

# **Ohio Township Association Risk Management Authority**

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**Financial Report  
with Required Supplemental Schedules  
December 31, 2008**





# Mary Taylor, CPA

Auditor of State

Board of Directors  
Ohio Township Association Risk Management Authority  
C/O American Risk Pool Consultants  
29621 Northwestern Hwy  
P.O. Box 5088  
Southfield, MI 48086

We have reviewed the *Independent Auditor's Report* of the Ohio Township Association Risk Management Authority, Lucas County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2008 through December 31, 2008. 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 Township Association Risk Management Authority is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 18, 2009

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# **Ohio Township Association Risk Management Authority**

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## Independent Auditor's Report

To the Board of Directors  
Ohio Township Association Risk  
Management Authority

We have audited the accompanying financial statements of the business-type activities of Ohio Township Association Risk Management Authority (the "Pool") as of and for the years ended December 31, 2008 and 2007, which collectively comprise the Pool's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Pool's board of directors and management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 respective financial position of Ohio Township Association Risk Management Authority at December 31, 2008 and 2007 and the respective changes in its financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, casualty claims development information, and property claims development information, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors  
Ohio Township Association Risk  
Management Authority

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2009 on our consideration of Ohio Township Association Risk Management Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

June 1, 2009

# **Ohio Township Association Risk Management Authority**

## **Management's Discussion and Analysis**

### **Using this Annual Report**

This annual report consists of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. Along with the notes to the financial statements, they provide detailed financial information concerning Ohio Township Association Risk Management Authority (the "Pool" and "OTARMA"). The management's discussion and analysis (MD&A) provides a review of the Pool's operating results for the years 2006 through 2008, as well as its financial condition at December 31, 2008, 2007, and 2006. The MD&A should be read in conjunction with our financial statements and notes thereto.

### **Overview**

OTARMA is a local government risk-sharing pool that was formed in 1987 for the primary purpose of providing townships throughout the state of Ohio with an alternative to traditional property and casualty insurance. OTARMA's philosophy differs from that of a traditional insurance program in that the Pool is owned by its membership and serves only the interest of its members.

Historically, the property and casualty insurance industry has been unable to provide the coverage and consistency of pricing needed by public entities. The national insurance crisis of the mid-1980s, in which public entities, including townships in the state of Ohio, were unable to purchase affordable insurance, led to the formation of group self-insurance pools. Under these pooling arrangements, members agreed to share the cost of their claims and related expenses. The transition from insurance to pooling has been so successful that there are over 450 pools currently operating in the United States of America.

The growth and success of pooling is often attributed to the availability of broad coverage, cost savings and stability, and ownership by its members. In addition to those advantages enjoyed by many pools, OTARMA, with 950 members, enjoys the distinct privilege of being the pool with the most townships in Ohio and the only pool endorsed by the Ohio Township Association (OTA). The OTA endorsement is significant, as the OTA is dedicated to the promotion and preservation of township government and serves as a resource to aid in effective township government. OTARMA members also enjoy personalized loss control services, including access to a comprehensive online loss control library with over 10,000 multi-media risk management tools, and regular newsletters and e-alerts on a wide range of matters pertaining to townships.

OTARMA continues to build on its longstanding success by adhering to its commitment to provide coverage at a fair and stable price consistently over time and being responsible, loyal, and responsive to its members.



# Ohio Township Association Risk Management Authority

## Management's Discussion and Analysis (Continued)

### Administration

American Risk Pooling Consultants, Inc. (ARPCO or “management”), a division of York Insurance Services Group, Inc. (York), functions as the administrator of the Pool and provides underwriting, claims, loss control, risk management, and reinsurance programs for the Pool. ARPCO has a staff of highly experienced attorneys and other professionals that have specialized in providing insurance-related services to public entities for over two decades. York is a national provider of claims-handling, specialized loss adjusting, and other insurance-related services to public entities throughout the United States of America.

### Financial Overview and Highlights

The analysis below presents a comparison of the Pool’s current year financial position to prior years:

	2008	2007	2006
<b>Assets</b>			
Cash and cash equivalents	\$ 3,030,170	\$ 1,917,120	\$ 2,018,823
Investment securities, at fair value	24,988,321	27,818,074	27,420,669
Member contributions to be billed in the future	10,857,842	11,648,087	10,839,224
Other assets	1,861,407	1,827,422	1,763,559
Total assets	<u><b>\$ 40,737,740</b></u>	<u><b>\$ 43,210,703</b></u>	<u><b>\$ 42,042,275</b></u>
<b>Liabilities</b>			
Claims and claim adjustment expense reserves	\$ 12,120,958	\$ 12,547,523	\$ 11,283,123
Unearned premium reserves	163,863	275,795	423,542
Other liabilities	696,997	534,519	413,996
Total liabilities	12,981,818	13,357,837	12,120,661
<b>Net Assets - Unrestricted</b>	<u>27,755,922</u>	<u>29,852,866</u>	<u>29,921,614</u>
Total liabilities and net assets	<u><b>\$ 40,737,740</b></u>	<u><b>\$ 43,210,703</b></u>	<u><b>\$ 42,042,275</b></u>

# Ohio Township Association Risk Management Authority

## Management's Discussion and Analysis (Continued)

Approximately 69 percent in 2008, 69 percent in 2007, and 70 percent in 2006 of total assets consist of cash, cash equivalents, and investments. Due to general market conditions over the past six months, the Pool was cautious and conservative in investing excess cash, resulting in an overall increase in cash position totaling \$1,113,050 over 2007 balances. As a result of the Pool's conservative investment objectives and policies, the overall investments return (excluding the net realized and unrealized losses on investments) totaled 4.02 percent during the year ended December 31, 2008. At December 31, 2008, 2007, and 2006, substantially all of the Pool's investments were invested in U.S. government securities or U.S. agency securities.

In accordance with the requirements of Governmental Accounting Standards Board (GASB) No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, member contributions, claims and claim adjustment expenses, and operating expenses are recognized in the statement of revenue, expenses, and changes in net assets on an accrual basis of accounting. As a result of provisions in the *Intergovernmental Contract* signed by each member of the Pool, the funding requirement for each member is equal to the estimated cash outflow of the Pool on an annual basis. As a result of the long claim cycle for casualty-related claims, member contributions are collected from active members when the estimated incurred claims and loss adjustment expenses are anticipated to be paid. These estimated amounts are stated in the statement of net assets as "member contributions to be billed in the future." Changes to these estimates are stated in the statement of revenue, expenses, and changes in net assets in a similar methodology as claims reserves detailed below. Because amounts are estimated on a methodology consistent to claims reserves detailed below, amounts will fluctuate from year to year based as a result of changes in the ultimate expected claims to be settled for a specific insurance period.

The Pool's claims and claim adjustment expense reserves remained consistent over the past three years totaling \$12,120,958 in 2008, \$12,547,523 in 2007, and \$11,283,123 in 2006. The reserves are estimated based on known facts for those claims existing at December 31 and a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors to provide reserve estimates for those claims incurred but not reported at year end. Because these estimates depend on such complex factors as jury decisions, court interpretations, changes in doctrines of legal liability, damage awards, inflation, and legislative changes, the process used in estimating claim reserves does not necessarily result in an exact amount. Consistent with industry practices, adjustments to claims reserves are charged to expense in the periods in which they are made. During the year ended December 31, 2008, the Pool decreased its provision for claims incurred in prior years by \$2,577,438 as a result of a decrease in claim frequency from the original actuarial estimate and favorable outcomes on certain cases settled or expected to be settled in the near term.

# Ohio Township Association Risk Management Authority

## Management's Discussion and Analysis (Continued)

Net assets (members' equity) decreased \$2,096,944 and \$68,748 for the years ended December 31, 2008 and 2007, respectively, primarily as a result of the board of directors approving cash distributions to members totaling \$2,311,009 and \$2,255,078 for the years ended December 31, 2008 and 2007, respectively.

The following table shows the major components of income from operations for the current year, compared to prior years:

	2008	2007	2006
<b>Revenue</b>			
Member contributions - Operating	\$ 12,573,542	\$ 12,340,742	\$ 12,093,951
Reinsurance premiums ceded	(2,210,061)	(2,498,023)	(2,192,369)
Contributions that will be billed in the future to pay unpaid claims	(790,245)	808,863	(787,926)
Investment earnings - Interest and dividends	1,133,041	1,284,388	1,087,447
Net realized and unrealized gains and losses on investments	6,483	718,706	620,068
Total revenue	10,712,760	12,654,676	10,821,171
<b>Expenses</b>			
Provision for claims	6,299,810	6,374,623	2,986,997
Operating expenses	4,432,351	4,336,473	4,292,554
Total expenses	10,732,161	10,711,096	7,279,551
<b>Excess of Revenue (Under) Over Expenses</b>	(19,401)	1,943,580	3,541,620
<b>Member Withdrawals and Distributions</b>	(2,417,167)	(2,414,887)	(85,971)
<b>Contributions - Capitalization - Cumulative Reserve Fund</b>	339,624	402,559	553,138
<b>(Decrease) Increase in Net Assets</b>	<b>\$ (2,096,944)</b>	<b>\$ (68,748)</b>	<b>\$ 4,008,787</b>

The Pool's membership remained consistent at 950 members in 2007 and 2008. As a result of this consistency and the ability to maintain the stability in rates, member contributions only increased approximately 1.9 percent, from \$12,340,742 in 2007 to \$12,573,542 in 2008.

# **Ohio Township Association Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

The Pool uses reinsurance and excess risk-sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool; however, they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains insured risks up to an amount specified in the contracts. (At December 31, 2008, the Pool retained \$350,000 for casualty claims and \$100,000 for property claims). The board of directors and ARPCO periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain. Reinsurance expense (ceded) totaled approximately 17.9 percent and 20.2 percent of member contributions for the years ended December 31, 2008 and 2007, respectively. In addition, amounts deducted from claims and claim expense reserves as of December 31, 2008 and 2007 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$3,052,000 and \$5,643,000, respectively.

In accordance with generally accepted accounting principles, all investments maintained by the Pool must be reported at fair market value (marked-to-market concept). Annual changes in these values are recognized in the statement of revenue, expenses, and changes in net assets as unrealized gains or losses on investments. Net realized and unrealized gains on investments decreased \$712,223 during 2008 as a result of market events that occurred over the past six months of 2008.

Total operating expenses of the Pool were consistent in 2008 and 2007, totaling \$4,432,351 and \$4,336,473, respectively, or 35.2 percent and 35.1 percent, respectively, of member contributions.

### **Economic Facts and Next Year's Rates**

The rates charged by the Pool for member contributions for the next year are not expected to change significantly. All other operating expenses are expected to remain consistent with amounts reported in 2008. The provision for claim payments is expected to be consistent with historical trends and the Pool is unaware of any economic events or legislative events that would have a significant impact on the operations of the Pool.

### **Contacting the Pool's Management**

This financial report is intended to provide our members and regulators with a general overview of the accountability for the revenue it receives. If you have questions about this report or need additional information, contact John W. Brockschmidt, President, American Risk Pooling Consultants, Inc. at (248) 204-5142.

# Ohio Township Association Risk Management Authority

## Statement of Net Assets

	December 31	
	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 3,030,170	\$ 1,917,120
Claims servicer imprest fund	25,000	53,582
Member contributions receivable	898,367	864,358
Investment securities (Note 2)	6,745,113	8,362,090
Accrued investment income	311,265	349,235
Deductibles recoverable	16,500	22,374
Reinsurance receivable on paid claims (Note 4)	415,177	342,775
Claims escrow fund	195,098	195,098
Member contributions to be billed in the future	<u>2,500,000</u>	<u>2,500,000</u>
Total current assets	14,136,690	14,606,632
<b>Investment Securities - Net of current portion (Note 2)</b>	18,243,208	19,455,984
<b>Member Contributions to be Billed in the Future</b>	<u>8,357,842</u>	<u>9,148,087</u>
Total assets	<u><b>\$ 40,737,740</b></u>	<u><b>\$ 43,210,703</b></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 3)	\$ 3,763,116	\$ 3,399,436
Reinsurance premiums payable (Note 4)	161,923	70,843
Accounts payable and accrued expenses	<u>535,074</u>	<u>463,676</u>
Total current liabilities	4,460,113	3,933,955
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 3)	8,357,842	9,148,087
Unearned premium reserves	<u>163,863</u>	<u>275,795</u>
Total liabilities	12,981,818	13,357,837
<b>Net Assets - Unrestricted</b>	<u>27,755,922</u>	<u>29,852,866</u>
Total liabilities and net assets	<u><b>\$ 40,737,740</b></u>	<u><b>\$ 43,210,703</b></u>

# Ohio Township Association Risk Management Authority

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2008	2007
<b>Revenue</b>		
Member contributions - Operating	\$ 12,573,542	\$ 12,340,742
Reinsurance premiums ceded (Note 4)	(2,210,061)	(2,498,023)
Contributions that will be billed in the future to pay unpaid claims	(790,245)	808,863
Investment earnings - Interest and dividends	1,133,041	1,284,388
Net realized and unrealized gains on investments	6,483	718,706
Total revenue	10,712,760	12,654,676
<b>Claims and Claim Adjustment Expenses (Note 3)</b>		
Paid	8,817,716	5,677,445
Recoveries	(1,421,086)	(1,509,127)
(Decrease) increase in claims and claim adjustment expense reserves	(1,096,820)	2,206,305
Total claims and claim adjustment expenses	6,299,810	6,374,623
<b>Excess of Revenue Over Claims and Claim Adjustment Expenses</b>	4,412,950	6,280,053
<b>Expenses</b>		
Marketing and administrator fees	3,586,500	3,523,797
Other	845,851	812,676
Total expenses	4,432,351	4,336,473
<b>Excess of Revenue (Under) Over Claims and Claim Adjustment Expenses and Expenses</b>	(19,401)	1,943,580
<b>Member Withdrawals and Distributions</b>		
Capitalization (Note 5)	(106,158)	(159,809)
Budgetary (Note 6)	(2,311,009)	(2,255,078)
Total member withdrawals and distributions	(2,417,167)	(2,414,887)
<b>Contributions - Capitalization - Cumulative Reserve Fund</b>	339,624	402,559
<b>Decrease in Net Assets</b>	(2,096,944)	(68,748)
<b>Net Assets - Beginning of year</b>	29,852,866	29,921,614
<b>Net Assets - End of year</b>	\$ 27,755,922	\$ 29,852,866

# Ohio Township Association Risk Management Authority

## Statement of Cash Flows

	Year Ended December 31	
	2008	2007
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 12,534,422	\$ 12,394,384
Cash received from excess insurance carriers	1,421,086	1,509,127
Cash paid for claims	(8,113,005)	(6,698,241)
Cash paid for reinsurance premiums	(2,191,383)	(2,582,555)
Cash paid for administrative and general expenses	(4,360,953)	(4,217,835)
Net cash (used in) provided by operating activities	(709,833)	404,880
<b>Cash Flows from Investing Activities</b>		
Investment income received	1,171,011	1,327,483
Purchase of investments	(12,356,951)	(12,715,856)
Proceeds from sales and maturities of investments	15,193,187	13,037,157
Net cash provided by investing activities	4,007,247	1,648,784
<b>Cash Flows from Noncapital Financing Activities</b>		
Receipts from members - Cumulative Reserve Fund	232,803	259,520
Payments for member withdrawals - Capitalization	(106,158)	(159,809)
Payments for member distributions - Budgetary	(2,311,009)	(2,255,078)
Net cash used in noncapital financing activities	(2,184,364)	(2,155,367)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,113,050	(101,703)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,917,120	2,018,823
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,030,170</b>	<b>\$ 1,917,120</b>

# Ohio Township Association Risk Management Authority

## Statement of Cash Flows (Continued)

A reconciliation of excess of revenue (under) over claims and claim adjustment expenses and expenses to net cash from operating activities is as follows:

	Year Ended December 31	
	2008	2007
Excess of revenue (under) over claims and claim adjustment expenses and expenses	\$ (19,401)	\$ 1,943,580
Adjustments to reconcile excess of revenue (under) over claims and claim adjustment expenses and expenses to net cash from operating activities:		
Investment earnings	(1,133,041)	(1,284,388)
Net realized and unrealized gains on investments	(6,483)	(718,706)
(Increase) decrease in assets:		
Claims servicer imprest fund	28,582	(62,017)
Member contributions receivable	(39,120)	53,642
Deductibles recoverable	5,874	(16,874)
Reinsurance receivable on paid claims	(72,402)	(86,417)
Member contributions to be billed in the future	790,245	(808,863)
Increase (decrease) in liabilities:		
Claims and claim adjustment expense reserves	(426,565)	1,264,400
Reinsurance premiums payable	91,080	1,885
Accounts payable and accrued expenses	71,398	118,638
Net cash (used in) provided by operating activities	<u>\$ (709,833)</u>	<u>\$ 404,880</u>



# Ohio Township Association Risk Management Authority

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## Notes to Financial Statements December 31, 2008 and 2007

### **Note 1 - Nature of Business and Significant Accounting Policies**

Ohio Township Association Risk Management Authority (the "Pool") was created in March 1987 and organized under the laws of the State of Ohio as a governmental group property and casualty self-insurance pool. The Ohio Township Association supports and promotes the Pool. A total of 950 townships within the state of Ohio participate in the Pool. The Pool's primary objective is to formulate, develop, and administer, on behalf of the members, a program of managing property and third-party casualty claims, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

Members entering the Pool agree to participate in the Pool for a period of not less than one year and provide capitalization contributions as defined in the contract signed between the member and the Pool. For those members electing to withdraw from participating, provided the member has given 60 days' written notice prior to their anniversary date, they may receive a partial refund of the capitalization contribution as defined by the contract. In addition, upon withdrawal, all payments for casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal.

The Pool has engaged American Risk Pooling Consultants, Inc. (ARPCO or "management"), a division of York Insurance Services Group, Inc. (York) as administrator of the Pool. The duties of the administrator are defined in an administrative agreement between ARPCO and the Pool, and generally include those powers and duties necessary and incident to managing the operations of the Pool, including claims servicing. Compensation is determined by an agreement between ARPCO and the Pool's board of directors. The contract is continuous until cancelled.

**Basis of Presentation** - The basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Pool prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB), and predecessor boards' pronouncements issued on or before November 30, 1989, and all FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

**Cash Equivalents** - Cash equivalents are liquid assets maturing no more than three months from purchase date and include money market funds.

**Investments** - Investments are stated at fair value, based on quoted market prices. Investment income is recognized when earned.

# Ohio Township Association Risk Management Authority

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## Notes to Financial Statements December 31, 2008 and 2007

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

**Member Contributions Receivable** - Member contributions receivable represent amounts due from members of the Pool and are considered collectible. Accordingly, the Pool has no allowance for doubtful accounts for financial reporting purposes.

**Claims and Claim Adjustment Expense Reserves** - Claims and claim adjustment expense reserves represent the estimated liability for unpaid claims and related claims expenses from reported claims and claims incurred but not reported. Changes to estimates are currently reflected in the statement of revenue, expenses, and changes in net assets.

**Capitalization Contributions** - Casualty capitalization contributions are accounted for under the provisions of GASB's Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools* (Interpretation No. 4). Under Interpretation No. 4, capitalization contributions to pools to which risk is transferred must be accounted for as revenue by initially recording such contributions as unearned premiums, then amortizing them into revenue over an appropriate period not to exceed 10 years. Unearned premium reserves resulting from the application of Interpretation No. 4 are being amortized pro rata over a six-year period, the period over which a member makes capitalization contributions.

**Member Contributions** - Member contributions are recognized under the accrual method of accounting and follow the provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Member contributions are estimated and recognized using a variety of actuarial and statistical techniques and reflect the amount to be contributed by members for payment of incurred claims, claim adjustment expenses, and related administrative expenses for each policy year. Member contributions to be billed in the future represent amounts due from members which have not been billed to members and will be billed and collected, from the existing members, in the future when the estimated incurred claims, loss adjustment expenses, and related administrative expenses for each policy year are anticipated to be paid.

**Use of Estimates** - Management of the Pool has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the statement of net assets date and the amounts of revenue and expenses during the reporting period, to prepare these basic financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

# Ohio Township Association Risk Management Authority

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## Notes to Financial Statements December 31, 2008 and 2007

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

**Tax Status** - The Pool's income is excludable from gross income under Section 115 of the Internal Revenue Code and is thus exempt from federal income taxes. Management believes that the Pool continues to operate in a manner whereby it continues to be tax exempt.

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

### Note 2 - Deposits and Investments

The Pool's investment policy authorizes the Pool to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Ohio.

The Pool designated JP Morgan Chase for the deposit of its funds. Cash and cash equivalents include an operating checking account and a short-term money market investment fund. The short-term money market investment fund is created through daily sweeps of excess cash by the Pool's custodial bank into bank-sponsored commingled funds that are invested in short-term securities backed by the U.S. government and other short-term instruments.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. The Pool's policy related to custodial credit risk of bank deposits is to evaluate each financial institution with which it deposits funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The Pool maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses and, as a result, generally requires balances that exceed the FDIC insurance limits of \$250,000 at December 31, 2008 and \$100,000 at December 31, 2007. At December 31, 2008, the Pool's deposit balance of \$10,000 consisted of bank deposits (checking and savings accounts) and had no bank deposits that were uninsured and uncollateralized. At December 31, 2007, the Pool's deposit balance of \$11,300 consisted of bank deposits (checking and savings accounts) and had no bank deposits that were uninsured and uncollateralized. The Pool believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

# Ohio Township Association Risk Management Authority

## Notes to Financial Statements December 31, 2008 and 2007

### Note 2 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Pool's investment policy does not restrict investment maturities. The Pool's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Pool's cash requirements.

At December 31, 2008, the average maturities of fixed rate investments are as follows:

Investment Type	Fair Value	Weight Average Maturity (Years)
U.S. Treasury securities	\$ 2,373,543	1.11
U.S. agencies and pass-throughs	<u>21,626,297</u>	2.64
Total fair value	<u>\$ 23,999,840</u>	
Portfolio weighted average maturity		<u>2.49</u>

At December 31, 2007, the average maturities of fixed rate investments are as follows:

Investment Type	Fair Value	Weight Average Maturity (Years)
U.S. Treasury securities	\$ 2,865,788	1.05
U.S. agencies and pass-throughs	<u>23,490,647</u>	3.01
Total fair value	<u>\$ 26,356,435</u>	
Portfolio weighted average maturity		<u>2.80</u>

**Credit Risk** - Credit risk is the risk that an issuer to an investment will not fulfill its obligations. In accordance with the Pool's investment policy, the Pool may invest in U.S. government securities and certain equities. The short-term money market investment fund totaling \$797,401 and \$275,409 at December 31, 2008 and 2007, respectively, was rated Aaa by Moody's.

# **Ohio Township Association Risk Management Authority**

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## **Notes to Financial Statements December 31, 2008 and 2007**

### **Note 2 - Deposits and Investments (Continued)**

**Concentration of Credit Risk** - The Pool has three U.S. agencies and pass-through investments, totaling \$11,686,824, which individually exceed 5 percent of the Pool's total investments at December 31, 2008. The Pool had three U.S. agencies and pass-through investments, totaling \$13,866,457, which individually exceeded 5 percent of the Pool's total investments at December 31, 2007.

### **Note 3 - Claims and Claim Adjustment Expense Reserves**

The Pool establishes claim reserves based upon known facts for those claims existing at December 31 and a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors to provide reserve estimates for those claims incurred but not reported at year end. A provision for inflation in the calculation of estimated future claim 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. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claim liabilities does not necessarily result in an exact amount, particularly for coverage such as third-party liability; it is reasonably possible that a material change in the estimate will occur within the near term and thus the actual claims paid may be substantially different than these estimates. Consistent to industry practices, adjustments to claim reserves are charged to expense in the periods in which they are made.

# Ohio Township Association Risk Management Authority

## Notes to Financial Statements December 31, 2008 and 2007

### Note 3 - Claims and Claim Adjustment Expense Reserves (Continued)

The following summarizes changes in claims and claim adjustment expense reserves for the years ended December 31, 2008, 2007, and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Claims and Claim Adjustment Expense</b>			
<b>Reserves</b> - Beginning of year	\$ 12,547,523	\$ 11,283,123	\$ 12,265,954
Change in reinsurance recoverable	<u>670,255</u>	<u>(941,905)</u>	<u>90,842</u>
Net claims and claim adjustment expense reserves - Beginning of year	13,217,778	10,341,218	12,356,796
<b>Incurred Claims and Claim Adjustment Expenses</b>			
Provision for claims incurred in current year	8,877,248	7,991,545	6,516,692
Decrease in provision for claims incurred in prior years	<u>(2,577,438)</u>	<u>(1,616,922)</u>	<u>(3,529,695)</u>
Total incurred claims and claim adjustment expenses	6,299,810	6,374,623	2,986,997
<b>Payments</b>			
Claims and claim expenses paid for claims incurred in current year	(3,554,301)	(1,798,411)	(1,798,411)
Claims and claim expenses paid for claims incurred in prior years	<u>(3,842,329)</u>	<u>(2,369,907)</u>	<u>(2,262,259)</u>
Total payments	<u>(7,396,630)</u>	<u>(4,168,318)</u>	<u>(4,060,670)</u>
<b>Claims and Claim Adjustment Expense</b>			
<b>Reserves</b> - End of year	<u>\$ 12,120,958</u>	<u>\$ 12,547,523</u>	<u>\$ 11,283,123</u>

Reserves for claim and claims adjustment expense attributable to insured events in prior years changed as a result of re-estimation of unpaid claims and claim adjustment expenses. This change is generally a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

# **Ohio Township Association Risk Management Authority**

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## **Notes to Financial Statements December 31, 2008 and 2007**

### **Note 4 - Reinsurance and Excess Risk-sharing Agreements**

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large aggregate and specific losses. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool, although they do not discharge the Pool's primary liability for such payments. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers or excess risk-sharing agreements. Premiums ceded to reinsurance carriers and the risk-sharing pool during the years ended December 31, 2008 and 2007 totaled \$2,210,061 and \$2,498,023, respectively, and the amounts deducted from claims and claim expense reserves as of December 31, 2008 and 2007 for reinsurance and excess risk-sharing agreements totaled approximately \$3,052,000 and \$5,643,000, respectively.

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. APEEP provides excess risk-sharing programs for its member pools, all of which are public entity group risk-sharing pools similar in nature to the Pool.

### **Note 5 - Member Withdrawals - Capitalization**

In 2008, 11 members withdrew from the Pool, while 15 members withdrew in 2007. In accordance with the intergovernmental contract, these withdrawals resulted in transfers to operations of \$67,916 in 2008 and \$102,315 in 2007, as well as refunds of \$38,242 in 2008 and \$57,494 in 2007. Upon withdrawal, these members became responsible for all of their respective unpaid casualty claims, both reported and unreported.

### **Note 6 - Member Distributions - Budgetary**

Cash distributions to members of approximately \$2,000,000 per year were approved by the board of directors for the years ended or ending December 31, 2007 through December 31, 2009. For the years ended December 31, 2008 and 2007, cash distributions returned to the members totaled \$2,311,009 and \$2,255,078, respectively.

## **Required Supplemental Schedules**

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# Ohio Township Association Risk Management Authority

## Casualty Claims Development Information

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Required contributions (Note A) and investment income:										
Earned	\$ 4,325,387	\$ 4,342,702	\$ 5,308,407	\$ 4,837,529	\$ 7,691,422	\$ 7,201,336	\$ 8,169,181	\$ 8,248,042	\$ 8,576,321	\$ 8,802,951
Ceded	403,619	377,157	608,940	841,052	769,813	664,887	824,487	697,694	1,091,475	1,433,286
Net	3,921,768	3,965,545	4,699,467	3,996,477	6,921,609	6,536,449	7,344,694	7,550,348	7,484,846	7,369,665
2. Expenses other than allocated claim adjustment expenses	1,172,719	1,264,572	1,413,275	1,596,849	1,820,586	1,952,051	2,031,927	2,072,105	2,014,329	2,032,316
3. Estimated claims and allocated claim adjustment expenses, end of policy year:										
Incurred	2,397,834	2,132,296	2,899,971	2,798,870	3,979,713	5,015,109	5,070,171	4,518,977	5,261,308	5,665,051
Ceded	254,956	264,035	395,861	579,747	472,609	524,939	448,888	427,789	796,650	1,101,690
Net	2,142,878	1,868,261	2,504,110	2,219,123	3,507,104	4,490,170	4,621,283	4,091,188	4,464,658	4,563,361
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	250,956	153,792	181,448	217,570	287,215	306,710	313,323	345,140	368,790	418,321
One year later	619,804	446,224	517,544	623,902	820,835	834,241	884,868	832,645	1,206,885	-
Two years later	1,035,385	742,265	1,057,835	961,445	1,601,449	1,449,948	1,585,079	1,612,958	-	-
Three years later	1,587,796	1,205,166	1,517,425	1,301,964	2,003,335	2,422,422	2,341,002	-	-	-
Four years later	1,720,022	1,318,812	1,890,718	1,377,895	2,414,070	2,957,396	-	-	-	-
Five years later	1,957,932	1,370,476	2,039,226	1,504,424	2,499,459	-	-	-	-	-
Six years later	1,967,480	1,368,542	2,043,021	1,556,881	-	-	-	-	-	-
Seven years later	1,994,534	1,372,592	2,047,488	-	-	-	-	-	-	-
Eight years later	1,994,534	1,372,592	-	-	-	-	-	-	-	-
Nine years later	1,994,534	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	4,219,935	20,132	1,284,855	4,227	215,767	510,794	265,766	830,301	325,638	1,101,690
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	2,142,878	1,868,261	2,504,110	2,219,123	3,507,104	4,490,170	4,621,283	4,091,188	4,464,658	4,563,361
One year later	2,379,960	1,797,011	2,233,863	2,362,065	4,372,364	4,290,646	4,002,462	3,634,702	4,311,437	-
Two years later	2,457,077	2,103,426	2,471,398	2,350,094	3,718,702	3,759,479	3,429,248	3,895,319	-	-
Three years later	2,242,948	1,854,075	2,069,668	2,176,431	3,027,239	4,294,101	2,876,195	-	-	-
Four years later	2,167,316	1,565,027	2,438,582	1,943,928	2,887,272	3,244,973	-	-	-	-
Five years later	2,080,163	1,552,447	2,086,359	1,983,034	2,934,136	-	-	-	-	-
Six years later	2,062,104	1,377,979	2,090,968	1,651,845	-	-	-	-	-	-
Seven years later	1,996,692	1,383,153	2,109,553	-	-	-	-	-	-	-
Eight years later	1,995,357	1,374,597	-	-	-	-	-	-	-	-
Nine years later	1,990,809	-	-	-	-	-	-	-	-	-
7. Decrease in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (152,069)</u>	<u>\$ (493,664)</u>	<u>\$ (394,557)</u>	<u>\$ (567,278)</u>	<u>\$ (572,968)</u>	<u>\$ (1,245,197)</u>	<u>\$ (1,745,088)</u>	<u>\$ (195,869)</u>	<u>\$ (153,221)</u>	<u>\$ -</u>

Note A - Required contributions are the aggregate of that year's estimate of ultimate claims, plus the cost of excess reinsurance and general and administrative expenses paid or payable for that year.

# Ohio Township Association Risk Management Authority

## Property Claims Development Information

	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Required contributions (Note A) and investment income:									
Earned	\$ 2,171,245	\$ 2,916,027	\$ 3,431,507	\$ 4,113,800	\$ 4,136,169	\$ 4,440,304	\$ 4,497,360	\$ 6,323,739	\$ 7,506,549
Ceded	158,338	75,004	120,000	35,735	85,701	85,701	63,091	92,042	463,369
Net	2,012,907	2,841,023	3,311,507	4,078,065	4,050,468	4,354,603	4,434,269	6,231,697	7,043,180
2. Expenses other than allocated claim adjustment expenses	1,152,215	1,339,262	1,450,240	1,886,546	2,014,315	2,156,482	2,220,448	2,312,054	2,391,094
3. Estimated claims and allocated claim adjustment expenses, end of policy year:									
Incurred	891,134	1,418,191	1,836,608	2,698,901	2,122,742	2,101,728	1,997,715	3,618,929	4,777,256
Ceded	356,787	242,847	120,000	666,451	291,322	29,494	63,091	92,042	463,369
Net	534,347	1,175,344	1,716,608	2,032,450	1,831,420	2,072,234	1,934,624	3,526,887	4,313,887
4. Cumulative net paid and allocated claim adjustment expenses as of:									
End of policy year	370,606	855,769	868,026	1,776,904	1,297,358	1,533,890	1,453,271	1,712,810	3,135,980
One year later	491,038	964,234	1,829,637	1,873,491	1,899,296	1,796,601	1,739,295	2,586,991	-
Two years later	488,877	1,341,648	1,610,302	1,848,753	1,917,932	1,774,328	1,648,826	-	-
Three years later	953,705	1,340,788	1,579,414	1,861,940	1,960,639	1,777,578	-	-	-
Four years later	953,705	1,224,639	1,585,159	1,852,992	1,977,922	-	-	-	-
Five years later	953,891	1,224,246	1,224,246	1,853,336	-	-	-	-	-
Six years later	982,828	1,224,246	1,224,246	-	-	-	-	-	-
Seven years later	988,212	1,224,246	-	-	-	-	-	-	-
Eight years later	988,212	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	106,802	283,599	432,185	350,820	147,065	29,494	63,091	92,042	463,369
6. Re-estimated net incurred claims and allocated claim adjustment expenses:									
End of policy year	534,347	1,175,344	1,716,608	2,032,450	1,831,420	2,072,234	1,934,624	3,526,887	4,313,887
One year later	499,583	971,931	1,912,429	1,912,490	1,984,417	1,818,920	1,764,027	2,899,303	-
Two years later	489,271	1,342,372	1,640,961	1,894,381	1,968,388	1,779,960	1,657,347	-	-
Three years later	953,705	1,341,422	1,623,452	1,892,456	1,967,775	1,778,078	-	-	-
Four years later	953,705	1,225,150	1,604,946	1,871,985	1,977,922	-	-	-	-
Five years later	953,891	1,224,246	1,597,049	1,872,000	-	-	-	-	-
Six years later	982,828	1,224,246	1,597,106	-	-	-	-	-	-
Seven years later	988,212	1,224,246	-	-	-	-	-	-	-
Eight years later	988,212	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ 453,865	\$ 48,902	\$ (119,502)	\$ (160,450)	\$ 146,502	\$ (294,156)	\$ (277,277)	\$ (627,584)	\$ -

Note A - Required contributions are the aggregate of that year's estimate of ultimate claims, plus the cost of excess reinsurance and general and administrative expenses paid or payable for that year.

**Report on Internal Control Over Financial  
Reporting and on Compliance and Other  
Matters Required by *Government*  
*Auditing Standards***

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Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Required by *Government Auditing Standards*

To the Board of Directors  
Ohio Township Association Risk  
Management Authority

We have audited the financial statements of Ohio Township Association Risk Management Authority as of and for the year ended December 31, 2008 and have issued our report thereon dated June 1, 2009. 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*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Ohio Township Association Risk Management Authority'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 Ohio Township Association Risk Management Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ohio Township Association Risk Management Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the control deficiency described below to be a significant deficiency in internal control over financial reporting.

To the Board of Directors  
Ohio Township Association Risk  
Management Authority

**Claims and Claim Adjustment Expense Reserves - Property** - During 2008, American Risk Pooling Consultants, Inc. (ARPCO or “management”) implemented a new reserving system (Reserve Pro) to be utilized in the calculation of incurred but not reported (IBNR) claim reserves. During our substantive testing of the property reserve schedules provided to us by management, we discovered several discrepancies related to the reports generated from Reserve Pro and the manual schedules (the ultimate reserve schedule and the reinsurance recoveries schedule) maintained by management. Due to the nature of the attachment points surrounding the property reinsurance coverage, it can be difficult to accurately reflect the reinsurance limits within Reserve Pro and the ultimate reserve and reinsurance recoveries schedules. When these differences were found by us and presented to management, management updated the schedules accordingly and determined only minor adjustments were necessary to appropriately estimate the IBNR claim reserves.

Due to the implementation of Reserve Pro and the reliance on the manual schedules by management, procedures and policies should be reviewed and documented to ensure appropriate claim and reinsurance information is entered into the Reserve Pro system. We recommend the following to assist management in fully implementing the Reserve Pro system:

- Additional training should be considered to ensure all staff involved in maintaining the Reserve Pro system understand the detailed requirements of the input of claims and reinsurance data. This would allow for a consistent reporting methodology to ensure claim reserve estimates are being obtained and reported accurately in the Pool’s financial statements and eliminate the necessity of maintaining a manual process in this area.
- Accounting procedures and policies should be developed which would allow a consistent methodology and understanding on the appropriate use of the Reserve Pro system. This would allow for consistency in operation as well as a training tool for new staff members or temporary staff members involved in the claim data entry process.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

To the Board of Directors  
Ohio Township Association Risk  
Management Authority

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ohio Township Association Risk Management Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, members, management, and the auditor of state, Mary Taylor, and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

June 1, 2009



**Mary Taylor, CPA**  
Auditor of State

**OHIO TOWNSHIP ASSOCIATION RISK MANAGEMENT AUTHORITY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 30, 2009**