

FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTAL INFORMATION
Ohio Municipal Joint Self-Insurance Pool
*Years ended March 31, 2013 and 2012
with Report of Independent Auditors*



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Ohio Municipal Joint Self-Insurance Pool, Franklin County, prepared by Petrow, Leemhuis, Vincent & Kane, PC for the audit period April 1, 2012 through March 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 29, 2013

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Ohio Municipal Joint Self-Insurance Pool

Financial Statements and Required Supplemental Information

Years ended March 31, 2013 and 2012

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Ohio Municipal joint Self-Insurance Pool Management Discussion and Analysis

This section of the Ohio Municipal Joint Self Insurance Pool's (the "Pool") financial statements contains a discussion and analysis by management of the Pool's financial results as of March 31, 2013 and 2012, and for the years then ended.

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

	2013	2012
Total assets	\$ 833,561	1,097,683
Losses and loss adjustment expenses payable	596,846	410,235
Other liabilities	185,679	380,987
Total liabilities	782,525	791,222
Accumulated surplus	51,036	306,461
Premium revenues, net of reinsurance ceded	1,039,774	1,020,092
Investment income	3	747
Total revenues	1,039,777	1,020,839
Losses and loss adjustment expenses, net of reinsurance ceded	638,513	297,277
Administrative and other expenses	656,689	709,587
Total expenses	1,295,202	1,006,864
Net change in accumulated surplus	(255,425)	13,975

Pool member contribution revenue increased 2% in 2013 over the same period in 2012. The Pool's total assets decreased 24%, or \$264,122, to \$833,561 in 2013. Cash, cash equivalents and investments decreased 23%, or \$228,566, from \$993,600 in 2012 to \$765,034 in 2013. A large portion of the asset decrease is attributable to the reduction of premiums received by members in advance of their policy anniversary date. In 2012 premiums paid in advance was \$358,286 but this amount decreased to \$182,577 in 2013.

Due in large part by an increase in related claim related expenses, the Pool experienced a net loss in 2013 of \$255,425 compared to a profit of \$13,975 in 2012. The rise in claims expenses was driven by a large number of property claims from inclement weather in 2013. Including the 2013 results, this is only the second time in the past ten full fiscal years that the Pool has had a negative contribution deficit from Pool operations.

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

Market conditions in the public entity sector are stabilizing and firming on some accounts with increased loss activity. The Pool retained 93% of its members, and one new member joined in 2013. The OML, sponsor of the Pool, received 2% of gross written and surplus contributions for the calendar year. Many of our members have committed to retain their coverage with the Pool with three year commitments.

The Pool changed its liability reinsurance program to 100% domestic reinsurance providers in 2008. The benefits of this change included switching to a guaranteed cost premium as opposed to premiums that were adjustable based on incurred reinsured losses. The Pool Board and the Administrator receive competitive bids annually in order to make sure the excess reinsurance terms remain competitive for Pool members. The Pool's self-insured retention was also reduced from \$200,000 to \$150,000.

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

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

Report of Independent Auditors

Board of Trustees
Ohio Municipal Joint Self-Insurance Pool

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Municipal Joint Self-Insurance Pool, which comprise the balance sheets as of March 31, 2013 and 2012 and the related statements of income and changes in accumulated surplus and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Comptroller General of the United States' *Government Auditing Standards*. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Municipal Joint Self-Insurance Pool, as of March 31, 2013 and 2012, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2013 on our consideration of Ohio Municipal Joint Self-Insurance Pool'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Governmental Accounting and Financial Reporting Standards require that the Management's Discussion and Analysis (page 1) and the Schedule of Claims Development Information (page 12) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



August 22, 2013

Ohio Municipal Joint Self-Insurance Pool

Balance Sheets

	March 31	
	2013	2012
Assets		
Cash and cash equivalents	\$ 765,034	\$ 993,600
Member contributions receivable	20,174	55,730
Reinsurance recoverable	48,353	48,353
Total assets	<u>\$ 833,561</u>	<u>\$ 1,097,683</u>
Liabilities and accumulated surplus		
Losses and loss expenses payable	\$ 596,846	\$ 410,235
Member contributions received in advance	182,577	358,286
Administrator, sponsor fees and commissions payable	3,102	22,701
Total liabilities	<u>782,525</u>	<u>791,222</u>
Accumulated surplus	<u>51,036</u>	<u>306,461</u>
Total liabilities and accumulated surplus	<u>\$ 833,561</u>	<u>\$ 1,097,683</u>

See accompanying notes and report of independent auditors.

Ohio Municipal Joint Self-Insurance Pool

Statements of Income and Changes in Accumulated Surplus

	Years ended March 31	
	2013	2012
Operating revenues:		
Gross written contributions	\$ 1,765,486	\$ 1,313,829
Member surplus contributions	235,432	317,124
Change in unearned premium	-	806,664
Reinsurance premiums	(961,144)	(1,051,527)
Change in unearned premium ceded	-	(365,998)
	1,039,774	1,020,092
Operating expenses:		
Losses and loss adjustment expenses	1,084,221	535,980
Ceded losses recovered	(445,708)	(238,703)
Administrator, sponsor fees and commissions	543,261	640,289
Professional fees	88,126	53,908
Other expenses	25,302	15,390
	1,295,202	1,006,864
Operating income (loss)	(255,428)	13,228
Non-operating revenues:		
Investment income	3	747
Net increase (decrease) in accumulated surplus	(255,425)	13,975
Accumulated surplus beginning of year	306,461	292,486
Accumulated surplus end of year	\$ 51,036	\$ 306,461

See accompanying notes and report of independent auditors.

Ohio Municipal Joint Self-Insurance Pool

Statements of Cash Flows

	Years ended March 31	
	2013	2012
Operating activities		
Member and surplus contributions received	\$ 1,853,765	\$ 2,222,695
Reinsurance premiums paid	(975,851)	(1,172,843)
Loss and allocated expenses paid, net of deductibles collected	(1,124,534)	(1,326,209)
Reinsurance, salvage and subrogation recoveries received	679,635	705,878
Administrator, sponsor fees and commissions paid	(563,372)	(477,181)
Professional fees paid	(93,043)	(59,390)
Other income (expenses)	(5,169)	(3,800)
Net cash used by operating activities	(228,569)	(110,850)
Investing activities		
Investment income	3	747
Net cash provided by investing activities	3	747
Net decrease in cash and cash equivalents	(228,566)	(110,103)
Cash and cash equivalents at beginning of the year	993,600	1,103,703
Cash and cash equivalents at end of the year	\$ 765,034	\$ 993,600
Reconciliation of net income to net cash used by operating activities:		
Operating income (loss)	\$ (255,428)	\$ 13,228
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Member contributions receivable	35,556	286,641
Deferred acquisition costs	-	195,675
Reinsurance recoverable	-	6,343
Losses and loss expenses payable	186,611	(485,364)
Unearned member contributions	-	(456,610)
Member contributions received in advance	(175,709)	358,286
Administrator, sponsor fees and commissions payable	(19,599)	(29,049)
Net cash used by operating activities	\$ (228,569)	\$ (110,850)

See accompanying notes and report of independent auditors.

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

March 31, 2013 and 2012

1. Organization and Significant Accounting Policies

Organization

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

Basis of Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Losses and Loss Adjustment Expenses Payable

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

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

March 31, 2013 and 2012

1. Organization and Significant Accounting Policies (continued)

Revenue Recognition

Policies are billed on an annual basis. Members are charged a contribution for the insurance coverage(s) provided by the Pool, which is recognized as revenue ratably over the term of the policy (one year). The amount of the contribution is dependent on underwriting factors such as past claim experience, rating and market and competitive factors.

Concentrations of Credit Risk

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

Income Taxes

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

2. Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and short term investments held in three accounts at a commercial bank. Custodial credit risk is the risk that depositor's funds may be lost in the event of a bank failure. Interest bearing deposits at the Pool's financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 and non-interest bearing deposits are insured on an unlimited basis. At March 31, 2013 and 2012, the Pool's uninsured cash and investment balances totaled \$340,343 and \$627,298, respectively. To limit its interest rate and credit risk, the Pool invests only in U.S. Government securities with a maturity of two years or less. The Pool has not established a limit on the amount of funds that may be invested with any one institution.

3. Administrative Services Agreement

The Pool has outsourced its administrative functions to JWF Specialty, Inc. ("JWF"), a third party administrator located in Indiana, under a service agreement effective June 2001 and renewable yearly. In accordance with the agreement, JWF performs all policy management, underwriting, billing, claims management and payment functions and financial management for the Pool, and is paid a fee based on a percentage of written contribution earned. Administrative expenses incurred in connection with this agreement totaled \$293,093 and \$240,525 for 2013 and 2012, respectively, and are included in administrator, sponsor fees and commissions in the accompanying statement of income and changes in accumulated surplus.

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

March 31, 2013 and 2012

4. Reinsurance

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess of loss contracts in-force protect the Pool against losses over the retention level; at March 31, 2013, the Pool's retention levels are \$100,000 and \$175,000 for property and casualty coverages, respectively.

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

	<u>2013</u>	<u>2012</u>
Ceded losses and loss expenses receivable	\$ 128,111	\$ 291,829
Ceded losses and loss expenses recoverable	46,553	96,637
Reinsurance expense	961,144	1,051,527
Ceded losses and loss expenses	445,709	238,703

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

5. Losses and Loss Adjustment Expenses Payable

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

	<u>2013</u>	<u>2012</u>
Balances at April 1	\$ 410,235	\$ 895,599
Losses incurred related to:		
Current year	545,472	670,293
Prior years	93,041	(373,016)
Total losses incurred	<u>638,513</u>	<u>297,277</u>
Paid related to:		
Current year	254,968	219,633
Prior years	196,934	563,008
Total paid	<u>451,902</u>	<u>782,641</u>
Balance at March 31	<u>\$ 596,846</u>	<u>\$ 410,235</u>

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

March 31, 2013 and 2012

5. Losses and Loss Adjustment Expenses Payable (continued)

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

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

	<u>2013</u>	<u>2012</u>
Deductibles receivable	\$ 58,583	\$ 96,256
Deductibles recoverable	<u>92,494</u>	<u>81,269</u>
	<u>\$ 151,077</u>	<u>\$ 177,525</u>

6. Subsequent Events

In accordance with ASC 855 *Subsequent Events*, the Pool evaluated subsequent events through August 22, 2013, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the accompanying financial statements.

Required Supplemental Information

Ohio Municipal Joint Self-Insurance Pool
Schedule of Claims Development Information

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross written premium	3,644,655	3,761,688	3,217,139	3,073,871	2,571,751	2,278,626	1,942,501	585,208	1,313,829	1,765,486
Earned revenue	4,350,027	4,302,874	3,997,908	3,741,221	3,065,255	2,574,505	2,197,984	674,995	1,630,953	2,000,918
less ceded	(870,170)	(1,222,857)	(1,229,724)	(1,108,456)	(1,101,106)	(989,284)	(981,172)	(378,547)	(1,051,527)	(961,144)
Net earned	3,479,857	3,080,017	2,768,184	2,632,765	1,964,149	1,585,221	1,216,812	296,448	579,426	1,039,774
Non-claim expenses	1,098,568	1,178,139	1,098,603	971,704	849,789	753,562	739,918	160,363	709,587	656,689
Paid losses and loss adjustment expenses (cumulative) as of:										
End of policy year		1,224,137	533,495	413,133	295,280	224,966	439,630	284,330	227,755	254,970
End of first year		1,224,137	798,765	1,078,966	726,315	482,098	722,446	372,625	451,891	
End of second year		1,521,423	893,674	1,370,032	953,455	745,853	911,982	423,278		
End of third year	1,302,724	1,611,120	1,006,760	1,569,161	1,028,932	955,965	977,858			
End of fourth year	1,424,054	1,654,756	1,034,142	1,633,127	1,047,445	1,014,783				
End of fifth year	1,427,354	1,679,792	1,119,714	1,638,746	1,048,737					
End of sixth year	1,427,446	1,679,792	1,119,714	1,638,746						
End of seventh year	1,427,223	1,679,792	1,217,457							
End of eighth year	1,427,223	1,679,792								
End of ninth year	1,427,223	1,679,792								
Incurred loss and loss adjustment expenses:										
End of policy year		1,733,140	1,171,262	802,653	883,803	543,955	742,422	460,115	517,975	411,642
End of first year		1,733,140	1,110,914	1,372,774	1,268,677	714,412	938,189	445,987	723,255	
End of second year		1,718,895	1,130,603	1,694,013	1,320,140	1,152,607	980,320	481,297		
End of third year	1,518,520	1,695,963	1,113,367	1,693,345	1,106,255	1,078,374	1,009,140			
End of fourth year	1,440,105	1,731,071	1,123,307	1,655,399	1,082,500	1,078,139				
End of fifth year	1,432,995	1,731,071	1,123,307	1,638,746	1,065,100					
End of sixth year	1,427,446	1,686,987	1,173,087	1,668,746						
End of seventh year	1,427,223	1,681,240	1,217,457							
End of eighth year	1,427,223	1,679,792								
End of ninth year	1,427,223	1,679,792								

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

Board of Trustees
Ohio Municipal Joint Self-Insurance Pool

We have audited the financial statements of the Ohio Municipal Joint Self-Insurance Pool as of March 31, 2013 and 2012, and for the years then ended, and have issued our report thereon dated August 22, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Peterson Lauchlin Vincent

August 22, 2013



Dave Yost • Auditor of State

OHIO MUNICIPAL JOINT SELF-INSURANCE POOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 12, 2013