

**BORMA, INC. - PROPERTY AND LIABILITY  
INSURANCE DIVISION**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2006**





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
BORMA Inc. - Property and Liability Insurance Division  
631 South Myrtle Avenue  
PO Box 367  
Williard, Ohio 44890

We have reviewed the *Independent Auditors' Report* of the BORMA Inc. - Property and Liability Insurance Division, Huron County, prepared by Weber O'Brien LTD., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 8, 2007

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**BORMA, INC. - PROPERTY AND LIABILITY  
INSURANCE DIVISION**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
BORMA, Inc. - Property and Liability  
Insurance Division  
C/O City of Willard  
631 S. Myrtle Avenue  
P.O. Box 367  
Willard, Ohio 44890

We have audited the accompanying statement of cash receipts, cash disbursements, and changes in fund cash and investments balance of BORMA, Inc. - Property and Liability Insurance Division ("BORMA") as of and for the year ended December 31, 2006. This financial statement is the responsibility of BORMA's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BORMA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in Note 1, the financial statement presents only the property and liability insurance division of BORMA, Inc., and does not purport to, and does not, present fairly the fund cash and investments balance of BORMA, Inc., as of December 31, 2006, and its cash receipts and cash disbursements for the year then ended in conformity with the basis of accounting described in Note 1.

As described more fully in Note 1, BORMA has prepared this financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States. Although we cannot reasonably determine the effects on the financial statement of the variances between these regulatory accounting practices and accounting practices generally accepted in the United States, we presume they are material.



Board of Trustees  
BORMA, Inc. - Property and Liability  
Insurance Division  
Page Two

In our opinion, because of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of BORMA as of December 31, 2006, or its changes in financial position or cash flows, where applicable, for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash and investment balance of BORMA, Inc. - Property and Liability Insurance Division as of December 31, 2006, and its cash receipts and cash disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2007, on our consideration of BORMA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Webster O'Brien Ltd.*

August 29, 2007

**BORMA, Inc. - Property and Liability  
Insurance Division**

*Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash and Investments Balance  
Year Ended December 31, 2006*

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<b>Operating Receipts</b>	
Member Contributions	\$1,023,114
Claim Deductible Recoveries	1,059
Claim Reimbursements	9,488
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<i>Total Operating Receipts</i>	1,033,661
	<hr/>
<b>Operating Disbursements</b>	
Insurance Premiums for Coverages	533,908
Claims Paid	172,426
Administrative Fees	20,243
Professional Fees	9,728
Service Fees	227
	<hr/>
<i>Total Operating Disbursements</i>	736,532
	<hr/>
<i>Excess of Operating Receipts over Operating Disbursements</i>	297,129
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<b>Non-Operating Receipts/(Disbursements)</b>	
Interest Income	47,202
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<i>Change in Fund Cash and Investments Balance</i>	344,331
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<i>Fund Cash and Investments Balance - Beginning of Year</i>	797,852
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<i>Fund Cash and Investments Balance - End of Year</i>	\$1,142,183
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The accompanying notes are an integral part of this financial statement.



**BORMA, INC. - PROPERTY AND LIABILITY  
INSURANCE DIVISION  
NOTES TO FINANCIAL STATEMENT  
Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of the Entity**

BORMA Inc. (the Buckeye Ohio Risk Management Agency, Inc.) is an Ohio not-for-profit corporation organized under Section 2744.081 of the Ohio Revised Code for the public purpose of enabling its six member political subdivisions to obtain insurance coverage, provide methods for paying claims and provide a formalized jointly administered self-insurance pool. Specifically, the BORMA, Inc. - Property and Liability Insurance Division pool ("the Organization") provides coverage for automobile liability, general liability, crime and property (including automobile physical damage), law enforcement liability, ambulance attendant's liability, miscellaneous errors and omissions, property claims, and public officials liability. In addition to the self-insurance pool, the Organization provides risk management services, loss prevention programs and various other educational material. The members of the Organization include the following municipalities within the State of Ohio: Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard. The Organization does not have financial accountability over any entities as defined by GASB Statement No. 14.

BORMA, Inc. has, in addition to the property and liability insurance division, a health insurance division. Members do not have to be part of both divisions. The accounting records are maintained separately and, therefore, these financial statements have excluded the health insurance division.

**Basis of Accounting**

This financial statement is prepared using an other comprehensive basis of accounting, as prescribed or permitted by the Auditor of State. Except for modifications having substantial support, receipts are recorded in the Organization's financial records when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Organization are described in the appropriate section in this note. All transactions are accounted for in a single enterprise fund.

**Cash and Investments**

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The investment in STAROhio (the State Treasurer's investment pool), is valued at amounts reported by the State Treasurer.

**BORMA, INC. - PROPERTY AND LIABILITY  
INSURANCE DIVISION  
NOTES TO FINANCIAL STATEMENT, CONTINUED  
Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Member and Supplemental Contributions**

Member contributions are calculated to annually produce a sufficient sum of money within the self-insurance pool to fund administrative expenses of the Organization and to create reserves for claims and unallocated loss adjustment expenses. Under the terms of membership, should annual member contributions not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative expenses, the Board of Trustees can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Organization and any later period when claims or expenses need to be paid which are attributable to any membership year during which the event or claim occurred.

**Loss Reserve**

Provisions for claims reserves and loss adjustment expenses (Note 7) are based on information reported by members and are calculated by the Organization's claims administrator. These amounts represent an estimate of reported unpaid claims, plus a provision for claims incurred and not reported. The claims reserve is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other factors. The Organization's management believes that the claims reserve is reasonable in the circumstances; however, actual incurred losses may not conform to the assumptions inherent in the determination of the reserve. Accordingly, the ultimate settlement of losses may vary materially from the estimated amounts disclosed in Note 7. Should the provision for claims reserves not be sufficient, supplemental contributions, as discussed above, will be assessed.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of cash receipts and disbursements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Reinsurance**

The Organization uses reinsurance agreements to reduce its exposure to large losses on all types on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Organization as direct insurer of the risks reinsured. The Organization is contingently liable with respect to certain loss coverage which would become a liability in the event these insurance carriers are unable to meet the obligations under these contracts. The Organization is also a member of Public Entity Risk Consortium, a public entity risk-sharing pool which functions as a reinsurer for its member entities.



**BORMA, INC. - PROPERTY AND LIABILITY  
INSURANCE DIVISION  
NOTES TO FINANCIAL STATEMENT, CONTINUED  
Year Ended December 31, 2006**

**NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS**

The carrying amount of the Organization's cash and investments at December 31, 2006 was as follows:

Demand Deposits	\$ 216,401
STAROhio	<u>925,782</u>
Total Deposits and Investments	<u>\$1,142,183</u>

**Deposits**

At December 31, 2006 the carrying amount of the Organization's deposits was \$216,401 and the bank balance was \$228,602. At year end, \$87,993 of the Organization's bank balance of \$228,602 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Organization's name.

**Investments**

The Organization has invested in State Treasury Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows subdivisions of the State to pool their funds for investment purposes.

Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2006. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**NOTE 3 - SELF-INSURED RETENTION**

The Organization retains responsibility of claims within specified self-insured retention limits prior to the application of coverage provided by excess reinsurance contracts. Effective October 1, 2002 the Organization's per-occurrence retention limit increased to \$150,000 for all claims. No stop loss coverage applies beginning December 1, 2005, as the Organization joined the Public Entity Risk Consortium ("PERC") pool on that date. Under PERC, member entities maintain their present retention structure and the present retention effectively becomes a maintenance deductible under PERC. PERC then self-insures a primary portion over individual member retentions up to \$250,000 per occurrence for property coverages and \$500,000 for liability coverages. PERC has a stop loss retention of \$1,600,000 per year, purchasing excess insurance coverage above its retention.

**BORMA, INC. - PROPERTY AND LIABILITY  
INSURANCE DIVISION  
NOTES TO FINANCIAL STATEMENT, CONTINUED  
Year Ended December 31, 2006**

**NOTE 4 - EXCESS INSURANCE CONTRACTS**

The Organization maintains excess insurance contracts with insurance carriers (including PERC) which provide various limits of coverage of the Organization's self-insured retention limits.

In the event that a series of losses or a single loss should exceed the aggregate amount of coverage provided by the self-insurance fund, the excess reinsurance and any amount of supplementary payments for which the member is obligated, then the payment of any noncovered loss is the obligation of the individual member or members against which the claim or claims were made.

**NOTE 5 - ADMINISTRATIVE FEES**

The Organization has contracted with Arthur J. Gallagher & Co. to provide various management, underwriting, claim adjustments and loss control services. The fees are calculated based on periodic contributions.

**NOTE 6 - RELATED PARTY TRANSACTION**

In January 2005, the Organization approved the advance of \$108,000 to a member city for defense of a claim against that member city. The advance is expected to be repaid by the member city and/or its general liability insurance.

**NOTE 7 - LOSS RESERVE**

As discussed in Note 1, the Organization's loss reserve (not recorded in the accompanying financial statement) includes both reported and unreported insured events and estimated future payments of losses and related loss adjustment expenses. The actuarially estimated loss reserve for the Organization as of December 31 2006 was \$1,239,324. The amount available to pay claims at December 31, 2006 was \$1,142,183.





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### **INDEPENDENT AUDITORS' 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  
BORMA, Inc. - Property and Liability  
Insurance Division  
C/O City of Willard  
631 S. Myrtle Avenue  
P.O. Box 367  
Willard, Ohio 44890

We have audited the financial statement of BORMA, Inc. - Property and Liability Insurance Division ("BORMA") as of and for the year ended December 31, 2006, and have issued our report thereon dated August 29, 2007, wherein we noted that BORMA prepared its financial statement using accounting practices that Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States. Our report also noted that the financial statement presents only the property and liability insurance division of BORMA, Inc., and does not purport, and does not, present fairly the fund cash and investments balance of BORMA, Inc., as of December 31, 2006, and its cash receipts and cash disbursements for the year then ended. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 BORMA, Inc. - Property and Liability Insurance Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of BORMA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BORMA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects BORMA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting practices the Auditor of State prescribes or permits such that there is more than a remote likelihood that a misstatement of BORMA's financial statements that is more than inconsequential will not be prevented or detected by BORMA's internal control.

## Board of Trustees

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by BORMA's internal control.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether BORMA, Inc. - Property and Liability Insurance Division'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of and use of the Board of Trustees, management and others within BORMA, and is not intended to be and should not be used by anyone other than these specified parties.

*Walter O'Brien Ltd.*

August 29, 2007





**Mary Taylor, CPA**  
Auditor of State

**BORMA INC. – PROPERTY AND LIABILITY INSURANCE DIVISION**

**HURON 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  
OCTOBER 18, 2007**