

**MIDWEST POOL RISK MANAGEMENT AGENCY, INC.**  
**AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO**

REGULAR AUDIT

JANUARY 1, 2005 THROUGH DECEMBER 31, 2006

PREPARED BY: MANNING & ASSOCIATES CPAs, LLC





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Midwest Pool Risk Management Agency, Inc.  
114 East Main Street, Suite 200  
Van Wert, Ohio 45891

We have reviewed the *Independent Auditors' Report* of the Midwest Pool Risk Management Agency, Inc., Van Wert County, prepared by Manning & Associates CPAs, LLC, for the audit period January 1, 2006 through December 31, 2006. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Midwest Pool Risk Management Agency, Inc. is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 9, 2007

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FINANCIAL STATEMENT

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

December 31, 2006 and 2005

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MANNING & ASSOCIATES CPAS, LLC  
6105 North Dixie Drive  
Dayton, Ohio 45413

Board of Trustees  
Midwest Pool Risk Management Agency, Inc.  
Auglaize, Hancock, Mercer, Shelby, And Van Wert Counties, Ohio

Independent Auditors' Report

We have audited the accompanying financial statements of the Midwest Pool Risk Management Agency, Inc. (the Agency) as of and for the years ended December 31, 2006 and 2005. This financial statement is the responsibility of the Agency'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 provide a reasonable basis for our opinion.

As discussed in Note A, the Agency has prepared its financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects of the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Agency to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2005 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2005 and 2006. While the Agency does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements.

The Auditor of State permits, but does not require governments to reformat their statements. The Agency has elected not to reformat its statements. Since the Agency does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding three paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Agency as of December 31, 2006 and 2005 or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Midwest Pool Risk Management Agency, Inc. as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note A describes.

The aforementioned revision to generally accepted accounting principles also requires the Agency to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Agency has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplements, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report date August 30, 2006 on our consideration of the Midwest Pool Risk Management Agency, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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 audits.

Manning & Associates CPAs, LLC  
Dayton, Ohio

June 21, 2007

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.  
AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

General Fund

Year ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>RECEIPTS</b>		
Receipts from members	\$ 209,722	\$ 1,827,899
Receipts from claim recoveries	500	20,621
Insurance premium Refunds	166,229	0
Investment income	19,373	17,641
<b>TOTAL RECEIPTS</b>	<u>\$ 395,824</u>	<u>\$ 1,866,161</u>
 <b>DISBURSEMENTS</b>		
Payments to third-party administrator:		
Claims payments	\$ 235,858	\$ 222,542
Administrative fees	0	73,634
Insurance premiums	216,060	1,182,110
Professional fees	6,265	7,559
Miscellaneous other costs	2,978	1,720
Refund to members	563,695	0
<b>TOTAL DISBURSEMENTS</b>	<u>\$ 1,024,856</u>	<u>\$ 1,487,565</u>
 <b>EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	 \$ (629,032)	 \$ 378,596
 Beginning fund cash and investment balance	 <u>1,163,984</u>	 <u>785,388</u>
 Ending fund cash and investment balance	 <u>\$ 534,952</u>	 <u>\$ 1,163,984</u>

See accompanying notes to financial statements



## NOTES TO FINANCIAL STATEMENT

### MIDWEST POOL RISK MANAGEMENT AGENCY, INC. AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

December 31, 2006 and 2005

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Description of the Entity:

The Midwest Pool Risk Management Agency, Inc., Auglaize, Hancock, Mercer, Shelby, and Van Wert Counties, Ohio (the Agency) is a joint self-insurance program Agency established pursuant to the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Ohio Revised Code Chapter 167. The Agency is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provisions and administration of a self-insurance pool to provide coverage for automobile liability, general liability, crime and property, automobile physical damage and public official's liability in accordance with the Agency's amended and restated agreement. In addition to the self-insurance pool, the Agency provides risk management services, loss prevention programs and other educational materials. The members of the Agency include the following counties within the State of Ohio: Auglaize, Hancock, Mercer, Shelby and Van Wert.

The Assembly is the legislative body (Board of Trustees) of the Agency consisting of each member's board of county commissioners. Officers of the Assembly are elected from the Board of Trustees for a one year term. The Board of Trustees acts as the managerial body of the Agency.

Member premiums are calculated to annually produce a sufficient sum of money within the self-insurance pool adequate to fund administrative expenses of the Association and to create adequate reserves for claims and –allocated loss adjustment expenses.

Under the terms of membership, should annual member premiums 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 Agency 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.

For claims, the Agency pays the first \$100,000 of loss per occurrence (the "Self-insured retention). This self-insured layer is limited to an annual aggregate amount of \$570,000 by a commercial insurance policy. Amounts over the Agency deductible and the self-insured retention amount of \$100,000, or the aggregate self-insured retention amount of \$570,000 are payable by a commercial insurance policy subject to scheduled limits at each location per a statement of values on file with the company.

NOTES TO FINANCIAL STATEMENT (CONTINUED)

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.  
AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

December 31, 2006 and 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of the Entity (Continued):

Effective December 1, 2005, the Agency joined a Public Entity Risk Consortium (PERC) (super pool) which consist of seven (7) pool risk groups including the Agency. Under this program the Agency continues as is, including the \$100,000 self-insurance retention. However, the super pool self-insures amounts in excess of its members' individual self-insured retention as follows:

Property	\$250,000 per occurrence
Liability	\$500,000 per occurrence
Stop Loss	\$1,880,000 maximum per year

The Agency uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the agency as direct insurer of the risks reinsured. The Agency is contingently liable with respect to certain loss coverage, which would become a liability in the event these insurance carriers are unable to meet the obligations under these contracts.

Members may withdraw from the Agency or from any particular benefits program with at least 12 months notice. No members withdrew from the Agency during the period from January 1, 2005 through December 31, 2006.

All administrative costs and expenses incurred for the maintenance of the Agency are paid through the benefit pool account balances through December 31, 2006 and 2005.

Management believes these financial statements present all activities for which the Agency is financially accountable.

Basis of Accounting:

The Agency's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The Agency's financial statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

NOTES TO FINANCIAL STATEMENT (CONTINUED)

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.  
AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

December 31, 2006 and 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting;

The Agency maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Agency maintains a general fund to account for its expendable financial resources and related current expenses.

Budgetary Process:

The Agency is not required to follow the budgetary process and has decided not to adopt a formal budget annually as part of their amended and restated agreement.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund/function level of control. Independent insurance consultants annually recommend appropriation measures and they are approved by the Agency annually along with any subsequent amendments.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of December 1.

3. Encumbrances

The Agency does not reserve encumbrances.

Cash and Investments:

Investments are reported as assets and are carried at cost, which approximates fair value. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses are recorded as receipts or disbursements when a sale occurs.

NOTES TO FINANCIAL STATEMENT (CONTINUED)

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.  
AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

December 31, 2006 and 2005

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS

In March 2003, the GASB issued Statement No. 40, Deposit and Investment Risk Disclosures. This statement amends GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks. GASB Statement No. 40 was adopted by the Agency during 2005.

The Agency maintains a cash and savings account used by all funds. The Agency is not required by law to have an investment policy.

The carrying amount of the Agency’s cash and investments at December 31, 2006 and 2005 was as follows:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 66,542	\$ 714,136
Raymond James Financial Services		
Cash/Cash Equivalents	144,406	15,084
Fixed Income Securities (FDIC Certificate of Deposits)	79,000	200,000
U.S. Bank, NA		
Certificate of Deposits, 4.27% Due March 26, 2007	<u>245,004</u>	<u>234,764</u>
	<u>\$ 534,952</u>	<u>\$ 1,163,984</u>

Deposits:

Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution’s public entity deposit pool.

NOTE C – ADMINISTRATIVE FEES

The Agency has contracted with Arthur J. Gallagher & Co. to provide various management, underwriting, claim adjustments and loss control services. The fees, are calculated based on periodic contributions and are deferred and charged to periodic expenses on a straight-line basis over the related service period.

NOTES TO FINANCIAL STATEMENT (CONTINUED)

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.  
 AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

December 31, 2006 and 2005

NOTE D – RISK MANAGEMENT

The Agency contracted with a third-party administrator, Arthur J. Gallagher & Co. to defend and process claims incurred by its members. The members contribute monthly premiums into the self-insurance risk pool fund of the Agency. The Treasurer approves payments to the third-party administrator for actual insurance claims processed, insurance premiums and administrative charges incurred on behalf of the Agency members. Besides the standard monthly contributions, the Agency may extend an assessment to each member.

Member counties that withdraw from the Agency are obligated for payment of any negative balance in their account and the remaining claims of any of its eligible members and dependents are the responsibility of each individual member upon withdrawal from the Agency.

NOTE E – EXPECTED LOSS AND ALLOCATED LOSS ADJUSTMENT EXPENSE

The Agency receives an annual actuarial report that estimates an amount for the runoff liability (expected loss and allocated loss adjustment expense) for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the year ended December 31, 2006 and 2005. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at December 31, 2006 and 2005 is as follows:

	2006	2005
Cash and savings	\$534,952	\$ 1,163,984
IBNR actuarial liability	<u>490,171</u>	<u>268,621</u>
Excess funds	<u>\$ 44,781</u>	<u>\$ 895,363</u>

Effective December 1, 2005, the Agency became a member of Public Entity Risk Consortium (PERC) an Ohio Public Entity Joint Self-Insurance Pool owned by its members. PERC provides coverage in excess of the Agency's retentions. Due to this change and projected savings, \$563,695 was refund to the Agency's members during the year ended December 31, 2006.

**MANNING & ASSOCIATES CPAS, LLC  
6105 NORTH DIXIE DRIVE  
DAYTON, OHIO 45414**

**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  
Midwest Pool Risk Management Agency, Inc.  
Auglaize, Hancock, Mercer, Shelby, and Van Wert Counties, Ohio

We have audited the financial statement of the Midwest Pool Risk Management Agency, Inc. as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 21, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Midwest Pool Risk Management Agency, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control over financial reporting.

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 Consortium'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 Consortium's financial statements that is more than inconsequential will not be prevented or detected by the Consortium's internal control.

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 Consortium'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 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 Midwest Pool Risk Management Agency, Inc.'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 trustees, management, and Auditor of the State, and is not intended to be and should not be used by anyone other than those specified parties.

Manning & Associates CPAs, LLC  
Dayton, Ohio

June 21, 2007

STATUS OF PRIOR YEAR AUDIT CITATIONS AND RECOMMENDATIONS  
MIDWEST POOL RISK MANAGEMENT AGENCY, INC.  
AUGLAIZE, HANCOCK, MERCER, SHELBY, AND VAN WERT COUNTIES, OHIO

Year ended December 31, 2006 and 2005

The prior audit report, for the year ended December 31, 2005 did not include material citations or recommendations.





**Mary Taylor, CPA**  
Auditor of State

**MIDWEST POOL RISK MANAGEMENT AGENCY, INC.**

**VAN WERT 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  
JULY 19, 2007**