

Ohio Township Association Risk Management Authority

**Financial Report
with Required Supplemental Schedules
December 31, 2010**



Dave Yost • Auditor of State

Board of Directors
Ohio Township Association Risk Management Authority
c/o American Risk Pool Consultants
29200 Northwestern Highway, Suite 300
P.O. Box 5088
Southfield, MI 48034

We have reviewed the *Independent Auditor's Report* of the Ohio Township Association Risk Management Authority, Lucas County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Township Association Risk Management Authority is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

June 17, 2011

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Ohio Township Association Risk Management Authority

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Independent Auditor's Report

To the Board of Directors
Ohio Township Association Risk
Management Authority

We have audited the accompanying basic financial statements of the business-type activities of Ohio Township Association Risk Management Authority (the "Pool") as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Pool's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Pool's administrator, American Risk Pooling Consultants, Inc. (ARPCO or Management). Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Pool at December 31, 2010 and 2009 and the respective changes in its financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Board of Directors
Ohio Township Association Risk
Management Authority

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2011 on our consideration of Ohio Township Association Risk Management Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

June 2, 2011

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. Along with the notes to the basic financial statements, they provide detailed financial information concerning Ohio Township Association Risk Management Authority (the "Pool" or "OTARMA"). The management's discussion and analysis (MD&A) provides a review of the Pool's operating results for the years 2008 through 2010, as well as its financial condition at December 31, 2010, 2009, and 2008. The MD&A should be read in conjunction with the basic financial statements and notes thereto.

Overview

OTARMA is a local government risk pool that offers comprehensive liability and property coverages specifically tailored to meet the needs of townships throughout the state of Ohio and provides them with an alternative to traditional insurance. OTARMA differs philosophically from traditional insurance programs in that OTARMA is owned by its members and serves only its members' interests.

Historically, the property and casualty insurance industry has been unable to provide the consistency of pricing and coverages needed by governmental authorities. The national insurance crisis of the late 1980s, in which political subdivisions in the state of Ohio were unable to purchase affordable insurance, led to the formation of local government risk pools. The transition from insurance to pooling has been so successful that there are approximately 500 governmental entity pools currently operating in the United States of America. OTARMA was formed in 1987 and has grown steadily to 940 members today.

The growth and success of pooling is often attributed to the availability of broad coverage and price stability, which OTARMA has consistently delivered since its formation. In addition to those advantages enjoyed by many pools, OTARMA stands out by providing responsive claims handling, coverage specific to Ohio townships, and customized loss control services, proving that its service-oriented philosophy has been a successful long-term solution for its members.

The OTARMA website provides members with information on news and events and contains links to valuable resources including a comprehensive online loss control library with over 10,000 multimedia risk management tools. OTARMA enjoys the distinct privilege of being the pool with the most townships in Ohio and the only pool endorsed by the Ohio Township Association (OTA). The OTA endorsement is significant; the OTA is dedicated to the promotion and preservation of township government and serves as a resource to aid in effective township government.

OTARMA continues to build on its longstanding success by consistently providing customized coverage at a fair and stable price and being responsible, loyal, and responsive to its membership.

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

Administration

American Risk Pooling Consultants, Inc. (ARPCO or Management), a division of York Risk Services Group, Inc. (York), functions as the administrator of the Pool and provides underwriting, claims, loss control, risk management, and reinsurance services for the Pool. ARPCO has a staff of highly experienced attorneys and other professionals that have specialized in providing insurance-related services to public entities for over two decades. York is a premier provider of a full range of insurance, risk management, pool administration, claim management, and related services to a wide variety of clients throughout the United States, including over 4,300 public entities.

Financial Overview and Highlights

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

	2010	2009	2008
Assets			
Cash and cash equivalents	\$ 1,342,076	\$ 1,731,864	\$ 3,030,170
Investment securities - At fair value	23,822,823	24,597,545	24,988,321
Member contributions to be billed in the future	9,478,232	11,450,424	10,857,842
Other assets	1,212,121	1,202,255	1,861,407
Total assets	<u>\$ 35,855,252</u>	<u>\$ 38,982,088</u>	<u>\$ 40,737,740</u>
Liabilities			
Claims and claim adjustment expense reserves	\$ 9,936,923	\$ 12,017,434	\$ 12,120,958
Unearned premium reserves	126,181	130,437	163,863
Other liabilities	601,620	732,895	696,997
Total liabilities	10,664,724	12,880,766	12,981,818
Net Assets - Unrestricted	<u>25,190,528</u>	<u>26,101,322</u>	<u>27,755,922</u>
Total liabilities and net assets	<u>\$ 35,855,252</u>	<u>\$ 38,982,088</u>	<u>\$ 40,737,740</u>

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

Approximately 70 percent in 2010, 68 percent in 2009, and 69 percent in 2008 of total assets consists of cash, cash equivalents, and investments. The cash and investment balances decrease in 2010 is mainly attributed to board of director-approved member distributions, as detailed in Note 6. Overall, the total amount of cash, cash equivalents, and investments continues to represent a significant portion of total assets. As a result of the Pool's conservative investment objectives and policies, the overall investment return (excluding the net realized and unrealized losses on investments) totaled 3.33 percent during the year ended December 31, 2010. At December 31, 2010, 2009, and 2008, substantially all of the Pool's investments were invested in U.S. government securities or U.S. agency securities.

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

The Pool's claims and claim adjustment expense reserves totaled \$9,936,923 in 2010, \$12,017,434 in 2009, and \$12,120,958 in 2008. The reserves are estimated based on known facts for those claims existing at December 31 and a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors to provide reserve estimates for those claims incurred but not reported at year end. Because these estimates depend on complex factors such as jury decisions, court interpretations, changes in doctrines of legal liability, damage awards, inflation, and legislative changes, the process used in estimating claims reserves does not necessarily result in an exact amount. Consistent with industry practices, adjustments to claims reserves are charged to expense in the periods in which they are made. During the year ended December 31, 2010, the Pool decreased its provision for claims incurred in prior years by \$2,618,053 as a result of a decrease in claim frequency from the original actuarial estimate and favorable outcomes on certain cases settled or expected to be settled in the near term.

Net assets (members' equity) decreased \$910,794 and \$1,654,600 for the years ended December 31, 2010 and 2009, respectively, primarily as a result of the board of directors approving cash distributions to members totaling \$1,747,033 and \$3,569,067 for the years ended December 31, 2010 and 2009, respectively.

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

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

	2010	2009	2008
Operating Revenue			
Member contributions - Operating	\$ 12,840,450	\$ 12,884,852	\$ 12,573,542
Reinsurance premiums ceded	(2,079,763)	(2,212,557)	(2,210,061)
Change in contributions that will be billed in the future to pay unpaid claims	(1,972,192)	592,582	(790,245)
Total revenue	8,788,495	11,264,877	9,573,236
Operating Expenses			
Provision for claims	4,101,599	5,476,822	6,299,810
Operating expenses	4,511,856	4,534,686	4,432,351
Total expenses	8,613,455	10,011,508	10,732,161
Operating Income (Loss)	175,040	1,253,369	(1,158,925)
Nonoperating Revenue (Expenses)			
Investment earnings	711,390	545,192	1,139,524
Budgetary distributions	(1,747,033)	(3,569,067)	(2,311,009)
Total nonoperating expenses	(1,035,643)	(3,023,875)	(1,171,485)
Member Capital - (Withdrawals) contributions	(50,191)	115,906	233,466
Decrease in Net Assets	\$ (910,794)	\$ (1,654,600)	\$ (2,096,944)

The Pool's membership decreased from 946 to 940 members in 2010. Member contributions decreased approximately .3 percent, from \$12,884,852 in 2009 to \$12,840,450 in 2010, which continues to represent the ability of the Pool to maintain stability in the rate structure.

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

The Pool uses reinsurance and excess risk-sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool; however, they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains risks up to an amount specified in the contracts (at December 31, 2010, the Pool retained \$350,000 for casualty claims and \$150,000 for property claims). The board of directors and ARPCO periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain. Reinsurance expense (ceded) to APEEP and the Pool's excess reinsurers totaled approximately \$2,987,000 and \$3,135,000 for the years ended December 31, 2010 and 2009, respectively. In addition, amounts deducted from claims and claim expense reserves as of December 31, 2010 and 2009 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$2,549,000 and \$2,135,000, respectively.

In accordance with generally accepted accounting principles, all investments maintained by the Pool must be reported at fair market value (marked-to-market concept). Annual changes in these values are recognized in the statement of revenue, expenses, and changes in net assets as unrealized gains or losses on investments. Net realized and unrealized losses on investments totaled \$95,638 and \$322,279 for the years ended December 31, 2010 and 2009, respectively.

The Pool's total operating expenses decreased from \$10,011,508 in 2009 to \$8,613,455 in 2010. The decrease was mainly attributed to favorable claims development that resulted in a decrease to the claims and claim adjustment expense reserves as detailed in Note 3.

Economic Facts and Next Year's Rates

The rates charged by the Pool for member contributions for the next year are not expected to change significantly. All other operating expenses are expected to remain consistent with amounts reported in 2010. The provision for claim payments is expected to be consistent with historical trends and Management is unaware of any new economic events or legislative events that would have a significant impact on the operations of the Pool.

Contacting the Pool's Management

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

Ohio Township Association Risk Management Authority

Statement of Net Assets

	December 31	
	2010	2009
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,342,076	\$ 1,731,864
Member contributions receivable	888,597	944,475
Investment securities (Note 2)	9,343,774	6,270,051
Accrued investment income	243,287	252,401
Deductibles recoverable	4,596	1,000
Reinsurance receivable on paid claims (Note 4)	75,641	4,379
Member contributions to be billed in the future	3,350,000	3,950,000
Total current assets	15,247,971	13,154,170
Noncurrent Assets		
Investment securities - Net of current portion (Note 2)	14,479,049	18,327,494
Member contributions to be billed in the future	6,128,232	7,500,424
Total noncurrent assets	20,607,281	25,827,918
Total assets	<u>\$ 35,855,252</u>	<u>\$ 38,982,088</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 3)	\$ 3,808,691	\$ 4,517,010
Reinsurance premiums payable (Note 4)	91,961	83,265
Accounts payable and accrued expenses	509,659	649,630
Total current liabilities	4,410,311	5,249,905
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 3)	6,128,232	7,500,424
Unearned premium reserves	126,181	130,437
Total long-term liabilities	6,254,413	7,630,861
Total liabilities	10,664,724	12,880,766
Net Assets - Unrestricted	25,190,528	26,101,322
Total liabilities and net assets	<u>\$ 35,855,252</u>	<u>\$ 38,982,088</u>

Ohio Township Association Risk Management Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2010	2009
Operating Revenue		
Member contributions - Operating	\$ 12,840,450	\$ 12,884,852
Reinsurance premiums ceded (Note 4)	(2,079,763)	(2,212,557)
Change in contributions that will be billed in the future to pay unpaid claims	<u>(1,972,192)</u>	<u>592,582</u>
Total operating revenue	8,788,495	11,264,877
Operating Expenses		
Claims and claim adjustment expenses (Note 3):		
Paid	7,901,238	7,324,494
Recoveries	(1,719,128)	(1,744,148)
Decrease in claims and claim adjustment expense reserves	<u>(2,080,511)</u>	<u>(103,524)</u>
Total claims and claim adjustment expenses	4,101,599	5,476,822
Marketing and administrator fees	3,653,472	3,672,440
Other	<u>858,384</u>	<u>862,246</u>
Total operating expenses	<u>8,613,455</u>	<u>10,011,508</u>
Operating Income	175,040	1,253,369
Nonoperating Revenue (Expenses)		
Investment earnings - Interest and dividends	807,028	867,471
Net realized and unrealized losses on investments	(95,638)	(322,279)
Budgetary distributions (Note 6)	<u>(1,747,033)</u>	<u>(3,569,067)</u>
Total nonoperating expenses	(1,035,643)	(3,023,875)
Contributions - Member capital	139,239	188,334
Withdrawals - Member capital (Note 5)	<u>(189,430)</u>	<u>(72,428)</u>
Decrease in Net Assets	(910,794)	(1,654,600)
Net Assets - Beginning of year	<u>26,101,322</u>	<u>27,755,922</u>
Net Assets - End of year	<u>\$ 25,190,528</u>	<u>\$ 26,101,322</u>

Ohio Township Association Risk Management Authority

Statement of Cash Flows

	Year Ended December 31	
	2010	2009
Cash Flows from Operating Activities		
Cash received from members	\$ 12,780,424	\$ 12,797,149
Cash received from reinsurance recoveries	1,647,866	2,154,946
Cash paid for claims	(7,904,834)	(7,088,896)
Cash paid for reinsurance premiums	(2,071,067)	(2,291,215)
Cash paid for administrative and general expenses	(4,651,827)	(4,420,130)
Net cash (used in) provided by operating activities	(199,438)	1,151,854
Cash Flows from Investing Activities		
Investment income received	816,142	926,335
Purchase of investments	(14,430,514)	(14,278,508)
Proceeds from sales and maturities of investments	15,109,600	14,347,005
Net cash provided by investing activities	1,495,228	994,832
Cash Flows from Noncapital Financing Activities		
Receipts from members - Cumulative reserve fund	136,365	154,445
Payments for member withdrawals - Capitalization	(74,910)	(30,370)
Payments for member distributions - Budgetary	(1,747,033)	(3,569,067)
Net cash used in noncapital financing activities	(1,685,578)	(3,444,992)
Net Decrease in Cash and Cash Equivalents	(389,788)	(1,298,306)
Cash and Cash Equivalents - Beginning of year	1,731,864	3,030,170
Cash and Cash Equivalents - End of year	\$ 1,342,076	\$ 1,731,864

Ohio Township Association Risk Management Authority

Statement of Cash Flows (Continued)

A reconciliation of operating income to net cash from operating activities is as follows:

	Year Ended December 31	
	2010	2009
Operating income	\$ 175,040	\$ 1,253,369
Transfers to operations from member withdrawals	(114,520)	(42,058)
Adjustments to reconcile operating income from to net cash from operating activities:		
(Increase) decrease in assets:		
Claims service imprest fund	-	25,000
Member contributions receivable	54,494	(45,645)
Deductibles recoverable	(3,596)	15,500
Reinsurance receivable on paid claims	(71,262)	410,798
Claims escrow fund	-	195,098
Member contributions to be billed in the future	1,972,192	(592,582)
Increase (decrease) in liabilities:		
Claims and claim adjustment expense reserves	(2,080,511)	(103,524)
Reinsurance premiums payable	8,696	(78,658)
Accounts payable and accrued expenses	(139,971)	114,556
Net cash (used in) provided by operating activities	<u>\$ (199,438)</u>	<u>\$ 1,151,854</u>
Supplemental Disclosure of Cash Flow Information -		
Noncash investing activities - Net realized and unrealized losses on investments	<u>\$ (95,638)</u>	<u>\$ (322,279)</u>

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

Note 1 - Nature of Business and Significant Accounting Policies

OTARMA was created in March 1987 and organized under the laws of the state of Ohio as a local government risk pool. The Ohio Township Association endorses and promotes the Pool. A total of 940 townships within the state of Ohio participate in the Pool. OTARMA's primary objectives are to offer customized property and casualty coverage at a fair and stable price, provide a high level of service, and be responsive to the needs of its members.

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

The Pool has engaged ARPCO to serve as the administrator of the Pool. ARPCO specializes in public entity risk pool management and provides a full spectrum of administrative services. As provided for in its administrative agreement, ARPCO contracts specific services to subcontractors. Marketing and member services are provided by Burnham and Flower Agency of Ohio, Inc. Loss control services are provided by KLA Consulting. Claim services are provided by ARPCO's wholly owned subsidiary, Public Entity Risk Services of Ohio. These organizations are reimbursed for their services pursuant to the terms of their respective agreements with ARPCO.

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

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

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

Investment Earnings - Investment earnings, including changes in the fair value of investments, are recognized as nonoperating revenue in the statement of revenue, expenses, and changes in net assets.

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

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

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

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

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

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

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

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

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

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

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

In accordance with *GASB Comprehensive Implementation Guide, paragraph 7.73.3* and other recent interpretations of accounting for investment income for governmental risk pools, effective for the year ended December 31, 2010, the Pool reports investment earnings, including net realized and unrealized gains on investments, as nonoperating revenue (expenses) in the statement of revenue, expenses, and changes in net assets. Investment income for the year ended December 31, 2009 has been reclassified to conform to this presentation.

Note 2 - Deposits and Investments

The Pool's investment policy authorizes the Pool to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Ohio. The Pool designated JP Morgan Chase for the deposit of its funds.

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

Deposits

Cash and cash equivalents include an operating checking account and a short-term money market investment fund. The short-term money market investment fund is created through daily sweeps of excess cash by the Pool's custodial bank into bank-sponsored commingled funds that are invested in short-term securities backed by the U.S. government and other short-term instruments. Cash and cash equivalents totaled \$1,342,076 and \$1,731,864 at December 31, 2010 and 2009, respectively.

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. The Pool's policy related to custodial credit risk of bank deposits is to evaluate each financial institution with which it deposits funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. In October 2008, the FDIC implemented the "Transaction Account Guarantee Program", fully guaranteeing noninterest- and some interest-bearing checking account balances through December 31, 2009, regardless of the amount in the account. Effective December 31, 2010 through December 31, 2012, the FDIC implemented the Dodd-Frank Act that altered the FDIC coverage to fully guarantee all noninterest-bearing transaction accounts but restrict the guarantee to a maximum of \$250,000 on accounts bearing nominal interest rates. The Pool maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses. At December 31, 2010 and 2009, the Pool had no bank deposits that were uninsured and uncollateralized.

Investments

Investments are reported at fair value. As of December 31, 2010 and 2009, the Pool had the following investments:

	Fair Value	
	2010	2009
U.S. Treasury securities	\$ 5,935,789	\$ 5,603,325
U.S. agencies and pass-throughs	16,645,376	17,800,794
Mutual fund	493,924	471,173
Common stock	747,734	722,253
Total fair value of portfolio	<u>\$ 23,822,823</u>	<u>\$ 24,597,545</u>

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

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Deposits and Investments (Continued)

At December 31, 2010, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 5,935,789	4.97
U.S. agencies and pass-throughs	16,645,376	2.36
Mutual fund	<u>493,924</u>	1.00
Total fair value	<u>\$ 23,075,089</u>	
Portfolio weighted average maturity		<u>2.98</u>

At December 31, 2009, the average maturities of fixed-rate investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 5,603,325	1.11
U.S. agencies and pass-throughs	17,800,794	2.64
Mutual fund	<u>471,173</u>	1.00
Total fair value	<u>\$ 23,875,292</u>	
Portfolio weighted average maturity		<u>2.54</u>

Credit Risk - Credit risk is the risk that an issuer to an investment will not fulfill its obligations. In accordance with the Pool's investment policy, the Pool may invest in U.S. government securities and certain equities.

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Deposits and Investments (Continued)

At December 31, 2010 and 2009, the credit quality ratings of debt securities by investment type (other than the U.S. government) are as follows:

Rating	Fair Value	
	2010	2009
U.S. agencies and pass-throughs:		
Aaa	\$ 12,917,480	\$ 17,800,794
Aa2	<u>3,727,896</u>	<u>-</u>
Total	<u>\$ 16,645,376</u>	<u>\$ 17,800,794</u>
Mutual funds:		
Aaa	\$ -	\$ 471,173
NR	<u>493,924</u>	<u>-</u>
Total	<u>\$ 493,924</u>	<u>\$ 471,173</u>
Money market fund - NR	<u>\$ 1,052,167</u>	<u>\$ 1,409,526</u>

The rating organization used by the Pool to rate its investments was Moody's. At December 31, 2010 and 2009, the Pool held \$1,052,167 and \$1,409,526, respectively, in 2a-7 money market funds. Money markets typically invest in government securities, certificates of deposit, commercial paper of companies, or other highly liquid and low-risk securities. They attempt to keep their net asset value (NAV) at a constant \$1.00 per share; only the yield goes up and down. Rule 2a-7 of the act restricts the quality, maturity, and diversity of investments by money market funds. The disclosure of maturities is not required for 2a-7 investment holdings.

Concentration of Credit Risk - The Pool has three U.S. agencies and pass-through investments totaling \$10,827,261, which individually exceed 5 percent of the Pool's total investments at December 31, 2010. The Pool had three U.S. agencies and pass-through investments totaling \$11,000,002 and one U.S. Treasury investment totaling \$1,258,688, which individually exceeded 5 percent of the Pool's total investments at December 31, 2009.

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

Note 3 - Claims and Claim Adjustment Expense Reserves

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

The following summarizes changes in claims and claim adjustment expense reserves for the years ended December 31, 2010, 2009, and 2008:

	2010	2009	2008
Claims and Claim Adjustment Expense Reserves - Beginning of year	\$ 12,017,434	\$ 12,120,958	\$ 12,547,523
Incurred Claims and Claim Adjustment Expenses:			
Provision for claims incurred in current year	6,719,652	6,942,023	8,877,248
Decrease in provision for claims incurred in prior years	<u>(2,618,053)</u>	<u>(1,465,201)</u>	<u>(2,577,438)</u>
Total expenses	4,101,599	5,476,822	6,299,810
Payments:			
Claims and claim expenses paid for claims incurred in current year	(2,880,586)	(2,513,035)	(3,554,301)
Claims and claim expenses paid for claims incurred in prior years	<u>(3,301,524)</u>	<u>(3,067,311)</u>	<u>(3,172,074)</u>
Total payments	<u>(6,182,110)</u>	<u>(5,580,346)</u>	<u>(6,726,375)</u>
Claims and Claim Adjustment Expense Reserves - End of year	<u>\$ 9,936,923</u>	<u>\$ 12,017,434</u>	<u>\$ 12,120,958</u>

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2010 and 2009

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

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

Note 4 - Reinsurance and Excess Risk-sharing Agreements

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large aggregate and specific losses. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool, although they do not discharge the Pool's primary liability for such payments. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers or excess risk-sharing agreements. Premiums ceded to reinsurance carriers and the risk-sharing pool during the years ended December 31, 2010 and 2009 totaled \$2,079,763 and \$2,212,557, respectively, and the amounts deducted from claims and claim expense reserves as of December 31, 2010 and 2009 for reinsurance and excess risk-sharing agreements totaled approximately \$2,549,000 and \$2,135,000, respectively.

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

Note 5 - Member Withdrawals - Capitalization

In 2010, 17 members withdrew from the Pool, while 13 members withdrew in 2009. In accordance with the intergovernmental contract, these withdrawals resulted in transfers to operations of \$114,520 in 2010 and \$42,058 in 2009, as well as refunds to members of \$74,910 in 2010 and \$30,370 in 2009. Additionally, there was forfeiture of withdrawn members' funds of \$15,053 in 2010 and \$10,699 in 2009. Upon withdrawal, these members became responsible for all of their respective reported and unreported casualty claims and claim expenses.

Note 6 - Member Distributions - Budgetary

Cash distributions to members of approximately \$1,750,000 and \$3,569,000 were approved by the board of directors for the years ended December 31, 2010 and 2009. For the years ended December 31, 2010 and 2009, cash distributions returned to the members totaled \$1,747,033 and \$3,569,067, respectively.

Required Supplemental Schedules

Ohio Township Association Risk Management Authority

Casualty Claims Development Information

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Required contributions and investment income (Note A):										
Earned	\$ 5,308,407	\$ 4,837,529	\$ 7,691,422	\$ 7,201,336	\$ 8,169,181	\$ 8,248,042	\$ 8,576,321	\$ 8,802,951	\$ 7,981,009	\$ 8,602,342
Ceded	608,940	841,052	769,813	664,887	824,487	697,694	1,091,475	1,433,286	760,477	2,051,793
Net	4,699,467	3,996,477	6,921,609	6,536,449	7,344,694	7,550,348	7,484,846	7,369,665	7,220,532	6,550,549
2. Expenses other than allocated claim adjustment expenses	1,413,275	1,596,849	1,820,586	1,952,051	2,031,927	2,072,105	2,014,329	2,032,316	2,052,690	2,001,633
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	2,899,971	2,798,870	3,979,713	5,015,109	5,070,171	4,518,977	5,261,308	5,665,051	4,987,471	5,689,607
Ceded	395,861	579,747	472,609	524,939	448,888	427,789	796,650	1,101,690	421,258	1,706,120
Net	2,504,110	2,219,123	3,507,104	4,490,170	4,621,283	4,091,188	4,464,658	4,563,361	4,566,213	3,983,487
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	184,415	225,818	289,935	294,098	314,354	346,036	369,555	434,047	478,197	477,826
One year later	529,111	626,190	814,683	832,000	892,705	833,139	1,205,989	939,105	1,334,999	-
Two years later	1,054,728	969,969	1,628,949	1,444,200	1,588,974	1,612,959	1,705,436	1,717,639	-	-
Three years later	1,518,175	1,309,421	2,003,355	2,429,413	2,357,397	2,678,137	2,432,602	-	-	-
Four years later	1,896,301	1,384,852	2,414,089	2,957,396	2,549,169	3,094,370	-	-	-	-
Five years later	2,039,709	1,511,381	2,499,477	3,002,515	2,578,655	-	-	-	-	-
Six years later	2,043,503	1,563,839	2,660,581	3,113,806	-	-	-	-	-	-
Seven years later	2,047,970	1,579,675	2,667,522	-	-	-	-	-	-	-
Eight years later	2,051,395	1,579,773	-	-	-	-	-	-	-	-
Nine years later	2,059,869	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	1,284,598	-	211,965	221,215	259,239	1,690,344	140,556	11,635	285,987	1,706,120
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	2,504,110	2,219,123	3,507,104	4,490,170	4,621,283	4,091,188	4,464,658	4,563,361	4,566,213	3,983,487
One year later	2,233,863	2,362,065	4,372,364	4,290,646	4,002,462	3,634,702	4,316,937	4,214,489	4,011,253	-
Two years later	2,471,398	2,350,094	3,718,702	3,759,479	3,429,248	3,895,319	3,567,536	3,272,262	-	-
Three years later	2,069,668	2,176,431	3,027,239	4,294,101	2,886,195	4,070,436	3,325,321	-	-	-
Four years later	2,438,582	1,943,928	2,887,272	3,244,973	2,891,536	3,548,854	-	-	-	-
Five years later	2,086,359	1,983,034	2,934,136	3,200,665	2,776,601	-	-	-	-	-
Six years later	2,090,968	1,651,845	2,863,435	3,196,817	-	-	-	-	-	-
Seven years later	2,109,553	1,631,752	2,737,356	-	-	-	-	-	-	-
Eight years later	2,087,566	1,579,773	-	-	-	-	-	-	-	-
Nine years later	2,103,566	-	-	-	-	-	-	-	-	-
7. Decrease in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (400,544)</u>	<u>\$ (639,350)</u>	<u>\$ (769,748)</u>	<u>\$ (1,293,353)</u>	<u>\$ (1,844,682)</u>	<u>\$ (542,334)</u>	<u>\$ (1,139,337)</u>	<u>\$ (1,291,099)</u>	<u>\$ (554,960)</u>	<u>\$ -</u>

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

Ohio Township Association Risk Management Authority

Property Claims Development Information

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Required contributions and investment income (Note A):										
Earned	\$ 2,916,027	\$ 3,431,507	\$ 4,113,800	\$ 4,136,169	\$ 4,440,304	\$ 4,497,360	\$ 6,323,739	\$ 7,506,549	\$ 5,764,942	\$ 5,710,643
Ceded	75,004	120,000	35,735	85,701	85,701	63,091	92,042	463,369	704,459	307,127
Net	2,841,023	3,311,507	4,078,065	4,050,468	4,354,603	4,434,269	6,231,697	7,043,180	5,060,483	5,403,516
2. Expenses other than allocated claim adjustment expenses	1,339,262	1,450,240	1,886,546	2,014,315	2,156,482	2,220,448	2,312,054	2,391,094	2,481,997	2,509,725
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	1,418,191	1,836,608	2,698,901	2,122,742	2,101,728	1,997,715	3,618,929	4,777,256	3,080,269	3,043,292
Ceded	242,847	120,000	666,451	291,322	29,494	63,091	92,042	463,369	704,459	307,127
Net	1,175,344	1,716,608	2,032,450	1,831,420	2,072,234	1,934,624	3,526,887	4,313,887	2,375,810	2,736,165
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	1,008,113	986,341	1,564,806	1,374,028	1,383,176	1,371,775	1,624,641	2,912,557	2,034,930	2,402,760
One year later	1,214,828	1,673,896	1,836,369	1,739,689	1,770,066	1,690,465	1,961,352	3,535,737	2,394,347	-
Two years later	1,225,376	1,626,747	1,847,895	1,757,678	1,776,163	1,648,713	1,990,499	3,558,202	-	-
Three years later	1,224,516	1,591,504	1,861,373	1,762,522	1,778,813	1,640,046	1,971,281	-	-	-
Four years later	1,224,138	1,597,018	1,852,425	1,779,805	1,779,446	1,661,945	-	-	-	-
Five years later	1,224,245	1,597,281	1,852,769	1,703,831	1,779,446	-	-	-	-	-
Six years later	1,224,245	1,597,396	1,853,123	1,703,781	-	-	-	-	-	-
Seven years later	1,224,245	1,593,195	1,853,556	-	-	-	-	-	-	-
Eight years later	1,224,245	1,593,279	-	-	-	-	-	-	-	-
Nine years later	1,225,887	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	25,844	177,625	260,575	296,064	190,264	21,535	1,143,823	764,881	704,459	317,665
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	1,175,344	1,716,608	2,032,450	1,831,420	2,072,234	1,934,624	3,526,887	4,313,887	2,375,810	2,736,165
One year later	971,931	1,912,429	1,912,490	1,984,417	1,818,920	1,764,027	2,261,392	3,712,790	2,426,014	-
Two years later	1,342,372	1,640,961	1,894,381	1,968,388	1,779,960	1,668,772	2,003,993	3,589,594	-	-
Three years later	1,341,422	1,623,452	1,892,456	1,967,775	1,787,457	1,645,112	1,978,387	-	-	-
Four years later	1,225,150	1,604,946	1,871,985	1,983,914	1,779,446	1,686,485	-	-	-	-
Five years later	1,224,246	1,597,049	1,880,381	1,703,839	1,779,446	-	-	-	-	-
Six years later	1,224,246	1,597,106	1,871,745	1,703,781	-	-	-	-	-	-
Seven years later	1,224,246	1,597,821	1,872,177	-	-	-	-	-	-	-
Eight years later	1,224,246	1,605,072	-	-	-	-	-	-	-	-
Nine years later	1,225,887	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ 50,543	\$ (111,536)	\$ (160,273)	\$ (127,639)	\$ (292,788)	\$ (248,139)	\$ (1,548,500)	\$ (724,293)	\$ 50,204	\$ -

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

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

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*

To the Board of Directors
Ohio Township Association Risk
Management Authority

We have audited the basic financial statements of Ohio Township Association Risk Management Authority as of and for the year ended December 31, 2010 and have issued our report thereon dated June 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ohio Township Association Risk Management Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. 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 Pool'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 of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

To the Board of Directors
Ohio Township Association Risk
Management Authority

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors, the members, management, and Auditor of the State David Yost and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

June 2, 2011

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Dave Yost • Auditor of State

OHIO TOWNSHIP ASSOCIATION RISK MANAGEMENT AUTHORITY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 30, 2011**