

FINANCIAL STATEMENTS  
AND REQUIRED SUPPLEMENTAL INFORMATION  
Ohio Municipal Joint Self-Insurance Pool  
*Years ended December 31, 2010 and 2009 with  
Report of Independent Auditors*





# Dave Yost • Auditor of State

Board of Trustees  
Ohio Municipal Joint Self-Insurance Pool  
600 East 96th Street, Suite 425  
Indianapolis, Indiana 46240

We have reviewed the *Report of Independent Auditors* of the Ohio Municipal Joint Self-Insurance Pool, Franklin County, prepared by Leemhuis Group, for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Municipal Joint Self-Insurance Pool is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

October 5, 2011

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Ohio Municipal Joint Self-Insurance Pool

Financial Statements and  
Required Supplemental Information

Years ended December 31, 2010 and 2009

**Contents**

Management Discussion and Analysis .....	1
Audited Financial Statements	
Report of Independent Auditors .....	3
Balance Sheets .....	5
Statements of Income and Changes in Accumulated Surplus .....	6
Statements of Cash Flows.....	7
Notes to Financial Statements .....	8
Required Supplemental Information	
Schedule of Claims Development Information.....	13

## Ohio Municipal Joint Self-Insurance Pool Management Discussion and Analysis

This section of the Ohio Municipal Joint Self Insurance Pool's (the "Pool") financial statements contains a discussion and analysis by management of the Pool's financial results as of December 31, 2010 and 2009 for the years then ended.

Content of the audit report is broken into three sections, *management discussion and analysis* (this section) the *basic financial statements* (including footnotes) and *required supplementary information*.

	<u>2010</u>	<u>2009</u>
Total assets	\$ 1,950,167	\$ 2,109,514
Losses and loss adjustment expenses payable	1,075,852	1,020,426
Other liabilities	580,880	900,413
Total liabilities	1,656,732	1,920,839
Accumulated surplus	293,435	188,675
Premium revenues, net of reinsurance ceded	1,485,767	1,835,932
Investment income	60	232
Total revenues	1,485,827	1,836,164
Losses and loss adjustment expenses, net of reinsurance ceded	641,149	632,140
Administrative and other expenses	739,918	753,562
Total expenses	1,381,067	1,385,702
Net change in accumulated surplus	104,760	450,462

The Pool's total assets decreased 8%, or \$159,349, to \$1,950,166 in 2010. Cash and cash equivalents decreased 8%, or \$79,927, from \$1,038,409 in 2009 to \$958,482 in 2010.

The Pool's net case loss reserves increased in 2010 to \$379,861, as compared to 2009 net case reserves of \$322,556. From actuarial analysis of expected reported claims in 2010, the Pool left its conservative reserve allocation for incurred but not reported (IBNR) claim reserves at \$624,237. The total loss reserves including case and IBNR stayed relatively flat from the prior year, at approximately \$1.0 million.

The Pool produced a net profit of \$104,760 in 2010 as compared to a 2009 net profit of \$450,462. This is the fifth year in a row, and seventh out of the last eight years, in which the Pool posted positive earnings from operations.

## Ohio Municipal Joint Self-Insurance Pool Management Discussion and Analysis (continued)

The Pool retained 94% of its members, and two new members joined the Pool in 2010. Pool administration and sales expenses decreased approximately 2% during 2010 to \$667,106. As the Pool's contributions decreased during 2010, the expenses for Pool administration and brokerage dropped correspondingly. This resulted in \$31,635 less paid out in sales expenses over the 2009 payments. The OML, sponsor of the Pool, received 3% of gross written and surplus contributions for the calendar year.

The Pool changed its liability reinsurance program to 100% domestic reinsurance providers in 2008. The benefits of this change included switching to a guaranteed cost premium as opposed to premiums that were adjustable based on incurred reinsured losses. The reinsurance expense was booked proportionately based upon the number of coverage months for each member renewal. The Pool's self-insured retention was also reduced from \$200,000 to \$150,000.

Another significant change is that the Pool's annual aggregate retained losses are now capped at \$2,000,000. After that point, 100% of the Pool's losses are reinsured, less \$25,000 maintenance deductibles.

The Pool has received a determination letter from the Internal Revenue Service indicating that the income is excludable from taxation. As such the tax returns filed annually indicate no tax liability is due.



## Report of Independent Auditors

Board of Trustees  
Ohio Municipal Joint Self-Insurance Pool

We have audited the accompanying balance sheets of the Ohio Municipal Joint Self-Insurance Pool as of December 31, 2010 and 2009 and the related statements of income and changes in accumulated surplus and cash flows for the years then ended. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Municipal Joint Self-Insurance Pool at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2011 on our consideration of the Ohio Municipal Joint Self-Insurance Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management's discussion and analysis on pages 1 and 2 and the Schedule of Claims Development Information on page 13 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Levitt Group*

May 11, 2011

# Ohio Municipal Joint Self-Insurance Pool

## Balance Sheets

	December 31	
	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 958,482	\$ 1,038,409
Member contributions receivable	396,439	207,697
Deferred acquisition costs	162,003	237,456
Reinsurance recoverable	433,243	625,952
Total assets	<u>\$ 1,950,167</u>	<u>\$ 2,109,514</u>
<b>Liabilities and accumulated surplus</b>		
Losses and loss expenses payable	\$ 1,075,852	\$ 1,020,426
Unearned member contributions	416,229	712,855
Administrator, sponsor fees and commissions payable	164,651	187,558
Total liabilities	<u>1,656,732</u>	<u>1,920,839</u>
Accumulated surplus	<u>293,435</u>	<u>188,675</u>
Total liabilities and accumulated surplus	<u>\$ 1,950,167</u>	<u>\$ 2,109,514</u>

*See accompanying notes.*

## Ohio Municipal Joint Self-Insurance Pool

### Statements of Income and Accumulated Surplus

	Years ended December 31	
	2010	2009
Operating revenues:		
Gross written contributions	\$ 1,942,501	\$ 2,278,626
Member surplus contributions	255,483	295,647
Change in unearned premium	287,274	74,009
Reinsurance premiums	(981,172)	(989,284)
Change in unearned premium ceded	(18,319)	176,934
	1,485,767	1,835,932
Operating expenses:		
Losses and loss adjustment expenses	1,432,181	966,734
Ceded losses recovered	(791,032)	(334,594)
Administrator, sponsor fees and commissions	667,106	680,911
Professional fees	56,818	53,863
Other expenses	15,994	18,788
	1,381,067	1,385,702
Operating income	104,700	450,230
Non-operating revenues:		
Investment income	60	232
Net increase in accumulated surplus	104,760	450,462
Accumulated (deficit) beginning of year	188,675	(261,787)
Accumulated surplus end of year	\$ 293,435	\$ 188,675

*See accompanying notes.*

# Ohio Municipal Joint Self-Insurance Pool

## Statements of Cash Flows

	Years ended December 31	
	2010	2009
<b>Operating activities</b>		
Member and surplus contributions received	\$ 1,992,369	\$ 2,734,006
Reinsurance premiums paid	(1,436,345)	(1,071,954)
Loss and allocated expenses paid, net of deductibles collected	(1,715,065)	(1,468,917)
Reinsurance, salvage and subrogation recoveries received	1,751,018	109,866
Administrator, sponsor fees and commissions paid	(614,557)	(646,193)
Professional fees paid	(57,968)	(57,733)
Other income (expenses)	561	(33,738)
Net cash used by operating activities	(79,987)	(434,663)
<b>Investing activities</b>		
Investment income	60	232
Net cash provided by investing activities	60	232
Net decrease in cash and cash equivalents	(79,927)	(434,431)
Cash and cash equivalents at beginning of the year	1,038,409	1,472,840
Cash and cash equivalents at end of the year	\$ 958,482	\$ 1,038,409
<b>Reconciliation of net income to net cash used by operating activities:</b>		
Operating income	\$ 104,700	\$ 450,230
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Member contributions receivable	(188,742)	92,255
Deferred acquisition costs	75,453	16,355
Reinsurance recoverable	192,709	(100,036)
Losses and loss expenses payable	55,426	(673,479)
Unearned member contributions	(296,626)	(238,849)
Administrator, sponsor fees and commissions payable	(22,907)	18,861
Net cash used by operating activities	\$ (79,987)	\$ (434,663)

See accompanying notes.

# Ohio Municipal Joint Self-Insurance Pool

## Notes to Financial Statements

December 31, 2010 and 2009

### **1. Organization and Significant Accounting Policies**

#### **Organization**

The Ohio Municipal Joint Self-Insurance Pool (the "Pool") is an unincorporated nonprofit association which provides a program of property and casualty self-insurance for its member organizations. Membership is restricted to municipal corporations and their instrumentalities in the State of Ohio. Under the terms of the membership agreement, members are subject to a supplemental assessment or a refund, depending on the Pool's underwriting results for each coverage year.

#### **Basis of Presentation**

The Pool accounts for its activities in an enterprise fund and the accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), provided that they do not conflict or contradict statements issued by the Government Accounting Standards Board ("GASB"). GASB Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* provides standards for accounting and reporting that apply to public entity risk pools.

#### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

#### **Cash and Cash Equivalents**

All highly liquid investments with maturities of three months or less when purchased are classified as cash and cash equivalents and are stated at cost, which approximates market.

#### **Deferred Acquisition and Organizational Costs**

Policy acquisition costs, primarily commissions paid to brokers and management fees paid to the administrator (see Note 3), are deferred and amortized over the life of the policy, generally one year.

# Ohio Municipal Joint Self-Insurance Pool

## Notes to Financial Statements

December 31, 2010 and 2009

### 1. Organization and Significant Accounting Policies (continued)

#### Losses and Loss Adjustment Expenses Payable

The liabilities for losses and loss adjustment expenses and incurred but not reported claims are estimated based on historical information and claim experience, and represent management's best estimate of the ultimate cost of claims. Because the ultimate claim costs can be affected by factors such as inflation, legal settlements and damage awards, the estimation process includes considerable variability. Management believes that the recorded liabilities are adequate. The estimates are continually reviewed and updated as experience develops or new information becomes known; such adjustments are reflected in current operations.

#### Revenue Recognition

Policies are billed on an annual basis. Members are charged a contribution for the insurance coverage(s) provided by the Pool, which is recognized as revenue ratably over the term of the policy (one year). The amount of the contribution is dependent on underwriting factors such as past claim experience, rating and market and competitive factors. Unearned member contributions represent the portion of the annual contributions billed on the effective date of one-year policies that have not been earned over the term of the policy, and are reported net of reinsurance ceded.

In addition to the written contribution, a surplus contribution is charged to the member and included in the annual billing. In certain situations, members may elect to make a three-year prepaid surplus contribution. Prepaid surplus contributions were \$15,943 and \$43,615 at December 31, 2010 and 2009, respectively, and are included in unearned member contributions in the accompanying balance sheets.

#### Concentrations of Credit Risk

All written and surplus contributions are received from cities and municipalities in the State of Ohio.

#### Income Taxes

The Internal Revenue Service ("IRC") has determined that the Pool is performing an essential governmental function within the provisions of IRC Section 115 and while the Pool files a tax return as an unincorporated association, the Pool qualifies as a non-taxable entity.



# Ohio Municipal Joint Self-Insurance Pool

## Notes to Financial Statements

December 31, 2010 and 2009

### 1. Organization and Significant Accounting Policies (continued)

#### Income Taxes (continued)

In consideration of Accounting Standards Codification (“ASC”) 740-10-25 *Accounting for Uncertainties in Income Taxes*, the Pool has not taken any uncertain tax positions that should be recognized in the accompanying financial statements. The Pool’s 2009, 2008 and 2007 tax returns are subject to examination by the Internal Revenue Service.

### 2. Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and short term investments held in three accounts at a commercial bank. Custodial credit risk is the risk that depositor’s funds may be lost in the event of a bank failure. Interest bearing deposits at the Association’s financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 and non-interest bearing deposits are insured on an unlimited basis. At December 31, 2010 and 2009, the Pool’s uninsured cash and investment balances totaled \$587,774 and \$644,962, respectively. To limit its interest rate and credit risk, the Pool invests only in U.S. Government securities with a maturity of two years or less. The Pool has not established a limit on the amount of funds that may be invested with any one institution.

### 3. Administrative Services Agreement

The Pool has outsourced its administrative functions to JWF Specialty, Inc. (“JWF”), a third party administrator located in Indiana, under a service agreement effective June 2001 and renewable yearly. In accordance with the agreement, JWF performs all policy management, underwriting, billing, claims management and payment functions and financial management for the Pool, and is paid a fee based on a percentage of written contribution earned. Administrative expenses incurred in connection with this agreement totaled \$303,285 and \$324,625 for 2010 and 2009, respectively, and are included in administrator, sponsor fees and commissions in the accompanying statement of income and accumulated surplus.

### 4. Reinsurance

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess of loss contracts in-force protect the Pool against losses over the retention level; at December 31, 2010, the Pool’s retention level is \$150,000 for property and casualty coverages.

# Ohio Municipal Joint Self-Insurance Pool

## Notes to Financial Statements

December 31, 2010 and 2009

### 4. Reinsurance (continued)

The effect of ceded reinsurance on certain assets, liabilities, contributions earned and losses paid at December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Ceded losses and loss expenses receivable	\$ 389,990	\$ 479,137
Ceded losses and loss expenses recoverable	60,013	262,016
Ceded unearned member contributions	257,795	276,115
Reinsurance expense	981,172	989,284
Ceded losses and loss expenses	791,032	334,594

The Pool remains liable to the extent the reinsuring companies are unable to meet their contractual obligations under reinsurance agreements.

### 5. Losses and Loss Adjustment Expenses Payable

The following table provides a reconciliation of the beginning and ending balances of the liability for losses and loss adjustment expenses:

	<u>2010</u>	<u>2009</u>
Balances at January 1	1,020,426	1,693,905
Losses incurred related to:		
Current year	686,485	488,537
Prior years	(45,496)	143,603
Total losses incurred	641,149	632,140
Paid related to:		
Current year	302,650	202,334
Prior years	283,073	1,103,285
Total paid	585,723	1,305,619
Balance at December 31	<u>\$ 1,075,852</u>	<u>\$ 1,020,426</u>

Losses incurred related to prior years varies from previously estimated liabilities as the claims are ultimately settled. The changes in amounts incurred related to prior years are the result of adverse development of settled and open claims.



# Ohio Municipal Joint Self-Insurance Pool

## Notes to Financial Statements

December 31, 2010 and 2009

### 5. Losses and Loss Adjustment Expenses Payable (continued)

Losses and loss adjustment expenses payable include a reserve credit for policy deductible amounts billed to the insured. Reserve credits taken for these deductible amounts at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Deductibles receivable	\$ 183,054	\$ 145,154
Deductibles recoverable	164,841	279,538
	<u>\$ 347,895</u>	<u>\$ 424,692</u>

### 6. Subsequent Events

Management is in the process of changing the Pool's fiscal year end to March 31, effective in 2011. The change is being made in order to align the Pool's budget and financial reporting with its excess reinsurance policies. A portion of the policy renewals in 2010 were made only to March 31, 2011.

In accordance with ASC 855 *Subsequent Events*, the Pool evaluated subsequent events through May 11, 2011, the date these financial statements were available to be issued. Other than the anticipated change in the Pool's fiscal year end discussed in the preceding paragraph, there were no material subsequent events that required recognition or additional disclosure in the accompanying financial statements.

## Required Supplemental Information

Ohio Municipal Joint Self-Insurance Pool

Schedule of Claims Development Information

Years Ended December 31

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross written premium	3,169,906	3,326,850	3,807,173	3,644,655	3,761,688	3,217,139	3,073,871	2,571,751	2,278,626	1,942,501
Earned revenue	3,198,012	3,974,169	4,285,399	4,350,027	4,302,874	3,997,908	3,741,221	3,065,255	2,574,505	2,198,044
Less ceded	(1,058,844)	(1,555,809)	(1,359,132)	(870,170)	(1,222,857)	(1,229,724)	(1,108,456)	(1,101,106)	(989,284)	(981,172)
Net earned	2,139,168	2,418,360	2,926,267	3,479,857	3,080,017	2,768,184	2,632,765	1,964,149	1,585,221	1,216,872
Non-claim expenses	959,074	1,080,899	1,138,677	1,098,568	1,178,139	1,098,603	971,704	849,789	753,562	739,918
Paid losses and loss adjustment expenses (cumulative) as of:										
End of policy year	380,521	540,822	516,398	350,663	261,280	301,512	289,907	313,683	202,334	302,650
End of first year	466,916	1,002,509	909,990	837,237	504,319	862,850	783,335	566,328	702,407	
End of second year	696,073	1,423,850	1,233,995	1,177,616	761,828	1,182,898	1,065,888	674,345		
End of third year	885,332	1,916,224	1,602,973	1,584,181	864,730	1,408,400	1,219,652			
End of fourth year	996,325	2,006,572	1,723,526	1,613,412	952,963	1,434,200				
End of fifth year	1,003,677	2,092,786	1,747,399	1,699,247	983,104					
End of sixth year	1,003,677	2,099,967	1,749,652	1,730,710						
End of seventh year	1,003,677	2,104,498								
End of eighth year	1,003,677	2,098,993								
End of ninth year	1,003,275									
Re-estimated ceded claims and expenses	512,593	928,273	66,219	-	-	-	-	-	-	-
Incurred loss and loss adjustment expenses:										
End of policy year	625,815	1,093,747	951,758	723,833	690,889	587,713	857,362	606,964	372,932	470,117
End of first year	699,010	1,528,013	1,228,502	1,108,473	1,029,954	1,130,243	1,421,243	728,009	938,554	
End of second year	938,021	1,908,968	1,617,725	1,543,796	1,198,660	1,460,634	1,537,522	942,083		
End of third year	974,804	2,042,818	1,774,158	1,762,799	1,005,804	1,510,576	1,342,940			
End of fourth year	1,016,261	2,116,469	1,803,864	1,721,656	1,073,559	1,510,876				
End of fifth year	1,012,605	2,106,115	1,786,680	1,741,764	1,026,027					
End of sixth year	1,003,677	2,113,008	1,749,652	1,736,457						
End of seventh year	1,003,677	2,106,508								
End of eighth year	1,033,677	2,098,993								
End of ninth year	1,003,275									
Increase in estimated incurred loss and loss adjustment expenses from end of policy year	377,862	1,019,261	834,922	997,823	314,915	872,921	563,881	121,045	-	-

See accompanying independent auditors report.

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Board of Trustees  
Ohio Municipal Joint Self-Insurance Pool

We have audited the financial statements of the Ohio Municipal Joint Self-Insurance Pool as of and for the year ended December 31, 2010, and have issued our report thereon dated May 11, 2011. 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 the *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Ohio Municipal Joint Self-Insurance Pool's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ohio Municipal Joint Self-Insurance Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect of 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*.

This report is intended solely for the information and use of the board of trustees and management of the Ohio Municipal Joint Self-Insurance Pool and the Auditor of State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

*Leominster Group*

May 11, 2011



# Dave Yost • Auditor of State

## OHIO MUNICIPAL JOINT SELF INSURANCE POOL

### FRANKLIN COUNTY

#### CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
OCTOBER 18, 2011