

FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Ohio Municipal Joint Self-Insurance Pool

*Years ended December 31, 2005 and 2004 with
Report of Independent Auditors*



**Auditor of State
Betty Montgomery**

Board of Trustees
Ohio Municipal Joint Self Insurance Pool
600 E. 96th Street, Suite 425
Indianapolis, IN 46240

We have reviewed the *Report of Independent Auditors* of the Ohio Municipal Joint Self Insurance Pool, Franklin County, prepared by Peters, Browning & Co, P. C., for the audit period January 1, 2005 through December 31, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 23, 2006

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Ohio Municipal Joint Self-Insurance Pool

Financial Statements and Other Financial Information

Years ended December 31, 2005 and 2004

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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 for the years ending December 31, 2005 and 2004.

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

- Market conditions continue to soften as property and liability insurance rates fell in 2005. However, the Pool retained 102% of its total contributions in 2005 as compared to 92% of its contributions as of year-end 2004. The Pool continued to show strong support from its members by retaining over 95% of its membership as compared to 83% in 2004.
- Gross written contributions and surplus contributions increased by \$114,312 in 2005. Strong member retention along with responsible underwriting and pricing were the primary drivers of the increase in total contributions.
- During 2005, the Pool's underwriters achieved a 3.78% increase in rate and exposure changes from renewing members.
- The Pool's total assets decreased 2.9% or \$67,517 to \$2,241,661 in 2005. Cash, cash equivalents and investments however increased 108% or \$771,239 from \$715,952 in 2004 to \$1,487,191 in 2005. A primary factor for the increase in cash and investments was the improved collection of member receivables.
- The Pool's net case loss reserves decreased significantly in 2005 to \$775,483 as compared to 2004 net case reserves of \$1,152,000. To allow for lower than expected reported claims in 2005, the Pool increased its reserve allocation for incurred but not reported (IBNR) claim reserves by nearly \$600,000. After this increase, total loss reserves including case and IBNR remained level at approximately \$1.9 million.
- Bolstering IBNR reserves produced a net loss of \$181,938 in 2005 reversing a trend of two successive years of significant profits where the Pool decreased its accumulated deficit by approximately 50%. The Pool's accumulated deficit increased by approximately \$182,000 to \$1,216,059.

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

- Pool administration and sales expenses increased approximately 7.2% in 2005 to \$1,044,192. This expense increase correlates with the increase in written contributions. As the Pool's contributions increased during 2005, the expenses for Pool administration and brokerage rose correspondingly. Additionally, sponsorship fees due the Ohio Municipal League were waived during a one-year period from July 1, 2003 to June 30, 2004. As such, the full year of sponsorship fees booked in 2005 were an increase over the partial year in 2004.

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

We have audited the accompanying balance sheet of the Ohio Municipal Joint Self-Insurance Pool as of December 31, 2005 and the related statements of income and changes in accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Pool as of December 31, 2004 and the year then ended were audited by other auditors whose report dated February 3, 2005 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Municipal Joint Self-Insurance Pool at December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Peters, Browning & Co. P.C.

February 21, 2006

Ohio Municipal Joint Self-Insurance Pool

Balance Sheets

	December 31	
	2005	2004
Assets		
Cash and cash equivalents	\$ 1,308,599	\$ 536,172
Investments	178,592	179,780
Member contributions receivable	204,448	733,316
Reinsurance recoverable	130,342	148,800
Deferred acquisition costs	370,174	345,116
Deferred organizational costs	34,225	52,131
Other assets	15,281	313,863
	<hr/>	<hr/>
Total assets	\$ 2,241,661	\$ 2,309,178
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and accumulated deficit		
Losses and loss expenses payable	\$ 1,900,000	\$ 1,906,678
Unearned member contributions	1,155,991	1,139,513
Administrator and sponsor fees and commissions payable	396,419	274,937
Accounts payable and accrued expenses	5,310	22,171
Total liabilities	<hr/> 3,457,720	<hr/> 3,343,299
Accumulated deficit	<hr/> (1,216,059)	<hr/> (1,034,121)
	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and accumulated deficit	\$ 2,241,661	\$ 2,309,178
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See accompanying notes.

Ohio Municipal Joint Self-Insurance Pool

Statements of Income and Accumulated Deficit

	Year ended December 31	
	2005	2004
Revenues:		
Gross written contributions	\$ 3,761,688	\$ 3,644,655
Member surplus contributions	591,532	594,253
Change in unearned premium	(69,449)	107,462
Reinsurance premiums	(1,237,351)	(775,481)
Change in unearned premium ceded	14,494	(44,251)
Investment income	19,427	3,008
Total revenues	3,080,341	3,529,646
Expenses:		
Losses and loss adjustment expenses	4,819,144	2,600,023
Ceded losses recovered	(2,735,328)	(975,988)
Administrator, sponsor fees and commissions	1,044,192	973,619
Professional fees	105,039	92,241
Amortization	17,906	17,906
Other expenses	11,002	14,802
Total expenses	3,261,955	2,722,603
Net income (loss)	(181,614)	807,043
Accumulated deficit beginning of year	(1,034,121)	(1,841,812)
Change in unrealized gains (losses)	(324)	648
Accumulated deficit end of year	\$ (1,216,059)	\$ (1,034,121)

Ohio Municipal Joint Self-Insurance Pool

Statements of Cash Flows

	Year ended December 31	
	2005	2004
Operating activities		
Member and surplus contributions received	\$ 4,843,611	\$ 3,656,249
Reinsurance premiums paid	(1,223,968)	(1,474,325)
Loss and allocated expense paid, net of deductibles collected	(4,810,384)	(2,120,902)
Reinsurance, salvage and subrogation recoveries received	3,018,472	782,258
Administrator, sponsor fees and commissions paid	(947,768)	(970,885)
Professional fees paid	(122,210)	(73,206)
Investment income	19,427	3,008
Other expenses paid	(5,617)	(5,012)
Net cash provided (used) by operating activities	<u>771,563</u>	<u>(202,815)</u>
Investing activities		
Sales and maturities of investments	717,668	538,556
Purchases of investments	(716,804)	(717,688)
Net cash provided (used) by investing activities	<u>864</u>	<u>(179,132)</u>
Net increase (decrease) in cash and cash equivalents	772,427	(381,947)
Cash and cash equivalents at beginning of the year	<u>536,172</u>	<u>918,119</u>
Cash and cash equivalents at end of the year	<u>\$ 1,308,599</u>	<u>\$ 536,172</u>
Reconciliation of net income to net cash provided (used) by operating activities:		
Net income (loss)	\$ (181,614)	\$ 807,043
Adjustments to reconcile net income to net cash flow from operating activities:		
Amortization	17,906	17,906
Changes in operating assets and liabilities:		
Member contributions receivable	528,868	(588,149)
Reinsurance recoverable	18,458	(688,829)
Deferred acquisition costs	(25,058)	(14,223)
Other assets	298,582	33,261
Losses and loss expenses payable	(6,678)	252,129
Unearned member contributions	16,478	(57,721)
Administrator and sponsor fees and commissions payable	121,482	16,957
Accounts payable and accrued expenses	(16,861)	18,811
Net cash provided (used) by operating activities	<u>\$ 771,563</u>	<u>\$ (202,815)</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ -</u>	<u>\$ 4,805</u>

See accompanying notes.

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

December 31, 2005

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 accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") effective on or before November 1989, provided that they do not conflict or contradict Government Accounting Standards Board ("GASB") Statement No. 20 *Accounting and Reporting for Financial Reporting for Proprietary Fund Accounting*.

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.

Investments

The aggregate investments in debt and equity securities are reported at fair value with the unrealized gains or losses reported as a component of surplus in the accompanying statements of revenues, expenses and accumulated deficit. Interest earned on investments is reported as investment income.

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Deferred Acquisition and Organizational Costs

Policy acquisition costs, primarily commissions paid to brokers and management fees paid to the administrator (see Note 2), are deferred and amortized over the life of the policy, generally one year.

The Pool incurred organizational costs in connection with the creation of the Pool. These costs have been capitalized and are being amortized over 20 years, using the straight-line basis. Accumulated amortization was \$370,236 and \$352,330 at December 31, 2005 and 2004, respectively.

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.

Revenue Recognition

Members are charged a contribution for the insurance coverage(s) provided by the Pool, which is recognized as revenue at the effective date of the policy. Policies are billed on an annual basis. The amount of the contribution is dependent on underwriting factors such as past claim experience, rating and market and competitive factors. In addition to the written contribution, a surplus contribution is charged to the member and included in the annual billing. In certain situations, members may elect to make a three-year prepaid surplus contribution. Prepaid surplus contributions were \$47,683 and \$86,160 at December 31, 2005 and 2004, respectively, and are included with unearned member contributions in the accompanying balance sheets.

Unearned Member Contributions

Unearned member contributions represent the portion of the annual contributions billed on the effective date of one-year policies that have not been earned over the life of the policy, and are reported net of reinsurance ceded.

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Concentrations of Credit Risk

Deposits at financial institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2005, the Pool's uninsured cash and investment balances totaled \$1,387,191.

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 while the Pool must file a tax return as an unincorporated association, the Pool qualifies as a non-taxable entity.

Reclassifications

Certain 2004 amounts in the accompanying financial statements have been reclassified to conform to the 2005 financial statement presentation.

2. 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 through June 2006. In accordance with the agreement, Flynn performs all policy management, financial management, underwriting, billing, claims management and payment functions for the Pool, and is paid a fee based on a percentage of written contribution earned. Fees paid to Flynn totaled \$515,565 and \$520,597 for 2005 and 2004, respectively.

3. Investments

The following is a summary of investments at December 31:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasury Bill, due March 2006	\$ 178,592	\$ 178,268	\$ 179,780	\$ 179,132

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

4. 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:

	Year ended December 31	
	2005	2004
Balances at January 1	\$ 1,906,678	\$ 1,654,549
Losses incurred related to:		
Current year	1,237,531	889,878
Prior years	846,285	734,157
Total losses incurred	2,083,816	1,624,035
Paid related to:		
Current year	256,435	235,833
Prior years	1,834,059	1,136,073
Total paid	2,090,494	1,371,906
Balance at December 31	\$ 1,900,000	\$ 1,906,678

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.

5. Reinsurance

The Pool cedes portions of its gross contribution earned to certain reinsurers 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 December 31, 2005, retention levels are \$200,000 for policies issued beginning April 1, 2005, \$175,000 for policies issued beginning April 1, 2003, \$125,000 for polices issued beginning April 1, 2002 and \$100,000 for policies issued beginning April 1, 2000.

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

	2005	2004
Reinsurance premiums paid	\$ 1,237,351	\$ 775,481
Unearned member contributions	323,858	309,364
Losses and loss expenses payable	775,014	754,153
Losses and loss adjustment expenses	2,735,328	975,988

Ohio Municipal Joint Self-Insurance Pool

Notes to Financial Statements

5. Reinsurance (continued)

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

Other Financial Information



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**Report of Independent Auditors on
Other Financial Information**

Board of Trustees
Ohio Municipal Joint Self-Insurance Pool

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental claims development information is presented to comply with the Government Auditing Standards Board Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Peters, Browning & Co. P.C.

February 21, 2006

Ohio Municipal Joint Self-Insurance Pool

Schedule of Claims Development Information

Years Ended December 31

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross written premium	4,255,388	3,972,077	4,258,708	4,215,343	3,073,910	3,169,906	3,326,850	3,807,173	3,644,655	3,761,688
Earned revenue		4,770,835	5,069,570	4,801,097	4,007,758	3,198,012	3,974,169	4,285,399	4,350,027	4,302,874
less ceded		(1,302,462)	(1,321,081)	(1,245,684)	(1,113,439)	(1,058,844)	(1,555,809)	(1,359,132)	(870,170)	(1,237,351)
Net earned	3,649,890	3,468,373	3,748,489	3,555,413	2,894,319	2,139,168	2,418,360	2,926,267	3,479,857	3,065,523
Non-claim expenses	1,249,625	1,317,609	1,198,618	1,256,584	1,144,182	959,074	1,080,899	1,138,677	1,098,568	1,178,139
Paid losses and loss adjustment expenses (cumulative) as of:										
End of policy year	609,604	601,496	824,059	629,101	497,054	461,071	546,685	516,399	350,663	256,435
End of first year	1,435,417	1,160,431	1,454,365	1,602,259	810,214	809,797	972,290	883,273	799,787	
End of second year	2,021,692	1,758,033	2,206,428	2,581,847	1,197,455	1,052,768	1,343,783	1,190,392		
End of third year	2,626,840	2,202,624	2,906,118	3,192,198	1,083,486	1,234,680	1,788,970			
End of fourth year	2,818,629	2,479,725	3,423,387	4,047,105	1,100,799	1,093,257				
End of fifth year	2,882,678	2,551,803	3,807,497	4,126,009	1,781,265					
End of sixth year	2,825,441	2,557,176	4,017,767	3,601,696						
End of seventh year	2,903,554	2,584,599	3,904,599							
End of eighth year	2,975,950	2,364,666								
End of ninth year	2,865,458									
Re-estimated ceded claims and expenses	608,342	267,840	506,545	1,613,831	393,613	512,593	928,273	66,219	-	-
Re-estimated incurred loss and loss adjustment expenses:										
End of policy year	850,261	736,638	898,700	907,545	740,397	795,085	1,166,447	949,959	723,833	527,744
End of first year	1,642,474	1,193,371	1,595,923	2,146,399	1,114,277	1,059,490	1,543,226	1,228,503	1,072,959	
End of second year	2,181,365	1,920,315	2,836,520	3,535,852	1,430,016	1,274,928	1,936,436	1,489,715		
End of third year	2,698,319	2,371,809	3,453,525	3,836,739	1,210,977	1,306,610	1,928,379			
End of fourth year	2,859,517	2,578,375	3,763,848	4,209,545	1,202,776	1,113,193				
End of fifth year	2,935,511	2,569,893	3,972,932	4,218,464	1,782,086					
End of sixth year	2,859,320	2,583,310	4,082,638	3,521,627						
End of seventh year	2,976,049	2,634,489	3,956,225							
End of eighth year	2,975,950	2,362,023								
End of ninth year	2,865,458									
Increase in estimated incurred loss and loss adjustment expenses from end of policy year	2,015,197	1,625,385	3,057,525	2,614,082	1,041,689	318,108	761,932	539,756	349,126	-

See accompanying independent auditors report on other financial information.



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**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 and for the year ended December 31, 2005, and have issued our report thereon dated February 21, 2006. 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.

In planning and performing our audit, we considered the Ohio Municipal Joint Self-Insurance Pool's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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, 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 the Auditor of State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

Peters, Browning & Co. P.C.

February 21, 2006



**Auditor of State
Betty Montgomery**

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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 9, 2006**