



BERBERICH TRAHAN & CO., P.A.

Certified Public Accountants

TOPEKA PUBLIC BUILDING COMMISSION

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

TOPEKA PUBLIC BUILDING COMMISSION

FINANCIAL STATEMENTS

Year Ended December 31, 2012

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BERBERICH TRAHAN & CO., P.A.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Topeka Public Building Commission
Topeka, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Topeka Public Building Commission (the Commission), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on January 1, 2012, the Commission changed its method of accounting to adopt Government Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion on the financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Berwick Trahan + Co., P.A.

August 27, 2013
Topeka, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Topeka Public Building Commission provides readers of our financial statements the following summary information and analysis of the fiscal activities of the Topeka Public Building Commission for the fiscal year ended December 31, 2012.

The information presented here is intended to introduce the reader to the basic financial statements. The activities of the Topeka Public Building Commission are reported as an enterprise fund and as such we prepare three basic financial statements (Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows), notes to the financial statements, and the required supplementary information which includes this Management's Discussion and Analysis (MD&A). The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and the deferred inflows of resources of the Commission. Assets are comprised of cash, interest receivable on idle funds, and lease receivables. Deferred outflows of resources consist of deferred charges on bond refunding. Liabilities include revenue bond interest payable, other accounts payable, and revenue bonds payable. Deferred inflows of resources consist of unearned rent revenue. The net position balance reflects amounts available for repayment of revenue bonds outstanding and for the payment of fees to the Trustee.

The liabilities and deferred inflows of resources of the Topeka Public Building Commission exceeded assets and deferred outflows of resources by \$910,044 for fiscal year 2012. The liabilities and deferred outflows of resources of the Topeka Public Building Commission exceeded assets and deferred inflows of resources at the close of the fiscal year 2011 by \$458,303. Please note that the 2012 financial statements also implemented GASB 63 which changed presentation on the Statement of Net Position to include the deferred outflows and inflows of resources. As such, the presentation of 2011 data was restated to match the 2012 format.

Topeka Public Building Commission - Net Position

	2012	2011
Current and other assets	\$ 80,143,069	\$ 85,313,879
Deferred outflows of resources	1,586,505	1,679,127
Long-term liabilities	(54,084,629)	(55,755,371)
Other liabilities	(1,739,048)	(1,999,219)
Total liabilities	(55,823,677)	(57,754,590)
Deferred inflows of resources	(26,815,941)	(29,696,719)
Net position	\$ (910,044)	\$ (458,303)

The Topeka Public Building Commission also implemented GASB 65 for the Commission's calendar year 2012 statements, which resulted in beginning net position for 2012 being restated at (\$974,522) from (\$458,303), a difference of (\$516,219). GASB 65 requires that bond cost of issuance expenses (other than prepaid insurance) be expensed in the year incurred rather than amortized over the life of the bond issue.

The net position of the Topeka Public Building Commission was increased by \$64,478 in calendar year 2012. While net position remains a negative balance, much of that balance is due to timing differences surrounding the recognition of revenues and expenses. The Commission's lease agreements with the state provides for sufficient cash flows to meet bond principal and interest payments along with operating expenses.

The Statement of Revenue, Expenses and Changes in Net Position provides information about resources and the use of those resources. Under the terms of the lease agreement, the Commission collects lease payments sufficient to meet the debt services requirements on the bonds.

Topeka Public Building Commission – Revenue, Expenses, and Changes in Net Position

	2012	2011
Operating revenues	\$ 2,679,684	\$ 2,628,858
Operating expenses	(53,184)	(477,757)
Operating income	2,626,500	2,151,101
Non-operating revenue (expenses)	(2,562,022)	(2,253,482)
Change in net position	64,478	(102,381)
Net position, beginning of year (prior to restatement)	(458,303)	(355,922)
Change of accounting principle (GASB 65)	(516,219)	-
Net position, beginning of year (after restatement)	(974,522)	(355,922)
Net position, end of year	\$ (910,044)	\$ (458,303)

Calendar year 2012 experience a decrease in Operating Expenses between 2011 and 2012, with the majority of the expense reduction resulting from roof repairs to the roofs of both buildings in 2011. While the roof repairs increased expenses for 2011, the repairs were covered and reimbursed by insurance.

The Statement of Cash Flows is provided to identify the sources and uses of cash during the fiscal year and to demonstrate that there is sufficient cash to meet obligations. The net cash from operating activities was \$3,672,192 for fiscal year 2012 and \$3,931,134 for fiscal year 2011. The majority of that variance is due to roof repairs that were recognized as an expense in 2011, but with payment being made in 2012.

This report is intended to provide financial information about the Topeka Public Building Commission activities. For additional information you may contact Roger Basinger, Public Service Executive III, Kansas Department of Administration at (785) 296-8083 or by email at Roger.Basinger@da.ks.gov.

TOPEKA PUBLIC BUILDING COMMISSION

STATEMENT OF NET POSITION

December 31, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 321,658
Interest receivable	34
Rent receivable	7,600
Leases receivable, current	4,072,211
Total current assets	4,401,503

Noncurrent assets:

Leases receivable	75,741,566
Total assets	80,143,069

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding	1,586,505
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LIABILITIES

Current liabilities:

Accrued interest payable	216,448
Accounts payable	2,600
Revenue bonds payable, current	1,520,000
Total current liabilities	1,739,048

Noncurrent liabilities:

Revenue bonds payable (including unamortized premiums)	54,084,629
Total liabilities	55,823,677

DEFERRED INFLOWS OF RESOURCES

Deferred revenue - rent	26,815,941
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NET POSITION

Unrestricted	(910,044)
Total net position	\$ (910,044)

See accompanying notes to financial statements.

TOPEKA PUBLIC BUILDING COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31, 2012

Operating revenues:	
Expense reimbursement	\$ 47,184
Rental income - interest	2,632,500
	<u>2,679,684</u>
Total operating revenues	<u>2,679,684</u>
Operating expenses:	
Trustee fees	6,000
Professional fees and insurance	47,184
	<u>53,184</u>
Total operating expenses	<u>53,184</u>
Operating income	<u>2,626,500</u>
Nonoperating revenues (expenses):	
Investment income	634
Interest expense	(2,626,646)
Amortization	58,120
Miscellaneous	5,870
	<u>(2,562,022)</u>
Total nonoperating revenues (expenses)	<u>(2,562,022)</u>
Change in net position	<u>64,478</u>
Net position, beginning of year as previously stated	(458,303)
Change in accounting principle	<u>(516,219)</u>
Net position, beginning of year as restated	<u>(974,522)</u>
Net position, end of year	<u><u>\$ (910,044)</u></u>

See accompanying notes to financial statements.

TOPEKA PUBLIC BUILDING COMMISSION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

Cash flows from operating activities:	
Receipts from leases	\$ 4,094,693
Payments for professional services	(61,028)
Payments for repairs	(361,473)
	<hr/>
Net cash provided by operating activities	3,672,192
	<hr/>
Cash flows from capital and related financing activities:	
Principal paid on revenue bonds	(1,405,000)
Interest paid on revenue bonds	(2,632,500)
Insurance proceeds	197,350
	<hr/>
Net cash used in capital and related financing activities	(3,840,150)
	<hr/>
Cash flows from investing activities:	
Investment income	615
	<hr/>
Net decrease in cash and cash equivalents	(167,343)
Cash and cash equivalents, beginning of year	489,001
	<hr/>
Cash and cash equivalents, end of year	\$ 321,658
	<hr/> <hr/>
Reconciliation of operating income to net cash provided	
by operating activities:	
Operating income	\$ 2,626,500
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Rent receivable	2,844
Leases receivable	4,292,942
Accounts payable	(369,317)
Deferred revenue - rent	(2,880,777)
	<hr/>
Net cash provided by operating activities	\$ 3,672,192
	<hr/> <hr/>

See accompanying notes to financial statements.

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1 - Summary of Significant Accounting Policies

Reporting Entity

The Topeka Public Building Commission (the Commission) was established pursuant to Kansas Statutes Annotated (K.S.A.) 12-1757 *et seq*, as amended by Charter Ordinance No. 55 and Ordinances 17237 and 17808 of the City of Topeka, Kansas (the City), in 1998 and 2002. The Commission was created to provide facilities of a revenue-producing character to house offices or agencies of the State of Kansas, city, county, or a school district and to provide parking facilities for offices of agencies of the State of Kansas and the federal government. The Commission shall be comprised of seven members. One member shall be appointed by the Mayor of the City with the approval of the City Council. Such member shall serve at the pleasure of the Mayor and shall be the chairperson of the Commission. Six members shall be appointed by the Mayor of the City with the approval of the City Council for terms of four years. Of the members appointed under this provision, one shall be a representative of the Secretary of Administration of the State of Kansas, one shall be a representative of the governing body of Shawnee County, and one shall be a representative of the governing body of Unified School District No. 501. The member who is the representative of the Secretary of Administration shall be appointed from three nominations submitted by the Secretary of Administration. The member who is the representative of the governing body of Shawnee County shall be appointed from three nominations submitted by the governing body of Shawnee County. The member who is the representative of Unified School District No. 501 shall be appointed from three nominations submitted by the governing body of Unified School District No. 501. The members of the Commission serve without compensation. The Commission is not considered a component unit of the State of Kansas or of the City of Topeka.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing facilities to other governments. The Commission's operating revenues are receipts from direct financing leases. Operating expenses include repairs and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

1 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of money market mutual funds, which are recorded at fair value.

Bond Trustee

CoreFirst Bank & Trust, Topeka, Kansas, has been appointed Trustee under the Indentures for the Commission Series 2007A and 2007B revenue bonds. The Trustee has accepted the duties and responsibilities imposed by the Trust Indenture dated November 15, 2007. The Trustee is compensated for reasonable fees for ordinary services and for reimbursement for advances, counsel fees, or other ordinary fees and expenses.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Commission only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has only one type of item that qualifies for reporting in this category. Accordingly, the item, deferred revenue-rent, is reported in the statement of net position. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

Revenue bonds issued by the Commission and interest thereon are limited obligations of the Commission, payable solely and only from the net earnings and revenues derived by the Commission from the Commission projects, including but not limited to the rents, revenues and receipts under Commission project-related leases. Bonds issued by the Commission do not constitute indebtedness or pledge of the faith and credit of the Commission, the City of Topeka, or the State of Kansas.

Bond premiums and discounts, and deferred refunding differences are deferred and amortized over the life of the bonds using the straight line method. Revenue bonds payable are reported net of the applicable bond premium or discount.

Use of Estimates

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

Change in Accounting Principle

In previous years, debt issuance costs were classified as assets and amortized over the lives of the underlying debt issuances. With the implementation of GASB Statement No. 65 in 2012, debt issuance costs are to be recognized as an expense in the period incurred. The provisions of this statement are to be applied retroactively to the earliest period presented in the financial statements. The beginning net position of the business-type activities has been restated by \$ 516,219 to retroactively apply the provisions of this statement. There was no effect on current year revenues or expenses as a result of this adjustment.

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - Investments

As of December 31, 2012 the Commission had the following investments (recorded as cash and cash equivalents on the statement of net position):

Investment Type	Fair Value	Investment Maturities (in Years)			
		< 1	1 - 5	6 - 10	> 10
Money market mutual funds	\$ 321,658	\$ 321,658	\$ -	\$ -	\$ -

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Commission is not exposed to significant interest rate risk.

Credit Risk

The Commission's investments in money market mutual funds are rated AAAM by Standard and Poor's and Aaa-mf by Moody's.

Concentrations of Credit Risk

The Commission places no limit on the amount it may invest in any one issuer.

Custodial Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2012, the Commission's investments were not exposed to custodial credit risk.

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

3 - Leases

The Commission has entered into a Lease with Option to Purchase with the State of Kansas – Department of Administration dated December 1, 1998, a first supplemental lease with option to purchase dated August 15, 2000, and a second supplemental lease with option to purchase dated November 15, 2007 for the Curtis Office Building. This office building was constructed and equipped at the southeast corner of 10th and Jackson Streets in Topeka, Kansas. This lease is intended to be a net lease with rent payments to be made by the State throughout the entire term of the lease designed to provide the Commission with funds adequate to pay all Commission obligations under the Bonds and the Indenture. The State lease payments are subject to annual appropriation by the State Legislature.

The Commission has entered into a Lease with Option to Purchase with the State of Kansas – Department of Administration dated December 1, 1998, a first supplemental lease with option to purchase dated August 15, 2000, and a second supplemental lease with option to purchase dated November 15, 2007 for the adjacent Parking Facility. This Parking Facility was constructed and equipped at the southeast corner of 10th and Jackson Streets in Topeka, Kansas. The State is responsible for the gross rental payments, subject to annual appropriation by the State Legislature. The parking revenues escalate at 2 percent per annum. This lease is intended to be a net lease with rent payments to be made by the State throughout the entire term of the lease designed to provide the Commission with funds adequate to pay all Commission obligations under the bonds and the Indenture. The State lease payments are subject to annual appropriation by the State Legislature.

The Commission has entered into a Lease with Option to Purchase with the State of Kansas – Department of Social and Rehabilitation Services (Kansas Department for Children and Families) dated January 1, 1999, a first supplemental lease with option to purchase dated August 15, 2000, and a second supplemental lease with option to purchase dated November 15, 2007 for the Topeka Area SRS Office Building (Department for Children and Families East Regional Service Center). This office building was constructed and equipped at the southeast corner of 5th and Van Buren Streets in Topeka, Kansas. This lease is intended to be a net lease with rent payments to be made by the State throughout the entire term of the lease designed to provide the Commission with funds adequate to pay all Commission obligations under the Bonds and the Indenture. The State lease payments are subject to annual appropriations by the State Legislature.

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Leases (Continued)

Future minimum lease payments on these leases are as follows:

<u>Year Ended December 31,</u>	<u>Curtis Office Building and Parking Facility</u>	<u>Topeka Area SRS Office Building</u>
2013	\$ 3,304,063	\$ 768,148
2014	3,368,937	777,813
2015	3,437,313	774,438
2016	3,498,937	719,563
2017	3,553,813	720,063
2018 - 2022	18,828,313	3,582,563
2023 - 2027	20,663,938	3,572,938
2028 - 2030	11,380,748	862,189
Lease receivable	<u>\$ 68,036,062</u>	<u>\$ 11,777,715</u>

4 - Long-Term Debt

Revenue Bonds Payable

Revenue bonds consist of the following:

Series 2007A Revenue Bonds	\$ 44,695,000
Series 2007B Revenue Bonds	8,310,000
	<u>\$ 53,005,000</u>

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt (Continued)

Revenue Bonds Payable (Continued)

The Series 2007A Revenue Bonds consist of serial bonds and term bonds of \$ 41,970,000 and \$ 6,750,000, respectively. The serial bonds are due in annual principal payments ranging from \$ 490,000 to \$ 3,980,000 with the final payment due June 1, 2028, and bear interest at 5 percent. The term bonds mature in the following amounts and dates, \$ 4,275,000 – June 1, 2029, \$ 2,475,000 – June 1, 2030, and bear interest at 4.375 percent. All interest is payable semiannually.

The Series 2007B Revenue Bonds consist of serial bonds and term bonds of \$ 7,015,000 and \$ 2,930,000, respectively. The serial bonds are due in annual principal payments ranging from \$ 275,000 to \$ 560,000 with the final payment due June 1, 2024, and bear interest at rates of 4 percent to 5 percent. The term bonds mature in the following amounts and dates, \$ 590,000 – June 1, 2025, \$ 620,000 – June 1, 2026, \$ 650,000 – June 1, 2027, \$ 680,000 – June 1, 2028, \$ 390,000 – June 1, 2029, and bear interest at rates of 4.375 percent to 5 percent. All interest is payable semiannually.

The bonds are payable from, and secured as to the payment by a pledge of, the net earnings and revenues of the respective projects and a pledge and assignment of the respective trust estates. The bonds do not constitute a debt or general obligation of the Issuer, the State of Kansas, or the City.

The bonds may be redeemed prior to maturity in accordance with related bond indentures.

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt (Continued)

Revenue Bonds Payable (Continued)

Aggregate future debt service requirements as of December 31, 2012 are as follows:

	2007A Issue		2007B Issue	
	Principal	Interest	Principal	Interest
2013	\$ 1,140,000	\$ 2,164,063	\$ 380,000	\$ 395,313
2014	1,265,000	2,103,938	400,000	377,813
2015	1,400,000	2,037,313	415,000	359,437
2016	1,535,000	1,963,938	380,000	339,563
2017	1,670,000	1,883,813	400,000	320,063
2018 - 2022	10,890,000	7,938,313	2,310,000	1,272,563
2023 - 2027	16,065,000	4,598,938	2,955,000	617,938
2028 - 2030	10,730,000	650,747	1,070,000	40,466
Total	<u>\$ 44,695,000</u>	<u>\$ 23,341,063</u>	<u>\$ 8,310,000</u>	<u>\$ 3,723,156</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 54,410,000	\$ -	\$ (1,405,000)	\$ 53,005,000	\$ 1,520,000
Plus deferred amounts for issuance premiums	2,750,371	-	(150,742)	2,599,629	-
	<u>\$ 57,160,371</u>	<u>\$ -</u>	<u>\$ (1,555,742)</u>	<u>\$ 55,604,629</u>	<u>\$ 1,520,000</u>

TOPEKA PUBLIC BUILDING COMMISSION

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - Risk Management

The Commission is exposed to various risks of loss related to torts; that is, damage to and destruction of assets; business interruption; errors and omissions and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There have not been significant reductions in coverage from prior years.