

BORMA, INC.

(THE BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC.)

FINANCIAL STATEMENTS OF THE BENEFITS POOL

YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Buckeye Ohio Risk Management Agency, Inc. Benefits Pool
c/o City of Sandusky
222 Meigs Street
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the Buckeye Ohio Risk Management Agency, Inc. Benefits Pool, Erie County, prepared by Kennedy, Cottrell & Associates, LLC, 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. The Buckeye Ohio Risk Management Agency, Inc. Benefits Pool is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 21, 2005

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BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
BORMA, Inc.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 BORMA and are not intended to be a complete presentation of BORMA's activities.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the business-type activities of BORMA 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, BORMA has implemented GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. "

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2005 on our consideration of BORMA'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 applied certain limited procedures, which consisted 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.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
October 31, 2005

THE BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC.

**MANGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
Unaudited**

The discussion and analysis of The Buckeye Ohio Risk Management Agency, Inc.'s performance provides an overview of the Agency's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the Agency's financial performance as a whole.

HIGHLIGHTS

The Agency's net assets increased \$544,628. Total assets increased by \$511,199 while total liabilities decreased by \$33,429.

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 the Agency's financial position.

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

DESCRIPTION OF FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activity reflect how the Agency 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 the Agency'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 the Agency 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 increased by \$511,199 or 19.94% in 2004. Cash increased \$773,816 while investments, reinsurance receivable and prepaid assets decreased by \$1,427, \$170,598, and \$90,592, respectively. On the liability side, total liabilities decreased by \$33,429 or 1.49% in 2004. Accounts payable decreased \$355, prepaid premiums decreased \$30,141 and loss reserves decreased \$2,933. Total revenues were up \$563,512 while total expenses were down \$317,320. Ending net assets were \$866,632 in 2004 compared to \$322,004 in 2003. BORMA 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 \$544,628 had a positive impact on the financial condition of the Agency. The organization is adequately funded and increases should reflect what the health insurance market requires.

BUDGETARY HIGHLIGHTS

The Agency does not draft or approve a budget in the tradition of most government agencies. The insurance adjuster reviews the Agency's prior claims history and helps the agency 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, the Agency 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, the Agency will have a decrease in net assets.

CURRENT ISSUES

The Agency has added two new members to the pool after December 31, 2004. These include an Ohio county and an Ohio Township.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those interested in the Agency's well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Edward A. Widman, President, 222 Meigs Street, Sandusky, Ohio 44870.

BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

**Statement of Net Assets
As of December 31, 2004**

Assets

Cash	\$ 2,775,712
Investments	299,146
Total assets	<u>3,074,858</u>

Liabilities

Prepaid premiums	95,288
Loss reserves	2,112,938
Total liabilities	<u>2,208,226</u>

Net assets

Unrestricted net assets	866,632
Total net assets	<u><u>\$ 866,632</u></u>

The notes to the financial statements are an integral part of this statement.

BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

**Statement of Activity
For the year ended December 31, 2004**

Revenues

Membership contributions	\$ 10,923,753
Interest income	37,283
Total revenues	<u>10,961,036</u>

Expenses

Insurance premium for coverages	711,066
Claims payments	9,298,562
Claims administration fees	395,403
Other expenses	14,310
Total expenses	<u>10,419,341</u>
Excess of revenues over expenses	541,695
(Increase)/decrease in loss reserve	<u>2,933</u>
Increase/(decrease) in net assets	544,628
Net assets, beginning of year, as restated (see Note 6)	<u>322,004</u>
Net assets, end of year	<u><u>\$ 866,632</u></u>

The notes to the financial statements are an integral part of this statement.

BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

**Statement of Cash Flows
For the year ended December 31, 2004**

Cash flows from operating activities

Increase in net assets	\$ 544,628
Net changes in operating assets and liabilities	
Decrease in prepaid life insurance and administration fees	90,592
Decrease in reinsurance receivable	170,598
Decrease in loss reserves	(2,933)
Decrease in prepaid premiums	(30,141)
Decrease in accounts payable	<u>(355)</u>
Increase in cash and investments	772,389
Cash balance, beginning of year	<u>2,302,469</u>
Cash balance, end of year	<u><u>\$ 3,074,858</u></u>

The notes to the financial statements are an integral part of this statement.

THE BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - FINANCIAL REPORTING ENTITY

The Buckeye Ohio Risk Management Agency, Inc. Benefits Pool (BORMA) is a not-for-profit, self-insurance pool created under Chapter 2744.081 of the Ohio Revised Code. BORMA's public purpose is to enable its twelve members (political subdivisions) to obtain insurance coverage, provide methods for paying claims and provide a formalized jointly administered self-insurance pool. Specifically, BORMA provides health benefits to employees of its members. BORMA is governed by a Board of Trustees that is elected from and by representatives of member municipalities. Rate-setting policies are established by the Board of Trustees in consultation with independent actuaries. The members of BORMA include the following municipalities within the State of Ohio: Archbold, Bowling Green, Carey, Clyde, Defiance, Fayette, Hicksville, Napoleon, Oberlin, Sandusky, Upper Sandusky, and Willard.

BORMA has, in addition to the benefits pool division, a property and liability insurance division. Members do not have to be part of both divisions. The accounting records are maintained separately and, therefore, these financial statements have excluded the property and liability insurance division.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus and Basis of Presentation

BORMA prepares its financial statements in accordance with accounting principles generally accepted in the United States of America and Governmental Accounting Standards Board (GASB) Statement Nos. 10, 29, 30 and 34, and GASB Interpretation No. 4. BORMA implemented GASB Statement No. 34 during the fiscal year. The implementation had no effect on beginning net assets.

GASB Statement Nos. 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 Statement No. 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.

B. Member and Supplemental Contributions

Member contributions are calculated annually to produce a sum of money within the self-insurance pool adequate to fund administrative expenses and to establish adequate reserves for claims and unallocated loss adjustment expenses.

Under the terms of membership, should annual member contributions not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative expenses, the Board of Trustees can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Association and any later period when claims or expenses need to be paid which are attributable to any membership year during which the event or claim occurred.

THE BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

C. Cash and Investments

BORMA's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value. BORMA has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price at which the investment could be sold.

BORMA considers cash and investments, both of which are short-term in nature, as cash in preparing the statement of cash flows.

D. Reinsurance Receivables

Amounts recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses are reported as reinsurance receivables and as reductions of claims expenses.

E. Prepaid Premiums

Member contributions paid in advance represent revenues of future periods and therefore are recorded as prepaid premiums on the Statement of Net Assets.

F. Administrative Expenses

Administrative expenses reported on the Statement of Activities primarily consist of costs associated with the processing of claims payments and the purchase of loss control services.

G. Claims Expenses

Claims Expenses include paid and unpaid claims and expenses associated with settling claims. The Loss Reserves liability is based on claims adjusters' evaluations of individual claims and management's evaluation and an actuarial review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The liability represents the ultimate cost of settling the claims.

H. Premium Deficiencies

Each year, in accordance with GASB Statement No. 10, BORMA determines whether or not a premium deficiency exists by calculating the difference between future contract revenues and future contract expenses. In the event future premiums are less than the sum of expected claims costs (including IBNR claims) and expected claim adjustment expenses, a premium deficiency loss or expense is recognized. BORMA does not take into consideration estimated investment income when determining if premium deficiencies exist.

THE BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

I. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits - At fiscal year end, the carrying amount of BORMA's deposits was a negative \$140,305 and the bank balance was \$152,383. Of the bank balance, \$107,095 was covered by federal depository insurance. The remaining balance is uncollateralized.

Investments - Investments are categorized to give an indication of the level of risk assumed by BORMA at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by BORMA or its agent in BORMA's name. Category 2 includes uninsured and unregistered investments, for which the securities are held by the counterparty's Trust department or an agent in BORMA's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or its Trust department but not in BORMA's name. STAROhio and Money Market Mutual Funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u>	<u>Fair Value</u>
<u>Categorized Investments:</u>		
U.S. Government Obligations	1	\$ 299,146
<u>Uncategorized Investments:</u>		
Money Market Mutual Funds	N/A	2,582,216
STAROhio	N/A	333,801
Total Investments		<u>\$ 3,215,163</u>

A reconciliation between the classifications of cash and investments on the Statement of Net Assets and the classifications of deposits and investments presented above is as follows:

	<u>Cash</u>	<u>Investments</u>
Statement of Net Assets	\$ 2,775,712	\$ 299,146
<u>Reconciling Items:</u>		
Money Market Mutual Funds	(2,582,216)	2,582,216
STAROhio	(333,801)	333,801
Adjusted Balances	<u>\$ (140,305)</u>	<u>\$ 3,215,163</u>

THE BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC. BENEFITS POOL

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 4 – REINSURANCE CEDED

BORMA reinsures certain risks with American National to limit its losses for large aggregate and individual losses. The plan year is January 1 through December 31. Reinsurance premiums ceded during the fiscal year totaled \$624,785.

There were no amounts recoverable from excess insurers and reinsurers as of the balance sheet date.

NOTE 5 – RESERVE FOR CLAIMS LOSSES

BORMA, under its terms of membership, shall establish adequate reserves for claims and unallocated loss adjustment expenses. In 2004, the Loss Reserve decreased \$2,933 to \$2,112,938. The loss reserve percentage increased from 18.4% to 19.2%. Total expenses for the years ended December 31, 2004 and 2003 respectively were approximately \$10.5 million and \$11.5 million.

Changes in BORMA's reserve for claims losses amount for the two previous years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Incurred Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2003	2,621,488	\$ 9,607,730	10,113,347	2,115,871
2004	2,115,871	\$ 9,295,629	9,298,562	2,112,938

NOTE 6 – RESTATEMENT OF BEGINNING NET ASSETS

During the 2004 audit, it was determined that life insurance and administrative fees for January, 2004, were paid in December, 2003, but were not recorded as prepaid assets on the 2003 financial statements. Therefore, the beginning net assets were increased \$90,592, the amount of the previously unrecorded asset.

Required Supplementary Information
Ten-Year Loss Development Information

	Fiscal and Accident Year			
	2001	2002	2003	2004
Premiums and investment revenue				
Earned	8,958,770	10,374,580	10,397,524	10,961,036
Ceded	<u>(567,630)</u>	<u>(594,892)</u>	<u>(719,096)</u>	<u>(711,066)</u>
Net earned	8,391,140	9,779,688	9,678,428	10,249,970
Unallocated expenses	21,990	48,838	51,564	14,310
Estimated losses and expenses, end of accident year:				
Incurred	7,612,439	9,543,745	10,624,475	9,806,067
Ceded	<u>(487,885)</u>	<u>(71,571)</u>	<u>(570,815)</u>	<u>(115,035)</u>
Net incurred	7,124,554	9,472,174	10,053,660	9,691,032
Net paid (cumulative as of:				
End of accident year	5,620,908	7,017,360	8,939,826	9,069,706
One year later	6,790,758	8,919,766	10,176,907	
Two years later	6,806,273	8,928,845		
Three years later	6,798,311			
Reestimated ceded losses and expenses	(487,885)	(71,571)	(570,815)	(115,035)
Reestimated net incurred losses and expenses:				
End of accident year	7,124,554	9,472,174	10,053,660	9,691,032
One year later	7,124,554	9,472,174	10,053,660	
Two years later	7,124,554	9,472,174		
Three years later	7,124,554			
Increase (decrease) in estimated net incurred losses and expenses from end of accident year	-	-	-	-

Information prior to fiscal year 2001 not available.



INDEPENDENT AUDITOR'S 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
BORMA, Inc.

We have audited the accompanying financial statements of the business-type activities of the Buckeye Ohio Risk Management Agency, Inc. (BORMA) as of and for the year ended December 31, 2004, which collectively comprise BORMA's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 31, 2005. As discussed in Note 2 to the basic financial statements, BORMA has implemented GASB Statement 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 BORMA'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 operation 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 BORMA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 the Finance Committee, management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates
October 31, 2005



**Auditor of State
Betty Montgomery**

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THE BUCKEYE OHIO RISK MANAGEMENT AGENCY, INC.

ERIE 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 13, 2005**