims is included as an asset and excess-of-loss insurance recoverable on unpaid losses is netted within unpaid loss liabilities on the Statement of Net Position. Further detail on excess-of-loss insurance coverage is disclosed in Note 6.

I. Policy Acquisition Costs

Since the Property Fund has no marketing staff, does no advertising, and incurs no sales commissions, acquisition costs are minimal and are charged to operations as incurred.

J. Employee Compensated Absences

The Property Fund's compensated absence liability consists of accumulated unpaid leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30. Unused earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The liability and the expenses for compensated absences are based on current rates of pay. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System is also accrued with a resulting liability. The compensated absences liability is classified as either a short-term or a long-term liability based upon an estimate determined by management.

K. Deficit Net Position

As of June 30, 2014, the Property Fund was in a deficit net position of $703,000. This negative amount is displayed on the Statement of Net Position as the unrestricted component of net position.

3. New Accounting Standard

In June 2011, GASB issued Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources in a statement of financial position and related disclosures. The implementation of this statement did not have an impact on the financial position of OCI. However, the adoption of this statement requires OCI to make changes and replace the Balance Sheet with the Statement of Net Position. In addition, the Statement of Revenues, Expenses and Changes in Fund Net Assets was replaced with the Statement of Revenues, Expenses, and Changes in Fund Net Position. These changes were retroactively applied to the FY 2011-12 financial statements included in this report.

4. Deposits and Investments

The Property Fund's cash and cash equivalents balance consists of shares in the State Investment Fund and amounts deposited in the State of Wisconsin's bank awaiting transfer to the State Investment Fund. GASB Statement Number 40, *Deposit and Investment Risk Disclosures–an Amendment of GASB Statement No. 3*, requires certain disclosures related to the Property Fund's deposits and shares in the State Investment Fund.

A. Deposits

Custodial Credit Risk for Deposits—Custodial credit risk is the risk that in the event of the failure of a financial institution, deposits may not be returned. The Property Fund does not have a deposit policy relating to custodial credit risk. The Federal Deposit Insurance Corporation (FDIC) insures the Property Fund's deposits for losses up to $250,000 resulting from the failure of a financial institution. In addition, a state appropriation for losses on public deposits (s. 34.08, Wis. Stats.) insures up to $400,000 over the amount of federal insurance. None of the Property Fund's deposits were uninsured by the FDIC as of June 30, 2014, June 30, 2013, or June 30, 2012. The State Investment Fund is not registered with the U.S. Securities and Exchange Commission as an investment company. The carrying value of the shares in the State Investment Fund, which approximates fair market value, was $8,108,798 as of June 30, 2014, $26,963,774, as of June 30, 2013, and $24,634,036 as of June 30, 2012.

The various types of securities in which the State Investment Fund may invest are enumerated in s. 25.17 (3) (b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. The State of Wisconsin Investment Board's Board of Trustees may specifically approve other prudent legal investments. Interest income, gains, and losses of the State Investment Fund are allocated monthly.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Fund is unrated; however, the State Investment Fund's investment guidelines establish specific maximum exposure limits by security types based on the minimum credit ratings as issued by nationally recognized statistical rating organizations.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Investment Fund uses the weighted average maturity method to analyze interest rate risk. Its investment guidelines mandate that the weighted average maturity for the entire portfolio not exceed one year. The weighted average maturity of the State Investment Fund was 88 days as of June 30 2014, 34 days as of June 30, 2013, and 75 days as of June 30, 2012.

B. Investments

As directed by s. 25.17 (1) (jm), Wis. Stats., all of the Property Fund's investments are managed by the State of Wisconsin Investment Board with the investment objectives to invest monies held by the Property Fund in a high-quality fixed income obligation portfolio that provides for a high degree of liquidity, a relatively moderate degree of risk, and a high rate of return consistent with the priorities of liquidity and protection of principal.

The State of Wisconsin Investment Board recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation, and it monitors risk through multiple forms of analysis and reporting. Inspection of levels of diversification, nominal risk exposures, risk/return plots, and matching liabilities with assets form the core of the monitoring process. In addition, portfolios and asset classes are reviewed monthly for compliance with investment guidelines, and any exceptions are remedied in a prudent manner. When identified, guideline exceptions are reviewed by the State of Wisconsin Investment Board's Enterprise Risk and Compliance Committee, which currently meets on a quarterly basis.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Property Fund. The Property Fund's investment guidelines provide that issues be rated "A-" or better at the time of purchase, based on the minimum credit ratings issued by nationally recognized statistical rating organizations. The Property Fund held no investments as of June 30, 2014, and June 30, 2013. The credit rating for investments held as of June 30, 2012, are as follows:

	June 30, 2012
Credit Rating	Fair Value
AA - US Treasury	$2,027,000
AA - Agency	3,531,750
Total	$5,558,750

Custodial Credit Risk—Custodial credit risk for investments is the risk that, if the counterparty to a transaction should fail, the Property Fund would not be able to recover the value of investments that are in possession of an outside party. The Property Fund does not have a policy specifically for custodial credit risk. As of June 30, 2014, June 30, 2013, and June 30, 2012, the Property Fund did not have any investment securities exposed to custodial credit risk.

Concentrations of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The Property Fund's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. General guidelines provide that no single issuer may exceed 5.0 percent of the total of the Property Fund's investments plus cash and cash equivalents in the State Investment Fund, with the exception of the U.S. government and its agencies and the State Investment Fund, which may be unlimited. In addition, the Property Fund further limits AAA-rated mortgage-backed, AAA-rated asset-backed, and individual corporate issuers to 3.0 percent of the Property Fund's investments plus cash and cash equivalents in the State Investment Fund.

The Property Fund held no investments in individual corporate issuers and, therefore, did not exceed these guidelines as of June 30, 2014, June 30, 2013, and June 30, 2012. All proceeds from securities that matured during the year were reinvested in the State Investment Fund.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Property Fund uses the duration method to identify and manage its interest rate risk. The Property Fund's guidelines require that a bond's maturity must not exceed ten years.

The Property Fund held no investments as of June 30, 2014 or June 30, 2013. As of June 30, 2012, the duration for fixed income government/agency securities was 0.45 years.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Property Fund's investment guidelines do not specifically address foreign currency risk. As of June 30, 2014, June 30 2013, and June 30, 2012, the Property Fund did not own any issues denominated in a foreign currency.

5. UNPAID LOSS LIABILITIES

The Property Fund establishes a liability for both reported and unreported insured events that includes estimates of both future payments of losses and related loss expenses. The following schedule represents changes in those aggregate liabilities for the Property Fund for FY 2013-14, FY 2012-13, and FY 2011-12.

	Fiscal Year Ended June 30 (in thousands)		
	2014	2013	2012
Unpaid Loss Liabilities at Beginning of Year	$ 10,606	$13,018	$15,118
Less: Excess-of-Loss Insurance Recoverable	(1,641)	(13)	(1,743)
Net Unpaid Loss Liabilities at Beginning of Year	8,965	13,005	13,375
Incurred Losses and Loss Expenses:			
Provision for insured events of the current year	29,668	14,356	19,327
Increase (decrease) in provision for insured events of prior years	1,173	385	347
Total Incurred Losses and Loss Expenses	30,841	14,741	19,674
Payments[1]:			
Losses and loss expenses attributable to insured events of the current year	17,757	7,508	8,959
Losses and loss expenses attributable to insured events of prior years	8,605	11,273	11,085
Total Payments	26,362	18,781	20,044
Unpaid Loss Liabilities at End of Year	13,444	8,965	13,005
Plus: Excess-of-Loss Insurance Recoverable	16,920	1,641	13
Total Unpaid Loss Liabilities at End of Year	$30,364	$10,606	$13,018

[1] Payments include the change in excess-of-loss recoverable on paid losses and drafts outstanding of $12,688,704 in FY 2013-14, $414,934 in FY 2012-13, and ($592,972) in FY 2011-12.

The unpaid loss liabilities are continually reviewed and adjusted as claims develop and new information is received. These liabilities are necessarily based on estimates, and although management believes that the amounts are adequate, the ultimate liabilities may differ from the amounts estimated. The methods for making such estimates and for establishing the resulting liabilities are reviewed annually, and any adjustments are reflected in current earnings. The changes in the provision for incurred loss liabilities attributable to the prior fiscal years do not result in additional or return of premiums for those years.

6. EXCESS-OF-LOSS INSURANCE COVERAGE

To reduce its exposure to large losses on all types of insured events, the Property Fund purchases excess-of-loss insurance coverage, the operation of which is analogous to “reinsurance.” Excess-of-loss insurance permits recovery of a portion of losses from the excess-of-loss insurers, although it does not discharge the primary liability of the Property Fund as direct insurer of the risk reinsured. The Property Fund does not report excess-of-loss insured risks as liabilities unless it is probable that those risks will not be covered by excess-of-loss insurers.

The following table shows the excess-of-loss insurance retentions, deductibles, and limits for the terms in force during the period of these financial statements. For the aggregate excess-of-loss insurance contracts, only losses over the underlying per-loss deductible are included in the aggregate calculation, and once the aggregate retention is met, only loss occurrences over $10,000 are included in the recoverable calculation.

Excess-of-Loss Insurance Term	Per Risk Occurrence Retention	Aggregate Retention	Aggregate Limit	Aggregate Underlying Per Loss Deductible
3/31/2012 – 3/31/2013	$1,800,000	$22,000,000	$450,000,000	$5,000
3/31/2013 – 3/31/2014	1,800,000	22,000,000	600,000,000	5,000
3/31/2014 – 3/31/2015	1,800,000	22,000,000	800,000,000	5,000

Premiums ceded to the excess-of-loss insurers are netted within earned premiums on the Statement of Revenues, Expenses, and Changes in Fund Net Position. The following table presents total premiums, excess-of-loss insurance premiums ceded, and net premiums earned.

	For the Year Ended June 30		
	2014	2013	2012
Total Premiums	$26,229,047	$23,862,315	$21,304,624
Less Excess-of-Loss Insurance Premiums Ceded	8,190,501	7,091,015	6,394,319
Net Premiums Earned	$18,038,546	$16,771,300	$14,910,305

Unearned premiums are presented on the Statement of Net Position net of related unearned excess-of-loss insurance premiums ceded to excess-of-loss insurers. The following table presents total unearned premiums received, unearned excess-of-loss insurance premiums ceded, and net unearned premiums.

	As of June 30		
	2014	2013	2012
Total Unearned Premiums Received	$10,354,585	$9,424,269	$8,534,796
Less Unearned Excess-of-Loss Insurance Premiums Ceded	7,366,700	5,734,935	5,179,370
Net Unearned Premiums	$ 2,987,885	$3,689,334	$3,355,426

Losses and loss expense recoveries are netted within losses and loss expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position. The following table presents total losses and loss expenses, losses recovered through excess-of-loss insurance, and net losses and loss expenses.

	For the Year Ended June 30		
	2014	2013	2012
Total Losses and Loss Expenses	$70,899,020	$16,795,741	$19,566,542
Less Losses Recovered through Excess-of-Loss Insurance[1]	40,058,467	2,054,999	(107,270)
Net Losses and Loss Expenses	$30,840,553	$14,740,742	$19,673,812

[1] Amounts represent the net of excess-of-loss insurance recoveries received during the current fiscal year and the change in excess-of-loss insurance recoverable on unpaid losses which was accrued during the prior fiscal year.

Excess-of-loss insurance recoverable on unpaid losses decreases unpaid loss liabilities on the Statement of Net Position. The following table presents total unpaid loss liabilities, estimated excess-of-loss insurance recoverable, and net unpaid loss liabilities.

	As of June 30		
	2014	2013	2012
Unpaid Loss Liabilities	$30,364,093	$10,605,720	$13,018,208
Less Estimated Excess-of-Loss Insurance Recoverable	16,919,619	1,640,642	13,201
Net Unpaid Loss Liabilities	$13,444,474	$ 8,965,078	$13,005,007

7. CONTINGENCY

In July 2013, a fire at the Milwaukee County Courthouse resulted in approximately $20.0 million in damages and $500,000 in loss adjustment expenses. The Property Fund expects to pay a deductible of $1.8 million for this loss and be reimbursed by the excess-loss-provider for the remaining $18.7 million, except for the $500 deductible paid by Milwaukee County and the $800,000 paid by the boiler and machinery carrier for its share of the loss. The Property Fund has filed a lawsuit against the excess-of-loss provider to collect the money management believes is owed to the Property Fund.

As of June 30, 2014, the Fund had received $5.0 million from the excess-of-loss provider. The Statement of Net Position includes a receivable of $7.5 million for the amount that the Property Fund had paid to Milwaukee County and the excess-of-loss provider owed to the Property Fund as of June 30, 2014. In addition, the Statement of Net Position includes a $5.0 million contra-liability for the estimated amount still owed to Milwaukee County, which management expected to receive from excess-of-loss insurance as of June 30, 2014. An estimate of the amount, if any, not collectible from the excess-of-loss provider is not available and will not be available until the lawsuit is resolved.

8. STATUTORY REPORTING

Similar to private insurance companies doing business in Wisconsin, the Property Fund files an annual financial statement with OCI. Such statements are prepared in conformity with statutory accounting practices prescribed or permitted by OCI. Statutory accounting practices differ from GAAP, which is the basis used to present financial statements included in this report. In addition to following state laws, regulations, and general administrative rules, statutory accounting practices follow the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual,* which was adopted by the State of Wisconsin.

The differences between statutory and GAAP net position and changes in net position in the table that follows is a result of 1) reporting investments at fair value under GAAP and at cost or amortized cost under statutory accounting, 2) reporting receivables due from policyholders gross of amounts greater than 90 days past due under GAAP and net of these amounts under statutory accounting, and 3) reporting estimated uncollectible amounts from excess-of-loss providers for amounts greater than 90 days past due under statutory accounting that is not required under GAAP.

	Net Position		Changes in Net Position	
Fiscal Year	Statutory	GAAP	Statutory	GAAP
2014	$(1,382,453)	$ (703,180)	$(15,491,901)	$(14,987,085)
2013	14,109,448	14,283,905	60,942	109,258
2012	14,048,506	14,174,647	(6,290,028)	(6,314,056)

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Required Supplementary Information ■

The table on page 51 illustrates how the Property Fund's total revenues (net of excess-of-loss insurance premiums ceded) compares to related costs of losses and loss expenses (net of losses assumed by excess-of-loss insurers) for each of the last ten fiscal years. The rows of the table are defined as follows:

1. Premiums and Investment Revenue—Shows total fiscal year gross earned premium revenue and reported investment revenue, amount of excess-of-loss premium ceded, and net earned premium and investment revenues.

2. Loss Expenses—Shows each fiscal year's loss expenses paid (included in line 4), including defense and containment costs and other adjusting expenses not allocable to individual losses.

3. Estimated Incurred Losses and Loss Expenses as of End of Policy Year—Shows gross incurred losses and loss expenses (both paid and accrued), losses assumed by excess-of-loss insurers, and the net amount of incurred losses and loss expenses 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. Net Paid (Cumulative)—Shows cumulative net amounts paid for losses and loss expenses as of the end of successive years for each policy year.

5. Re-estimated Ceded Losses and Loss Expenses—Shows the re-estimated amount of losses and loss expenses assumed by excess-of-loss insurers as of the end of the current fiscal year for each policy year.

6. Re-estimated Net Incurred Losses and Loss Expenses—Shows the development of each policy year's incurred losses and loss expenses as of the end of successive years. The annual re-estimated amounts result from new information received on known losses and from re-evaluation of existing information on known losses, as well as from the emergence of new losses not previously known.

7. Increase/Decrease in Estimated Incurred Losses and Loss Expenses from End of Policy Year—Compares the most recent re-estimation for net incurred loss and loss expenses (line 6) to the amount originally established (line 3). As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses and loss expenses currently recognized in less mature policy years.

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Ten-Year Claims Development Information

Fiscal Policy Year Ended June 30
(in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Premiums and Investment Revenue:										
Earned	$ 26,291	$27,018	$24,732	$23,929	$22,644	$21,919	$21,179	$ 21,370	$ 23,898	$26,238
Ceded	4,506	3,965	3,956	4,739	4,689	5,207	5,300	6,394	7,091	8,191
Net Earned	21,785	23,053	20,776	19,190	17,955	16,712	15,879	14,976	16,807	18,047
2. Loss Expenses	623	522	528	588	645	783	439	554	536	2,123
3. Estimated Incurred Losses and Expenses, as of End of Policy Year:										
Incurred	11,367	16,564	22,226	22,037	11,372	12,113	42,173	20,301	14,356	65,223
Ceded	1,744	912	5,966	621	0	0	18,210	974	0	35,555
Net Incurred	9,623	15,652	16,260	21,416	11,372	12,113	23,963	19,327	14,356	29,668
4. Net Paid (Cumulative) as of:										
End of Policy Year	6,074	8,790	7,855	9,917	6,896	6,228	11,426	8,959	7,508	17,757
One Year Later	9,313	16,498	16,387	19,416	11,137	13,033	21,646	17,836	13,378	
Two Years Later	9,983	16,286	16,619	21,353	11,500	13,872	23,309	19,602		
Three Years Later	9,983	16,475	16,740	21,392	11,514	13,885	24,454			
Four Years Later	10,844	16,580	16,740	21,403	11,514	13,885				
Five Years Later	10,844	16,580	16,740	22,123	11,514					
Six Years Later	10,844	16,580	16,740	22,123						
Seven Years Later	10,844	16,580	16,740							
Eight Years Later	10,844	16,580								
Nine Years Later	10,844									
5. Re-estimated Ceded Losses and Expenses	1,775	1,639	5,858	0	0	0	17,867	2,387	4,877	35,555
6. Re-estimated Net Incurred Losses and Expenses:										
End of Policy Year	9,623	15,652	16,260	21,416	11,372	12,113	23,963	19,327	14,356	29,668
One Year Later	10,087	16,629	16,923	21,561	11,489	13,871	23,258	19,543	14,653	
Two Years Later	10,978	16,286	16,619	21,392	11,500	13,872	23,719	19,860		
Three Years Later	10,978	16,475	16,740	21,392	11,514	13,885	24,454			
Four Years Later	11,013	16,580	16,740	22,428	11,514	13,885				
Five Years Later	10,844	16,580	16,740	22,123	11,514					
Six Years Later	10,844	16,580	16,740	22,123						
Seven Years Later	10,844	16,580	16,740							
Eight Years Later	10,844	16,580								
Nine Years Later	10,844									
7. Increase/Decrease in Estimated Incurred Losses and Expenses from End of Policy Year	$ 1,221	$ 928	$ 480	$ 707	$ 142	$ 1,772	$ 491	$ 533	$ 297	n/a

Auditor's Report ■

STATE OF WISCONSIN
Legislative Audit Bureau
Celebrating 50 Years of Service 1966-2016
22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab
Joe Chrisman
State Auditor

Report 15-16

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

We have audited the financial statements and the related notes of the Local Government Property Insurance Fund (Property Fund) as of and for the years ended June 30, 2014, June 30, 2013, and June 30, 2012, and have issued our report thereon dated November 9, 2015. We conducted our audit 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,* which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Property Fund is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Property Fund's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Property Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Property Fund'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 misstatements, or to 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 Property Fund's financial statements will not be prevented, or that a material misstatement will not be 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. Given these limitations, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Property Fund's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, 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 additional matters, related to documentation of losses paid, application of aggregate deductible policies, and monitoring of past due premiums, that we reported to management of the Property Fund in an interim audit communication dated October 28, 2015, and which are summarized on page 8 of report 15-16. In its written response, the Property Fund's management indicated they will take steps to review and improve their policies and procedures related to documentation of losses paid and monitoring of past due premiums. Also, the Property Fund's management indicated that the current claims administrator is applying the aggregate deductible correctly.

Management's Responses to Findings

OCI's written responses to the findings identified in our audit are described in the preceding paragraph. OCI'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

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

LEGISLATIVE AUDIT BUREAU

Joe Chrisman
State Auditor

November 9, 2015