

NORMA Self Insurance Pool, Inc.

Financial Statements

December 31, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
NORMA Self Insurance Pool, Inc.
5661 Perkins Road
Bedford Heights, Ohio 44146

We have reviewed the *Independent Auditor's Report* of NORMA Self Insurance Pool, Inc., Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2004 through December 31, 2004. 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. NORMA Self Insurance Pool, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 20, 2005

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NORMA Self Insurance Pool, Inc.

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CPAs and Business Advisors

Independent Auditors' Report

Board of Trustees
NORMA Self Insurance Pool, Inc.

We have audited the accompanying financial statements of the business-type activities of NORMA Self Insurance Pool, Inc. (NORMA) as of and for the year ended December 31, 2004, which collectively comprise NORMA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of NORMA's management. Our responsibility is to express an opinion of these financial statements based on our audits.

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. 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 audit provides a reasonable basis for our opinion.

The accompanying statements were prepared to represent only the employee benefits activity of NORMA and are not intended to be a complete presentation of NORMA's activities.

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 NORMA at December 31, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, NORMA has implemented GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."

In accordance with *Governmental Auditing Standards*, we have also issued our report dated May 23, 2005 on our consideration of NORMA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis and required supplementary information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ciuni & Panichi, Inc.

Cleveland, Ohio
May 23, 2005

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NORMA Self Insurance Pool Inc.

Management's Discussion and Analysis For The Fiscal Year Ended December 31, 2004

Unaudited

The discussion and analysis of the Northern Ohio Risk Management Association (NORMA) Self Insurance Pool, Inc.'s performance provides an overview of NORMA's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at NORMA's financial performance as a whole.

HIGHLIGHTS

NORMA's net assets increased \$119,641. Total assets decreased by \$43,761 while total liabilities decreased by \$163,402.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand NORMA's financial position.

The statement of Net Assets and the Statement of Activity provide information about the activity of NORMA as a whole. The NORMA has only a enterprise fund and does not have any other funds.

DESCRIPTION OF FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activity reflect how NORMA did financially during 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report NORMA's net assets and changes in net assets. This change in net assets is important because it tells the reader whether the financial position of NORMA has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not.

FINANCIAL ANALYSIS

As previously noted, total assets decreased by \$43,761 or 1.70% in 2004. Cash increased \$185,696, while reinsurance receivables decreased \$251,738 and prepaid assets increased by \$22,281. On the liability side, total liabilities decreased by \$163,402 or 6.07% in 2004. Accounts payable increased \$1,284, unpaid claims liability increased \$57,872, and contribution deficiency liability decreased \$119,641. Total revenues were down \$149,143 while total expenses were down \$501,917. Ending net assets were \$4,112 in 2004 compared to \$(115,529) in 2003. NORMA was able to increase member contributions while the amount of expenses decreased. Reserve requirements remained stable at a time when health insurance industry increases averaged 10 to 15%. An increase in net assets of \$119,641 had a positive impact on the financial condition of NORMA. The organization is adequately funded and increases should reflect what the health insurance market requires.

NORMA Self Insurance Pool Inc.

Management's Discussion and Analysis For The Fiscal Year Ended December 31, 2004

Unaudited

BUDGETARY HIGHLIGHTS

NORMA does not draft or approve a budget in the tradition of most government agencies. The insurance adjuster reviews NORMA 's prior claims history and helps NORMA set billing rates for its twelve members for the following year. This process is completed in October of each year. If the rates are set too high, and/or the claims are overestimated, NORMA will have an increase in net assets. This is what happened in 2004. If the rates are set too low, and/or the claims are underestimated, NORMA will have a decrease in net assets.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of NORMA 's finances for all those interested in NORMA 's well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Robert Tribby, 6154 Mayfield Rd., Mayfield Heights, Ohio 44124.

NORMA Self Insurance Pool, Inc.

Statement of Net Assets

December 31, 2004

Assets

2004

Assets:

Cash and cash equivalents	\$ 1,838,512
Contribution deficiency receivable	45,888
Other reimbursement receivable	3,715
Prepaid assets	<u>644,043</u>
Total assets	<u>2,532,158</u>

Liabilities:

Accounts payable	4,549
Unearned revenue	669,044
Unpaid claims liability	1,808,565
Contribution deficiency liability	<u>45,888</u>
Total liabilities	<u>2,528,046</u>

Net Assets:

Unrestricted net assets	\$ <u><u>4,112</u></u>
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The accompanying notes are an integral part of these financial statements

NORMA Self Insurance Pool, Inc.

Statement of Activity

For the year ended December 31, 2004

	<u>2004</u>
Revenues:	
Membership contributions	\$ 869,974
Loss fund deposits	500,000
Loss recoveries	4,932
Loss fund reimbursements	43,250
Interest	18,796
Workers' compensation deposits	<u>32,600</u>
Total revenues	<u>1,469,552</u>
Expenses:	
Excess insurance premiums and administrative services	927,648
Losses and loss adjustments	367,705
Workers' compensation service fees	32,600
Professional fees	19,498
Other	<u>2,460</u>
Total expenses	<u>1,349,911</u>
Net change in net assets	119,641
Net assets balance at beginning of year	<u>(115,529)</u>
Net assets at end of year	\$ <u><u>4,112</u></u>

The accompanying notes are an integral part of these financial statements

NORMA Self Insurance Pool, Inc.

Statement of Cash Flows

For the year ended December 31, 2004

	<u>2004</u>
Cash flows from operating activities:	
Excess (deficiency) of revenues over expenses	\$ 119,641
Changes in operating assets and liabilities:	
Contribution deficiency receivable	119,641
Member reimbursement receivable	131,197
Other reimbursement receivable	900
Prepaid assets	(22,281)
Accounts payable	1,284
Unearned revenue	(102,917)
Unpaid claims liability	57,872
Contribution deficiency liability	<u>(119,641)</u>
Cash provided by operating activities	<u>185,696</u>
Increase in cash and cash equivalents	185,696
Cash and cash equivalents, beginning of period	<u>1,652,816</u>
Cash and cash equivalents, end of period	\$ <u><u>1,838,512</u></u>

The accompanying notes are an integral part of these financial statements

NORMA Self Insurance Pool, Inc.

Notes to Financial Statements

December 31, 2004

Note 1: Financing Reporting Entity

The Northern Ohio Risk Management Association, Inc. (NORMA) began operations on October 1, 1987 and is a Joint Self-Insurance Pool under Chapter 2744.081 of the Ohio Revised Code for the public purpose of enabling subscribing political subdivisions to obtain insurance and to provide for a formalized, jointly administered self-insurance fund for its members. NORMA currently provides property and casualty insurance to its members.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

NORMA prepares its financial statements in accordance with Government Accounting Standards Board (GASB) Statement Nos. 10, 29, 30 and 34. NORMA implemented GASB Statement No. 34 during the fiscal year. The implementation had no effect on beginning net assets.

GASB 10 and 30 provide accounting and reporting standards that apply to public entity risk pools, and require public entity risk pools to account for their activities using proprietary fund accounting. Proprietary activities are accounted for using the economic resources measurement focus and the accrual basis of accounting.

GASB 29 allows proprietary entities to apply all Financial Accounting Standards Board statements and interpretations, excluding those limited to not for profit organizations, issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Revenue Recognition Policy

Required contributions are recognized as revenue evenly over the policy year. NORMA's policy year runs from October 1 to September 30.

Loss Reserve Surplus (Deficiency)

A loss reserve deficiency is an estimate of the additional funds needed to meet the indicated reserves requirement for claims pending, claims incurred but not reported, and claims adjustment expenses. Conversely, a loss reserve surplus is the amount the cash reserve exceeds the reserve requirement. The estimated indicated reserve determined by an actuarial study performed as of September 30, 2004 was \$1,783,465. NORMA's cash reserve for claims was \$1,641,422 at September 30, 2004. At December 31, 2004, NORMA had a loss reserve deficiency of \$45,888 which is included in unrestricted net assets. Management believes that the cash reserve for unpaid losses is adequate for current needs, and the Board of Trustees has the authority in the Agreement and Bylaws, Section VIII (Finances and Risk Management) to make calls for supplementary payments in accordance with paragraph D to increase cash reserves if the need arises. The ultimate cost, however, may be more or less than the estimated indicated reserve at December 31, 2004.

NORMA Self Insurance Pool, Inc.

Notes to Financial Statements

December 31, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

Loss Reserve Surplus (Deficiency) (continued)

Losses in any membership year are a contractual obligation of the members of that respective year; a surplus in any membership year may be distributed when such membership year is determined to be closed. At the close of a membership year, the members' proportionate share of any related surplus to be refunded will be determined based on contributions made by each member in that year, as defined in the NORMA bylaws.

Members' Deposits

The members' deposits represent funds provided by members, in which each maintains its vested ownership interest. Members' amounts are intended to be available to provide liquidity in respective membership years. Initial contributions represent a \$5,000 deposit required from each member to join NORMA.

Membership Contributions

Contributions are determined in advance of each membership year based on the individual member's revenue base as defined in the NORMA bylaws, and on the funding needs of the membership year. Membership contributions pay excess insurance premiums.

Contribution Deficiency Receivable and Liability

Contribution deficiency liability results from the difference between estimated claims costs including claims incurred but not recorded, and existing reserves and unearned future premiums. Future investment income is excluded from the calculation. Contribution deficiency receivable is recorded in an amount equal to the liability. Any increase in the receivable and liability from the prior year is recorded as revenue and expense in that year.

Loss Fund Deposits

This amount, determined by the Board of Trustees, represents deposits, allocated based on each member's participation percentage, to cover future losses from current year experience. Deposits not needed can be refunded to the members in the future at the discretion of the Board of Trustees. Loss fund deposits are billed quarterly for the current quarter.

Excess Insurance Premiums

Premiums represent payments to NORMA's insurance administrator for excess insurance coverage. Excess insurance premiums expense for policy year October 1, 2003 to September 30, 2004 totaled \$750,349. Excess insurance premiums expense for policy year October 1, 2004 to September 30, 2005 totaled \$782,057.

NORMA Self Insurance Pool, Inc.

Notes to Financial Statements

December 31, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

Loss and Loss Adjustments

Each loss has a \$1,000 to \$2,500 per-occurrence deductible, which is paid by the applicable member responsible for each claim. NORMA is responsible for all payments from the deductible amount to \$100,000 per occurrence for policy years beginning October 1, 2000. From October 1, 1989 to September 30, 2000, the occurrence limit was \$150,000. Prior to October 1, 1989, the occurrence limit was \$100,000. NORMA has an annual aggregate stop loss insurance policy which limits its total liability each policy year to the following amounts:

October 1, 2000 to September 30, 2005	\$	750,000
October 1, 1997 to September 30, 2000		450,000
October 1, 1996 to September 30, 1997		500,000
October 1, 1994 to September 30, 1996		775,000
October 1, 1993 to September 30, 1994		675,000
October 1, 1990 to September 30, 1993		550,000
October 1, 1989 to September 30, 1990	No coverage	
October 1, 1987 to September 30, 1989		400,000

NORMA has purchased excess insurance which will pay claims in excess of the self-insured retention up to certain limits. NORMA is, and ultimately the participants are, contingently liable should any excess insurance provider become unable to meet its obligations under the insurance policies.

Membership

The original members of NORMA from commencement of the Pool (October 1, 1987) include the cities of Bedford Heights, Highland Heights, Mayfield Heights, Richmond Heights, South Euclid and the Village of Chagrin Falls. Effective February 1, 1989, the Cities of Eastlake and Solon became members of NORMA. Effective October 1, 1993, the City of Maple Heights became a member of NORMA. Effective August 30, 1995, the City of Hudson became a member of NORMA. All remain members at December 31, 2004.

Unpaid Claims Liability

NORMA establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses and of claims that have been incurred but not reported. Estimated amounts of excess insurance recoverable are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed annually by an actuary using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

NORMA Self Insurance Pool, Inc.

Notes to Financial Statements

December 31, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in accordance 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 as of 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.

Cash and Cash Equivalents

For cash flow purposes, NORMA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NORMA maintains its cash in bank deposit accounts which exceed federally insured limits. NORMA believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 3: Workers' Compensation Coverage

NORMA does not provide workers' compensation coverage for its member cities; however, beginning in 1992 certain member cities combined to purchase insurance as a group. The administrator service fees for those cities are paid through NORMA and reimbursed by the respective member communities in full.

The administrator reviews actual workers' compensation claims experience annually by city. Cities whose claims are greater than the group rate are billed for the excess; cities whose claims are below the group rate receive reimbursement. Additional billings and payment of reimbursements are passed through NORMA.

Note 4: Unpaid Claims Liability

As discussed in Note 2, NORMA records a liability for reported and unreported insured events. The schedule below presents the changes in claims liabilities during the year ended December 31, 2004.

	<u>2004</u>	<u>2003</u>
Unpaid claims liability, beginning of year	\$ 1,750,693	\$ 1,310,494
Current year estimated liability and change to prior years' estimates	425,577	840,774
Claims paid in the current year for current and prior years	<u>(367,705)</u>	<u>(400,575)</u>
Unpaid claims liability, end of year	<u>\$ 1,808,565</u>	<u>\$ 1,750,693</u>

At December 31, 2004, the estimated ultimate loss of \$1,949,120, net of amounts paid to date, is reported as unpaid claims liability at a net present value of \$1,808,565. The amount is discounted at an annual rate of 5%.

NORMA Self Insurance Pool, Inc.

Supplementary Schedule

Claims Development Information

	Fiscal Year and Policy Years Ended								
	2004	2003	2002	2001	2000	1999	1998	1997	1996
1. Required contribution and investment revenue:									
Earned	\$ 1,388,770	\$ 1,307,796	\$ 1,158,719	\$ 1,122,794	\$ 1,029,496	\$ 1,006,688	\$ 1,082,278	\$ 1,159,270	897,285
Ceded	<u>1,295,353</u>	<u>1,625,681</u>	<u>1,184,242</u>	<u>819,220</u>	<u>1,413,152</u>	<u>993,058</u>	<u>1,054,580</u>	<u>875,198</u>	<u>690,926</u>
Net earned	93,417	(317,885)	(25,523)	303,574	(383,656)	13,630	27,698	284,072	206,359
2. Unallocated expenses	21,958	28,018	23,714	29,381	19,208	19,554	21,100	14,963	14,553
3. Estimated claims and expenses, end of policy year:									
Incurred	297,432	390,605	346,622	172,186	312,455	322,879	213,317	226,436	2,293,724
Ceded	-	-	-	-	-	-	-	-	-
Net incurred	<u>297,432</u>	<u>390,605</u>	<u>346,622</u>	<u>172,186</u>	<u>312,455</u>	<u>322,879</u>	<u>213,317</u>	<u>226,436</u>	<u>2,293,724</u>
4. Net paid (cumulative) as of:									
End of policy year	93,933	125,112	141,492	64,398	135,310	144,116	47,746	78,441	1,664,557
One year later	-	266,369	257,302	109,843	302,808	228,631	149,026	135,693	1,791,451
Two years later	-	-	305,439	145,113	320,523	428,597	315,843	226,577	2,072,922
Three years later	-	-	-	169,000	329,602	571,374	332,688	317,055	2,357,620
Four years later	-	-	-	-	329,322	646,977	339,983	331,102	2,492,645
Five years later	-	-	-	-	-	646,977	349,671	335,821	2,543,554
Six years later	-	-	-	-	-	-	355,082	335,841	2,594,535
Seven years later	-	-	-	-	-	-	-	335,841	2,635,645
Eight years later	-	-	-	-	-	-	-	-	2,645,717
5. Re-estimated ceded claims and expenses	-	-	-	-	-	-	-	-	-
6. Re-estimated net incurred claims and expenses:									
End of policy year	297,432	390,605	346,622	172,186	312,455	322,879	213,317	226,436	2,293,724
One year later	-	524,546	502,713	187,496	436,691	777,359	233,488	316,463	2,225,431
Two years later	-	-	410,283	244,677	373,746	670,411	367,302	411,884	2,434,936
Three years later	-	-	-	221,267	374,252	696,200	373,372	404,458	2,420,377
Four years later	-	-	-	-	339,602	696,977	369,561	376,400	2,585,301
Five years later	-	-	-	-	-	696,977	355,634	348,540	2,649,239
Six years later	-	-	-	-	-	-	355,082	348,540	2,702,229
Seven years later	-	-	-	-	-	-	-	335,841	2,526,813
Eight years later	-	-	-	-	-	-	-	-	2,526,813
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	-	133,941	63,661	49,081	27,147	374,098	141,765	109,405	233,089

Note: Fiscal year ends December 31; policy year ends September 30.

The accompanying notes are an integral part of these financial statements



CPAs and Business Advisors

**Independent Auditors' 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
NORMA, Inc.

We have audited the accompanying financial statements of the business-type activities of the NORMA Self Insurance Pool, Inc. (NORMA) as of and for the year ended December 31, 2004, and have issued our report thereon dated May 23, 2005, in which NORMA adopted Governmental Accounting Standards Board No. 34. 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 NORMA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operating of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NORMA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grants, noncompliance with which could have a direct and material effect on 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 management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Ciuni & Panichi, Inc.

Cleveland, Ohio
May 23, 2005

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NORMA SELF INSURANCE POOL, INC.

CUYAHOGA 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
DECEMBER 30, 2005**