

**Ohio Township Association Risk
Management Authority**

**Financial Report
with Required Supplemental Schedules
December 31, 2011**



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 4803

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, 2011 through December 31, 2011. 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

May 31, 2012

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Ohio Township Association Risk Management Authority

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Statement of Net Assets	8
Statement of Revenue, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-20
Required Supplemental Schedules	21
Casualty Claims Development Information	22
Property Claims Development Information	23
Statement of Reconciliation of Unpaid Claims and Claim Adjustment Expense Liability by Type of Contract	24
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	25-27

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 Ohio Township Association Risk Management Authority (the "Pool") as of and for the years ended December 31, 2011 and 2010, 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 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 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, 2011 and 2010 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, casualty claims development information, property claims development information, and statement of reconciliation of unpaid claims and claim adjustment expense liability by type of contract, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors
Ohio Township Association Risk
Management Authority

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2012 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 & Morse, PLLC

April 19, 2012

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 the 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 2009 through 2011, as well as its financial condition at December 31, 2011, 2010, and 2009. 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 938 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 Ohio 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 administration, risk management, and reinsurance services for the Pool. ARPCO has a staff of highly experienced attorneys and other professionals who 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:

	2011	2010	2009
Assets			
Cash and cash equivalents	\$ 2,964,191	\$ 1,342,076	\$ 1,731,864
Investment securities - At fair value	22,436,051	23,822,823	24,597,545
Member contributions to be billed in the future	8,636,662	9,478,232	11,450,424
Other assets	1,049,261	1,212,121	1,202,255
Total assets	\$ 35,086,165	\$ 35,855,252	\$ 38,982,088
Liabilities			
Claims and claim adjustment expense reserves	\$ 9,086,447	\$ 9,936,923	\$ 12,017,434
Unearned premium reserves	127,452	126,181	130,437
Other liabilities	504,893	601,620	732,895
Total liabilities	9,718,792	10,664,724	12,880,766
Net Assets - Unrestricted	25,367,373	25,190,528	26,101,322
Total liabilities and net assets	\$ 35,086,165	\$ 35,855,252	\$ 38,982,088

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

Approximately 72 percent in 2011, 70 percent in 2010, and 68 percent in 2009 of total assets consists of cash, cash equivalents, and investments. 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 2.54 percent during the year ended December 31, 2011. At December 31, 2011, 2010, and 2009, 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 claim 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 method similar to that of claim reserves, as detailed below. Because amounts are estimated in this manner, amounts will fluctuate from year to year due to changes in the ultimate expected claims to be closed during a specific coverage period.

The Pool's claims and claim adjustment expense reserves totaled \$9,086,447 in 2011, \$9,936,923 in 2010, and \$12,017,434 in 2009. For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors. 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, 2011, the Pool decreased its provision for claims incurred in prior years by \$1,478,027 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 at December 31, 2011 increased \$176,845 from the year ended December 31, 2010, as favorable operating and investment results more than offset the \$1,458,064 of member distributions out of the cumulative reserve fund during 2011.

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:

	2011	2010	2009
Operating Revenue			
Member contributions - Operating	\$ 12,857,589	\$ 12,783,222	\$ 12,916,190
Reinsurance premiums ceded	(1,994,904)	(1,993,369)	(2,127,776)
Change in contributions that will be billed in the future to pay unpaid claims	(841,570)	(1,972,192)	592,582
Total revenue	10,021,115	8,817,661	11,380,996
Operating Expenses			
Provision for claims	4,405,600	4,101,599	5,476,822
Operating expenses	4,689,808	4,655,542	4,692,863
Total expenses	9,095,408	8,757,141	10,169,685
Operating Income	925,707	60,520	1,211,311
Nonoperating Revenue (Expenses)			
Investment earnings	622,286	711,390	545,192
Budgetary distributions	(2,062)	(1,747,033)	(3,569,067)
Total nonoperating revenue (expenses)	620,224	(1,035,643)	(3,023,875)
Member Distributions - Cumulative reserve fund	(1,458,064)	-	-
Member Capital - Net contributions	88,978	64,329	157,964
Increase (Decrease) in Net Assets	\$ 176,845	\$ (910,794)	\$ (1,654,600)

The Pool's membership decreased from 940 to 938 members in 2011. Member contributions increased from \$12,783,222 in 2010 to \$12,857,589 in 2011.

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, 2011, 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 \$1,995,000 and \$1,993,000 for the years ended December 31, 2011 and 2010, respectively. In addition, amounts deducted from claims and claim expense reserves as of December 31, 2011 and 2010 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$3,367,000 and \$2,549,000, 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 gains (losses) on investments totaled \$33,757 and (\$95,638) for the years ended December 31, 2011 and 2010, respectively.

Total operating expenses of the Pool were consistent in 2011 and 2010 totaling \$9,095,408 and \$8,757,141, or 71 percent and 69 percent of member contributions, respectively.

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 2011. 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	
	2011	2010
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,964,191	\$ 1,342,076
Member contributions receivable	844,893	887,597
Investment securities (Note 2)	4,178,505	9,343,774
Accrued investment income	195,459	244,287
Deductibles recoverable	8,909	4,596
Reinsurance receivable on paid claims (Note 4)	-	75,641
Member contributions to be billed in the future	3,400,000	3,350,000
Total current assets	11,591,957	15,247,971
Noncurrent Assets		
Investment securities - Net of current portion (Note 2)	18,257,546	14,479,049
Member contributions to be billed in the future	5,236,662	6,128,232
Total noncurrent assets	23,494,208	20,607,281
Total assets	<u>\$ 35,086,165</u>	<u>\$ 35,855,252</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 3)	\$ 3,849,785	\$ 3,808,691
Reinsurance premiums payable (Note 4)	84,011	91,961
Accounts payable and accrued expenses	420,882	509,659
Total current liabilities	4,354,678	4,410,311
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 3)	5,236,662	6,128,232
Unearned premium reserves	127,452	126,181
Total long-term liabilities	5,364,114	6,254,413
Total liabilities	9,718,792	10,664,724
Net Assets - Unrestricted	25,367,373	25,190,528
Total liabilities and net assets	<u>\$ 35,086,165</u>	<u>\$ 35,855,252</u>

Ohio Township Association Risk Management Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2011	2010
Operating Revenue		
Member contributions - Operating	\$ 12,857,589	\$ 12,783,222
Reinsurance premiums ceded (Note 4)	(1,994,904)	(1,993,369)
Change in contributions that will be billed in the future to pay unpaid claims	(841,570)	(1,972,192)
Total operating revenue	10,021,115	8,817,661
Operating Expenses		
Claims and claim adjustment expenses (Note 3):		
Paid	6,184,258	7,901,238
Recoveries	(928,182)	(1,719,128)
Decrease in claims and claim adjustment expense reserves	(850,476)	(2,080,511)
Total claims and claim adjustment expenses	4,405,600	4,101,599
Marketing and administrator fees	3,823,680	3,797,158
Other	866,128	858,384
Total operating expenses	9,095,408	8,757,141
Operating Income	925,707	60,520
Nonoperating Revenue (Expenses)		
Investment earnings - Interest and dividends	588,529	807,028
Net realized and unrealized gains (losses) on investments	33,757	(95,638)
Budgetary distributions (Note 6)	(2,062)	(1,747,033)
Total nonoperating revenue (expenses)	620,224	(1,035,643)
Contributions - Member capital	124,494	139,239
Distributions - Cumulative reserve fund (Note 7)	(1,458,064)	-
Withdrawals - Member capital (Note 5)	(35,516)	(74,910)
Increase (Decrease) in Net Assets	176,845	(910,794)
Net Assets - Beginning of year	25,190,528	26,101,322
Net Assets - End of year	\$ 25,367,373	\$ 25,190,528

Ohio Township Association Risk Management Authority

Statement of Cash Flows

	Year Ended December 31	
	2011	2010
Cash Flows from Operating Activities		
Cash received from members	\$ 12,903,397	\$ 12,837,716
Cash received from reinsurance recoveries	1,003,823	1,647,866
Cash paid for claims	(6,188,571)	(7,904,834)
Cash paid for reinsurance premiums	(2,002,854)	(1,984,673)
Cash paid for administrative and general expenses	(4,778,585)	(4,795,513)
Net cash provided by (used in) operating activities	937,210	(199,438)
Cash Flows from Investing Activities		
Investment income received	637,357	816,142
Purchase of investments	(16,225,853)	(14,430,514)
Proceeds from sales and maturities of investments	17,646,382	15,109,600
Net cash provided by investing activities	2,057,886	1,495,228
Cash Flows from Noncapital Financing Activities		
Receipts from members - Cumulative reserve fund	122,661	136,365
Payments for member withdrawals - Capitalization	(35,516)	(74,910)
Payments for member distributions - Budgetary	(2,062)	(1,747,033)
Payments for member distributions - Cumulative reserve fund	(1,458,064)	-
Net cash used in noncapital financing activities	(1,372,981)	(1,685,578)
Net Increase (Decrease) in Cash and Cash Equivalents	1,622,115	(389,788)
Cash and Cash Equivalents - Beginning of year	1,342,076	1,731,864
Cash and Cash Equivalents - End of year	<u>\$ 2,964,191</u>	<u>\$ 1,342,076</u>

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	
	2011	2010
Operating income	\$ 925,707	\$ 60,520
Adjustments to reconcile operating income to net cash from operating activities:		
(Increase) decrease in assets:		
Member contributions receivable	45,808	54,494
Deductibles recoverable	(4,313)	(3,596)
Reinsurance receivable on paid claims	75,641	(71,262)
Member contributions to be billed in the future	841,570	1,972,192
Increase (decrease) in liabilities:		
Claims and claim adjustment expense reserves	(850,476)	(2,080,511)
Reinsurance premiums payable	(7,950)	8,696
Accounts payable and accrued expenses	(88,777)	(139,971)
Net cash provided by (used in) operating activities	\$ 937,210	\$ (199,438)
Supplemental Disclosure of Cash Flow Information -		
Noncash investing activities - Net realized and unrealized gains (losses) on investments	\$ 33,757	\$ (95,638)

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2011 and 2010

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 938 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 Risk 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, 2011 and 2010

Note I - 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 an estimate of amounts due from members which have not been billed to members and will be billed and collected in the future, from the existing members, when the estimated incurred claims, claim 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, 2011 and 2010

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.

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 \$2,964,191 and \$1,342,076 at December 31, 2011 and 2010, respectively.

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2011 and 2010

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. 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 claim payment expenses. At December 31, 2011 and 2010, the Pool had no bank deposits that were uninsured and uncollateralized.

Investments

Investments are reported at fair value. As of December 31, 2011 and 2010, the Pool had the following investments:

	Fair Value	
	2011	2010
U.S. Treasury securities	\$ 8,451,575	\$ 5,935,789
U.S. agencies and pass-throughs	12,730,393	16,645,376
Mutual fund	510,631	493,924
Common stock	743,452	747,734
Total fair value of portfolio	<u>\$ 22,436,051</u>	<u>\$ 23,822,823</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, 2011 and 2010

Note 2 - Deposits and Investments (Continued)

At December 31, 2011, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 8,451,575	3.22
U.S. agencies and pass-throughs	<u>12,730,393</u>	2.93
Total fair value	<u>\$ 21,181,968</u>	
Portfolio weighted average maturity		<u>3.05</u>

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	<u>16,645,376</u>	2.36
Total fair value	<u>\$ 22,581,165</u>	
Portfolio weighted average maturity		<u>3.05</u>

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2011 and 2010

Note 2 - Deposits and Investments (Continued)

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.

At December 31, 2011 and 2010, the credit quality ratings of debt securities by investment type (other than the U.S. government) are as follows:

Rating	Fair Value	
	2011	2010
U.S. agencies and pass-throughs:		
Aaa	\$ 8,967,816	\$ 12,917,480
Aa2	3,762,577	3,727,896
Total	<u>\$ 12,730,393</u>	<u>\$ 16,645,376</u>

The rating organization used by the Pool to rate its investments was Moody's.

Concentration of Credit Risk - The Pool places no limit on the amount it may invest in any one issuer. At December 31, 2011, the Pool had investments of \$1,914,478 in Freddie Mac and \$9,874,217 of Fannie Mae; these investments represent 9 percent and 44 percent of the Pool's total investments. At December 31, 2010, the Pool had investments of \$5,406,357 in Freddie Mac and \$10,302,292 in Fannie Mae; these investments represent 23 percent and 43 percent of the Pool's total investments.

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2011 and 2010

Note 3 - Claims and Claim Adjustment Expense Reserves

For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors. 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, 2011, 2010, and 2009:

	2011	2010	2009
Claims and Claim Adjustment Expense			
Reserves - Beginning of year	\$ 9,936,923	\$ 12,017,434	\$ 12,120,958
Incurred Claims and Claim Adjustment			
Expenses:			
Provision for claims incurred in current year	5,883,627	6,719,652	6,942,023
Decrease in provision for claims incurred in prior years	<u>(1,478,027)</u>	<u>(2,618,053)</u>	<u>(1,465,201)</u>
Total expenses	4,405,600	4,101,599	5,476,822
Payments:			
Claims and claim adjustment expenses paid for claims incurred in current year	(2,453,047)	(2,880,586)	(2,513,035)
Claims and claim adjustment expenses paid for claims incurred in prior years	<u>(2,803,029)</u>	<u>(3,301,524)</u>	<u>(3,067,311)</u>
Total payments	<u>(5,256,076)</u>	<u>(6,182,110)</u>	<u>(5,580,346)</u>
Claims and Claim Adjustment Expense			
Reserves - End of year	<u>\$ 9,086,447</u>	<u>\$ 9,936,923</u>	<u>\$ 12,017,434</u>

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2011 and 2010

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

Reserves for claims and claim adjustment expenses attributable to insured events in prior years changed as a result of reestimation 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 specific and aggregate 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, 2011 and 2010 totaled \$1,994,904 and \$1,993,369, respectively, and the amounts deducted from claims and claim adjustment expense reserves as of December 31, 2011 and 2010 for reinsurance and excess risk-sharing agreements totaled approximately \$3,367,000 and \$2,549,000, respectively.

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

Note 5 - Member Withdrawals - Capitalization

In 2011, 12 members withdrew from the Pool while 17 members withdrew in 2010. In accordance with the intergovernmental contract, these withdrawals resulted in refunds to members of \$35,516 in 2011 and \$74,910 in 2010, respectively. Upon withdrawal, these members became responsible for all of their respective reported and unreported casualty claims and claim adjustment expenses.

Note 6 - Member Distributions - Budgetary

Cash distributions to members of approximately \$1,750,000 were approved by the board of directors for the year ended December 31, 2010, of which \$1,747,033 was distributed to members. Distributions to members were \$2,062 for the year ended December 31, 2011.

Ohio Township Association Risk Management Authority

Notes to Financial Statements December 31, 2011 and 2010

Note 7 - Member Capitalization Distributions

Beginning in 2011, the Pool changed the funding and maintenance levels for member's Cumulative Reserve Funds (CRF) from 300 percent to 200 percent of its total current basis rate. Members will continue to follow a six year cycle before fully vesting in their CRF. In the year after a member becomes fully vested, the Pool makes the first of two annual distributions to the member to reduce the member's CRF to 200 percent (if its basis rate exceeds 200 percent). For members joining the Pool on January 1, 2011 or later, members will only fund their CRF to 200 percent; therefore no distribution will be necessary after a member is fully vested. CRF distributions totaled \$1,458,064 for the year ended December 31, 2011.

Required Supplemental Schedules

Ohio Township Association Risk Management Authority

Casualty Claims Development Information

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Required contributions and investment income (Note A):										
Earned	\$ 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	\$ 6,968,807
Ceded	841,052	769,813	664,887	824,487	697,694	1,091,475	1,433,286	760,477	2,051,793	947,780
Net	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	6,021,027
2. Expenses other than allocated claim adjustment expenses	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	2,133,385
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	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	4,202,141
Ceded	579,747	472,609	524,939	448,888	427,789	796,650	1,101,690	421,258	1,706,120	694,898
Net	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	3,507,243
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	225,818	289,935	294,098	314,354	346,036	369,546	434,047	478,197	477,826	501,138
One year later	626,190	814,683	832,000	892,705	832,787	1,205,989	939,105	1,334,999	1,185,524	-
Two years later	969,969	1,628,949	1,444,200	1,588,974	1,612,959	1,705,436	1,717,639	1,941,696	-	-
Three years later	1,309,421	2,003,355	2,429,413	2,357,397	2,678,137	2,432,602	2,318,923	-	-	-
Four years later	1,384,852	2,414,089	2,957,396	2,549,169	3,094,370	3,041,373	-	-	-	-
Five years later	1,511,381	2,499,477	3,002,515	2,578,655	3,215,785	-	-	-	-	-
Six years later	1,563,839	2,660,581	3,113,806	2,584,262	-	-	-	-	-	-
Seven years later	1,579,675	2,667,522	3,115,411	-	-	-	-	-	-	-
Eight years later	1,579,773	2,703,771	-	-	-	-	-	-	-	-
Nine years later	1,579,773	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	211,965	221,216	259,239	1,788,037	677,220	(19,507)	303,603	1,437,738	694,898
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	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	3,507,243
One year later	2,362,065	4,372,364	4,290,646	4,002,462	3,634,702	4,316,937	4,214,489	4,011,253	3,474,777	-
Two years later	2,350,094	3,718,702	3,759,479	3,429,248	3,895,319	3,567,536	3,272,262	3,919,516	-	-
Three years later	2,176,431	3,027,239	4,294,101	2,886,195	4,070,436	3,325,321	2,759,585	-	-	-
Four years later	1,943,928	2,887,272	3,244,973	2,891,536	3,548,854	3,593,397	-	-	-	-
Five years later	1,983,034	2,934,136	3,200,665	2,776,601	3,520,393	-	-	-	-	-
Six years later	1,651,845	2,863,435	3,196,817	2,597,758	-	-	-	-	-	-
Seven years later	1,631,752	2,737,356	3,115,411	-	-	-	-	-	-	-
Eight years later	1,579,773	2,717,348	-	-	-	-	-	-	-	-
Nine years later	1,579,773	-	-	-	-	-	-	-	-	-
7. Decrease in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ (639,350)	\$ (789,756)	\$ (1,374,759)	\$ (2,023,525)	\$ (570,795)	\$ (871,261)	\$ (1,803,776)	\$ (646,697)	\$ (508,710)	\$ -

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Required contributions and investment income (Note A):										
Earned	\$ 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	\$ 5,446,871
Ceded	120,000	35,735	85,701	85,701	63,091	92,042	463,369	704,459	307,127	415,974
Net	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	5,030,897
2. Expenses other than allocated claim adjustment expenses	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	2,556,423
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	1,836,608	2,698,901	2,122,742	2,101,728	1,997,715	3,618,929	4,777,256	3,080,269	3,053,830	2,792,358
Ceded	120,000	666,451	291,322	29,494	63,091	92,042	463,369	704,459	317,665	415,974
Net	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	2,376,384
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	986,341	1,564,806	1,373,094	1,382,464	1,371,775	1,622,730	2,912,543	2,034,838	2,402,760	1,951,909
One year later	1,661,805	1,836,369	1,739,689	1,770,066	1,689,615	1,961,352	3,535,737	2,394,347	2,496,917	-
Two years later	1,614,657	1,847,895	1,757,678	1,776,163	1,647,863	1,990,499	3,558,202	2,346,005	-	-
Three years later	1,579,414	1,861,373	1,762,522	1,778,813	1,640,046	1,971,281	3,568,698	-	-	-
Four years later	1,584,927	1,852,425	1,779,805	1,779,446	1,661,945	1,971,022	-	-	-	-
Five years later	1,585,190	1,852,769	1,703,831	1,779,446	1,666,858	-	-	-	-	-
Six years later	1,585,305	1,853,123	1,703,781	1,779,446	-	-	-	-	-	-
Seven years later	1,586,027	1,750,385	1,703,781	-	-	-	-	-	-	-
Eight years later	1,586,111	1,754,514	-	-	-	-	-	-	-	-
Nine years later	1,596,299	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	177,625	260,575	296,064	190,264	21,535	1,143,823	764,881	704,459	283,819	415,974
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	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	2,376,384
One year later	1,912,429	1,912,490	1,984,417	1,818,920	1,764,027	2,261,392	3,712,790	2,426,014	2,488,333	-
Two years later	1,640,961	1,894,381	1,968,388	1,779,960	1,668,772	2,003,993	3,589,594	2,366,194	-	-
Three years later	1,623,452	1,892,456	1,967,775	1,787,457	1,645,112	1,978,387	3,581,952	-	-	-
Four years later	1,604,946	1,871,985	1,983,914	1,779,446	1,686,485	1,974,118	-	-	-	-
Five years later	1,597,049	1,880,381	1,703,839	1,779,446	1,677,099	-	-	-	-	-
Six years later	1,597,106	1,871,745	1,703,781	1,779,446	-	-	-	-	-	-
Seven years later	1,597,821	1,769,007	1,703,781	-	-	-	-	-	-	-
Eight years later	1,597,904	1,754,514	-	-	-	-	-	-	-	-
Nine years later	1,596,299	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ (120,309)	\$ (277,936)	\$ (127,639)	\$ (292,788)	\$ (257,525)	\$ (1,552,769)	\$ (731,935)	\$ (9,616)	\$ (247,832)	\$ -

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

Statement of Reconciliation of Unpaid Claims and Claim Adjustment Expense Liability by Type of Contract

	Fiscal and Policy Years Ended December 31					
	2011		2010			
	Liability	Property	Total	Liability	Property	Total
Unpaid claims and claim adjustment expenses liability - Beginning of year	\$9,478,232	\$458,691	\$9,936,923	\$11,450,424	\$567,010	\$ 12,017,434
Incurring claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	3,507,243	2,376,384	5,883,627	3,957,474	2,762,178	6,719,652
Change in provision for insured events of prior fiscal years	(1,132,980)	(345,047)	(1,478,027)	(2,541,746)	(76,307)	(2,618,053)
Total incurred claims and claim adjustment expense	2,374,263	2,031,337	4,405,600	1,415,728	2,685,871	4,101,599
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	501,138	1,951,909	2,453,047	451,812	2,428,774	2,880,586
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	2,714,695	88,334	2,803,029	2,936,108	365,416	3,301,524
Total payments	3,215,833	2,040,243	5,256,076	3,387,920	2,794,190	6,182,110
Unpaid claims and claim adjustment expenses - End of year	\$8,636,662	\$ 449,785	\$9,086,447	\$ 9,478,232	\$ 458,691	\$ 9,936,923

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, 2011 and have issued our report thereon dated April 19, 2012. 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

Management of Ohio Township Association Risk Management Authority is responsible for establishing and maintaining an effective 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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

April 19, 2012



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 12, 2012**