

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014



Dave Yost • Auditor of State

Governing Board
Northwest Ohio Educational Council
Self Insurance Pool Program
716 Askin Street
Maumee, Ohio 43537

We have reviewed the *Independent Auditor's Report* of the Northwest Ohio Educational Council Self Insurance Pool Program, Lucas County, prepared by Weber O'Brien Ltd., for the audit period July 1, 2013 through June 30, 2014. 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 Northwest Ohio Educational Council Self Insurance Pool Program is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

December 4, 2015

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**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Northwest Ohio Educational Council
Self-Insurance Pool Program
716 Askin Street
Maumee, Ohio 43537

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Ohio Educational Council Self-Insurance Pool Program (the "SIPP"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the SIPP's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

Because the SIPP did not utilize the services of an actuary to estimate the liability for unpaid claims and claim adjustments at June 30, 2014, we were unable to form an opinion regarding the amount of the loss and loss adjustments reserve in the accompanying statement of net position and the amount of losses and loss adjustments expense in the accompanying statement of revenues, expenses, and changes in net position. We were unable to obtain sufficient appropriate audit evidence about these amounts by other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Ohio Education Council Self-Insurance Pool Program as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Cessation of Operations

As more fully described in Note 7, the SIPP has ceased active operations as a property and casualty insurance risk pool.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and loss development information on pages 4-6 and 17 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, who 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 management’s discussion and analysis on pages 4-6 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 management’s discussion and analysis 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 that information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the loss development information on page 17 in accordance with auditing standards generally accepted in the United States of America because certain information regarding unpaid claims and claim adjustments was not available from an actuary. We do not express an opinion or provide any assurance on that information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2015, on our consideration of the SIPP'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SIPP's internal control over financial reporting and compliance.



September 10, 2015

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The management's discussion and analysis of the Northwest Ohio Educational Council Self-Insurance Pool Program (the "SIPP") financial performance provides an overall review of the SIPP's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the SIPP's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the SIPP's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2014 are as follows:

- In total, net position was \$342,760 at June 30, 2014.
- The SIPP had operating expenses of \$256 for fiscal year 2014. The SIPP had \$1,819 in net non-operating revenues. Operating loss and the change in net position for the fiscal year was \$256 and \$1,563, respectively.
- The SIPP ceased operations effective July 1, 2012. All activity in fiscal year 2014 is for claims incurred prior to that date.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the SIPP's financial activities. The *statement of net position* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the SIPP, including all short-term and long-term financial resources and obligations.

Reporting the SIPP Financial Activities

Statement of net position, statement of revenues, expenses, and changes in net position and the statement of cash flows

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2014?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the SIPP's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the SIPP as a whole, the *financial position* of the SIPP has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The SIPP's statement of net position and statement of revenues, expenses, and changes in net position can be found on pages 7-8 of this report.

The statement of cash flows provides information about how the SIPP finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-16 of this report.

Net position and Changes in Net Position

The table below provides a summary of the SIPP's net position for 2014 and 2013.

| | <u>2014</u> | <u>2013</u> |
|-----------------------------|-------------------|-------------------|
| <u>Assets</u> | | |
| Current assets | \$ 374,453 | \$ 495,355 |
| Total assets | <u>374,453</u> | <u>495,355</u> |
| <u>Liabilities:</u> | | |
| Current liabilities | <u>31,693</u> | <u>154,158</u> |
| Total liabilities | <u>31,693</u> | <u>154,158</u> |
| <u>Net Position:</u> | | |
| Unrestricted | <u>342,760</u> | <u>341,197</u> |
| Total net position | <u>\$ 342,760</u> | <u>\$ 341,197</u> |

Net position increased by \$1,563, or 0.46%, from June 30, 2014 primarily due to the investment revenues.

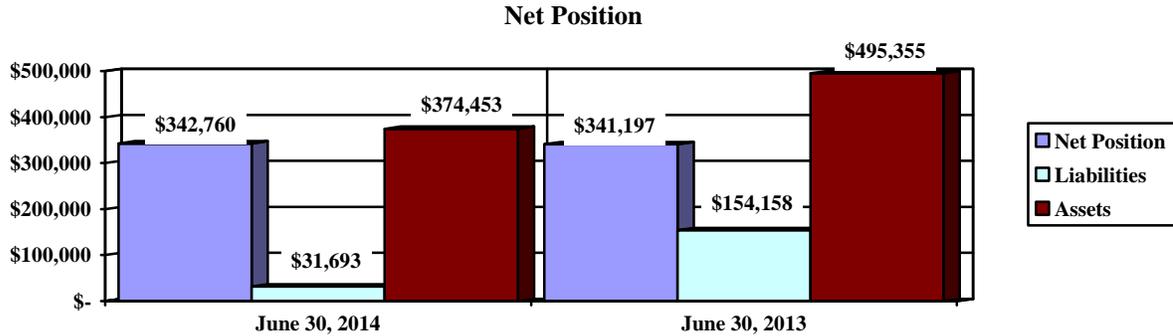
Total assets of the SIPP decreased \$120,902, or 24.41%, from June 30, 2014 primarily due to the SIPP receiving no contributions from members in fiscal year 2014. The SIPP is paying claims incurred prior to July 1, 2012 from the cash reserve.

Total liabilities of the SIPP decreased \$122,465, or 79.45%, from June 30, 2013 due to the SIPP not being liable for any claims incurred after June 30, 2012.

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The chart below shows a breakdown of the SIPP's assets, liabilities and net position for 2014 versus 2013:



The table below shows the changes in net position for fiscal year 2014 and 2013.

| | 2014 | 2013 |
|---------------------------------------|----------|-----------|
| <u>Expenses:</u> | | |
| Premiums | \$ - | \$ 1,268 |
| Losses and loss adjustments | (13,965) | (40,932) |
| Professional fees | 13,651 | 22,218 |
| Administrative charges | - | 2,800 |
| Other | 570 | 1,025 |
| Total expenses | 256 | (13,621) |
| Operating income (loss) | (256) | 13,621 |
| <u>Nonoperating revenues:</u> | | |
| Interest revenue | 1,417 | 1,244 |
| Realized loss on investments | (556) | (265) |
| Unrealized gain (loss) on investments | 958 | (1,055) |
| Total nonoperating revenues | 1,819 | (76) |
| Change in net position | \$ 1,563 | \$ 13,545 |

The SIPP ceased active operations effective July 1, 2012 and as such there were no contributions received from members and all operating expenses were paid from the cash reserve for fiscal years 2013 and 2014. The losses and loss adjustment expense consists of payments made for claims incurred prior to June 30, 2012 and the change in the losses and loss adjustments reserve liability estimate from the prior fiscal year. Professional fees decreased over the prior fiscal year due to decreased activity during fiscal year 2014.

Contacting the SIPP's Financial Management

This financial report is designed to provide our member districts, potential member districts and investors and creditors with a general overview of the SIPP's finances and to show the SIPP's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Paul Brotzki, Treasurer, Maumee City School District, 716 Askin Street, Maumee, Ohio 43537 or e-mail at ma_peg@nwoca.org.

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

STATEMENT OF NET POSITION
JUNE 30, 2014

| | |
|--|--------------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents. | \$ 27,968 |
| Investments | 329,903 |
| Cash held in escrow | 16,153 |
| Receivables: | |
| Accrued interest. | <u>429</u> |
| Total assets | <u>374,453</u> |
| Liabilities: | |
| Current liabilities: | |
| Losses and loss adjustments reserve. | <u>31,693</u> |
| Total liabilities | <u>31,693</u> |
| Net position: | |
| Unrestricted. | <u>342,760</u> |
| Total net position | <u><u>\$ 342,760</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | |
|---|--------------------------|
| Operating expenses: | |
| Professional fees | \$ 13,651 |
| Losses and loss adjustments. | (13,965) |
| Other | <u>570</u> |
| Total operating expenses. | <u>256</u> |
| Operating loss. | <u>(256)</u> |
| Non-operating revenues (expenses): | |
| Interest revenue | 1,417 |
| Realized losses on investments | (556) |
| Unrealized gains on investments. | <u>958</u> |
| Total non-operating revenues (expenses) | <u>1,819</u> |
| Change in net position | 1,563 |
| Net position at beginning of year. | <u>341,197</u> |
| Net position at end of year | <u><u>\$ 342,760</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | |
|--|------------------|
| Cash flows from operating activities: | |
| Cash received from refunds and reimbursements . . . | \$ 13,965 |
| Cash payments for professional services. | (13,651) |
| Cash payments for claims | (122,465) |
| Cash payments for other expenses | (570) |
| | (122,721) |
| Net cash used in operating activities | (122,721) |
| Cash flows from investing activities: | |
| Proceeds from sale of securities. | 100,000 |
| Purchase of investments. | (200,000) |
| Interest received | 1,198 |
| | (98,802) |
| Net cash used in investing activities | (98,802) |
| Net decrease in cash and cash cash equivalents | (221,523) |
| Cash and cash equivalents at beginning of year . . . | 265,644 |
| Cash and cash equivalents at end of year | \$ 44,121 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (256) |
| Changes in assets and liabilities: (Decrease) in losses and loss adjustments reserve. . . | (122,465) |
| Net cash used in operating activities | \$ (122,721) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF THE ENTITY

The following descriptions provide only general information. Reference should be made to the Pool agreement for a more complete description.

The Northwest Ohio Educational Council (the "Council") is a regional council of governments established pursuant to Chapter 167 of the Ohio Revised Code, consisting of various school districts in Northwest Ohio. The Council's primary purpose is to formulate, develop, and administer, on behalf of member school districts, programs to obtain lower costs.

The Northwest Ohio Educational Council Self-Insurance Program (the "SIPP") was established on January 1, 2004 and is an unincorporated nonprofit corporation established to provide property and casualty risk management services and risk sharing to its members. The SIPP was established as a local government risk pool pursuant to Ohio Revised Code Section 2744.08 and is not subject to federal tax filing requirements. It is a shared risk pool as defined by Government Accounting Standards Board (GASB) Statements No. 10 and 30.

The SIPP's intent is to establish similar or uniform insurance coverage and to utilize this program to achieve reduced costs of administration by providing similar services to its members. The SIPP is to obtain casualty, property, automobile, employer liability, general liability, risk management, professional liability, group coverage and any other protections for its members.

The SIPP operates under the direction of a five to nine member Governing Board. The Governing Board is responsible for carrying out the provisions of contracts on behalf of the SIPP, including, but not limited to, a contract with an Administrator as authorized by the Ohio Revised Code Section 2744.081 (A)(2). The Governing Board may establish and publish rules to be followed by the Administrator, marketing agent, other agents or committees in the conduct of its affairs. The Governing Board serves without compensation.

School districts joining the SIPP must agree to participate for a period of one fiscal year and sign an annual agreement not to withdraw until the beginning of the next fiscal year. A member, after that date, may terminate its participation in the program through its representative and a certified resolution of the representative's governing authority. The resolution must be presented to the Governing Board before June 15th in the fiscal year preceding the fiscal year in which the member wishes to withdraw.

The Governing Board of the SIPP elected not to renew insurance coverage and cease active operations July 1, 2012 and as such all the member school districts joined other insurance pools.

The SIPP consisted of the following member school districts prior to July 1, 2012:

- Ayersville Local School District
- Genoa Local School District
- Holgate Local School District
- Lake Local School District
- Educational Service Center of Lake Erie West
- Maumee City School District
- Oregon City School District
- Paulding Exempted Village School District
- Pike-Delta-York Local Board of Education
- Springfield Local School District
- Sylvania City School District

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

The SIPP has an agreement with Arthur J. Gallagher & Co. to provide overall administration services for the program. The SIPP agreement states the Treasurer shall service as the Chief Fiscal Officer of SIPP and the fiscal year is July 1st to June 30.

The SIPP provided insurance coverage for the member school districts on a claims-made basis. The SIPP maintained annual insurance coverage through various carriers that limits aggregate claims. In the event the insurance carrier would be unable to pay their portion of losses, the participants of SIPP would be liable.

The pool reflects no unearned premium reserves as the coverage period is the same as the reported period. The following relate to insurance coverage provided for the member school districts, prior to July 1, 2012. Subsequent to June 30, 2012, all member school districts joined other insurance pools and obtained insurance coverage through them:

| <u>Coverage</u> | <u>Limit</u> | <u>Deductible</u> |
|--|--|-------------------|
| Property | \$200,000,000 (subject to schedule limits) | \$1,000 |
| Boiler and Machinery | \$50,000,000 | \$3,500 |
| Auto Liability | \$1,000,000 Each Occurrence | Nil |
| Per Person Medical | \$5,000 | |
| Auto Physical Damange | Actual Cash Value | \$1,000 |
| General Liability | \$1,000,000/\$3,000,000 | Nil |
| School Board Legal (including employment practices) | \$1,000,000 Aggregate/Each Occurrence | \$5,000 |
| Umbrella Coverage | \$5,000,000 Aggregate/Each Occurrence | Nil |
| Sexual Abuse | \$5,000,000 Aggregate/Each Occurrence | Nil |
| Pollution Legal Liability | \$1,000,000/\$10,000,000 | \$25,000 |
| Crime | \$500,000 | \$1,000 |

Contributions to SIPP are made by the member districts and are determined by the administrator based on general and specific allocations of costs incurred. All contributions rates are subject to the Governing Board approval.

The SIPP uses excess insurance agreements to reduce its exposure to large losses on all types of insured events. Excess insurance permits recovery of a portion of losses from reinsurers on insured events, although it does not discharge primary liability of the SIPP as direct insurer of the risks reinsured. The SIPP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by excess insurance. The SIPP has a per occurrence retention of \$100,000 for all insured events incurred between July 1, 2009 and June 30, 2012, \$250,000 for all insured events incurred between July 1, 2007 and June 30, 2009 and \$100,000 for insured events that were incurred prior to July 1, 2007.

Reporting Entity

A reporting entity is comprised of the primary government and other organizations that are included to insure that the financials are not misleading. The primary government of the SIPP consists of all funds, departments, boards and agencies that are not legally separate from the SIPP. For the SIPP, this includes business, administration and fiscal services.

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the SIPP have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The SIPP uses GASB Statements 10, 29, 30, 34, 40, 61, 62, 63, 65, 66, 70 and GASB Interpretation No. 4.

B. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Financial statements are prepared using the accrual basis of accounting.

C. Member and Supplemental Contributions

Member contributions are calculated annually to produce a sum of money within the self-insurance pool adequate to fund administrative expenses and to establish adequate 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 Governing Board can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the SIPP 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.

D. Cash and Investments

All monies received by the SIPP are accounted for by the SIPP's treasurer. All cash received by the treasurer is maintained in separate accounts in the SIPP's name. Monies for the SIPP are maintained in these accounts or temporarily used to purchase short-term investments.

All investments with an original maturity of three months or less at the time they are purchased by the SIPP are considered to be cash equivalents for the statement of cash flows. Investments are reported at fair value. All coupon-bearing instruments include the cost of accrued interest paid until such time as the first coupon comes due.

E. Administrative Expenses

Administrative expenses reported on the statement of revenues, expenses and changes in net position primarily consist of costs associated with the processing of claims payments and the purchase of loss control services.

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Loss and Loss Adjustments Reserve

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

G. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the SIPP or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The SIPP had no restricted net position at June 30, 2014.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

At June 30, 2014, the carrying amount of the SIPP's deposits was \$42,010. At June 30, 2014, the bank balance of the SIPP's deposits was \$42,010. The SIPP maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2014, all of the SIPP's depository balance was covered by the FDIC.

The investments of the SIPP are not regulated by the Ohio Revised Code due to its status as a nonprofit organization. However, the Governing Board has adopted an investment policy similar to the requirements of Ohio Revised Code Chapter 135. The SIPP complied with that investment policy throughout fiscal year 2014.

As of June 30, 2014, the SIPP had the following investment and maturity:

| Investment type | Fair Value | Investment Maturity | | |
|------------------------------|-------------------|---------------------|-------------------|--------------------|
| | | 6 months or less | 7 to 12 months | 13 to 18 months |
| Negotiable CDs | \$ 329,903 | \$ 230,007 | \$ 49,853 | \$ 50,043 |
| U.S. Government money market | 2,111 | 2,111 | - | - |
| Total | <u>\$ 332,014</u> | <u>\$ 232,118</u> | <u>\$ 49,853</u> | <u>\$ 50,043</u> |

The weighted average maturity of investments is 0.56 years.

**NORTHWEST OHIO EDUCATIONAL COUNCIL
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the SIPP's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The SIPP's investments in a U.S. Government money market fund was rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The SIPP's investments in negotiable CDs are not rated. The negotiable CDs are covered by FDIC. The SIPP's investment policy does not specifically address credit risk beyond requiring the SIPP to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the SIPP will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in a U.S. Government money market fund are exposed to custodial credit risk in that it is uninsured, unregistered and held by the counterparty's trust department or agent but not in the SIPP's name. The SIPP has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The SIPP places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the SIPP at June 30, 2014:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------------|-------------------|-------------------|
| Negotiable CDs | \$ 329,903 | 99.37 |
| U.S. Government money market | <u>2,111</u> | <u>0.63</u> |
| Total | <u>\$ 332,014</u> | <u>100.00</u> |

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2014:

Cash and investments per note

| | |
|-----------------------------|-------------------|
| Carrying amount of deposits | \$ 42,010 |
| Investments | <u>332,014</u> |
| Total | <u>\$ 374,024</u> |

Cash and investments per statement of net position

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 27,968 |
| Investments | 329,903 |
| Cash held in escrow | <u>16,153</u> |
| Total | <u>\$ 374,024</u> |

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - FISCAL AGENT

The SIPP agreement states the Board shall elect a Fiscal Agent/Treasurer. The Fiscal Agent/Treasurer does not have to be a Board Member and shall service a term of three years and the number of terms may be unlimited.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the SIPP:

- Carry out the fiscal and financial business of the SIPP as directed by the Board to perform all duties indicative to the title of Treasurer as the Board designates;
- Assist and Board and the Administrator in preparing a proposed annual administrative budget;
- Shall provide regular reports as to the fiscal condition of the SIPP; and,
- Shall have custody of and be responsible for the SIPP fund and shall give and receive all receipts of money due and payable to SIPP from any source whatsoever, deposit all money in the name of the SIPP, invest and disburse funds as directed by the Board.

NOTE 5 - LOSSES AND LOSS ADJUSTMENT EXPENSES RESERVE

The SIPP's estimate of loss and allocated loss adjustment expense reserves include a liability for Incurred, But Not Reported (IBNR) claims of this plan.

| | Fiscal Year Ended June 30, | |
|---|----------------------------|------------|
| | 2014 | 2013 |
| Total unpaid claims and claim adjustment expenses a beginning of fiscal year | \$ 154,158 | \$ 225,669 |
| Current year estimated liability and change to prior years estimates: | | |
| Prior fiscal years | - | (39,729) |
| Total losses and loss adjustments expense | - | (39,729) |
| Claims paid in the current year for current and prior years: | | |
| Prior fiscal years | (122,465) | (31,782) |
| Total claims payments | (122,465) | (31,782) |
| Total unpaid claims and claim adjustment expenses at end of fiscal year | \$ 31,693 | \$ 154,158 |

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 6 - ACCOUNTABILITY AND COMPLIANCE

For fiscal year 2014, the SIPP has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the SIPP.

NOTE 7 - CESSATION OF OPERATIONS

The Government Board of the SIPP elected not to renew insurance coverage and cease active operations July 1, 2012 and as such all the member school districts joined other insurance pools.

NOTE 8 – SUBSEQUENT EVENT

On September 1, 2015, the SIPP entered into an agreement with a reinsurer to assume the liability for any outstanding known or unknown claims, subject to certain limitations, of the SIPP during the period it provided coverage to its participating members for a single premium of \$313,000.

NORTHWEST OHIO EDUCATIONAL COUNCIL SELF-INSURANCE POOL PROGRAM

LOSS DEVELOPMENT INFORMATION

| | Fiscal and Accident Year | | | | | | | | | | |
|--|-----------------------------|--------------|--------------|-----------------------------|--------------|------------|------------|------------|--------------|----------|----------|
| | Period 1/1/04 to 7/31/04 | 7/31/2005 | 7/31/2006 | Period 8/1/06 to 6/30/07 | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 |
| Premiums and investment revenue | \$ 784,553 | \$ 1,588,483 | \$ 1,534,635 | \$ 1,300,646 | \$ 1,262,500 | \$ 874,020 | \$ 989,101 | \$ 993,803 | \$ 1,010,092 | \$ (76) | \$ 1,819 |
| Unallocated expenses | 571,535 | 1,172,794 | 1,030,342 | 924,771 | 773,245 | 776,241 | 1,031,606 | 1,048,321 | 866,981 | (13,621) | 256 |
| Estimated losses incurred and expense, end of year | 183,299 | 130,287 | 441,796 | 391,652 | 461,173 | 470,182 | 396,801 | 295,880 | 277,932 | - | - |
| Net paid, cumulative as of: | | | | | | | | | | | |
| End of accident year | 110,906 | 54,961 | 173,405 | 57,101 | 92,556 | 112,141 | 106,723 | 82,667 | 64,066 | - | - |
| One year later | 166,751 | 208,150 | 434,182 | 193,030 | 169,787 | 405,402 | 367,359 | 118,699 | 104,232 | - | - |
| Two years later | 194,322 | 307,454 | 362,672 | 212,102 | 182,009 | 422,949 | 406,047 | 119,182 | - | - | - |
| Three years later | 194,322 | 322,946 | 471,336 | 217,538 | 182,009 | 422,949 | 397,180 | - | - | - | - |
| Four years later | 193,421 | 322,946 | 441,776 | 214,653 | 182,009 | 422,949 | - | - | - | - | - |
| Five years later | 193,763 | 322,946 | 441,776 | 214,653 | 182,009 | - | - | - | - | - | - |
| Six years later | 194,814 | 322,946 | 441,776 | 214,653 | - | - | - | - | - | - | - |
| Seven years later | 194,814 | 322,946 | 441,776 | - | - | - | - | - | - | - | - |
| Eight years later | 194,814 | 322,946 | - | - | - | - | - | - | - | - | - |
| Nine years later | 194,814 | - | - | - | - | - | - | - | - | - | - |
| Reestimated ceded losses and expenses: | - | 646,000 | - | - | - | - | - | - | - | - | - |
| Reestimated net incurred losses and expense: | | | | | | | | | | | |
| End of accident year | 183,299 * | 130,287 | 441,796 | 391,652 | 461,173 | 470,182 | 396,801 | 295,880 | 277,932 | - | - |
| One year later | 189,892 * | 390,456 | 441,796 | 353,841 | 219,450 | 470,182 | 396,801 | 139,413 | 213,427 | - | - |
| Two years later | 195,129 * | 390,456 | 441,796 | 252,557 | 211,918 | 422,949 | 396,801 | 164,189 | - | - | - |
| Three years later | 195,129 | 351,608 | 441,796 | 218,102 | 182,009 | 422,949 | 396,801 | - | - | - | - |
| Four years later | 195,129 | 360,505 | 441,796 | 214,653 | 182,009 | 422,949 | - | - | - | - | - |
| Five years later | 195,129 | 322,946 | 441,796 | 214,653 | 182,009 | - | - | - | - | - | - |
| Six years later | 195,129 | 322,946 | 441,796 | 214,653 | - | - | - | - | - | - | - |
| Seven years later | 195,129 | 322,946 | 441,796 | - | - | - | - | - | - | - | - |
| Eight years later | 195,129 | 322,946 | - | - | - | - | - | - | - | - | - |
| Nine years later | 195,129 | - | - | - | - | - | - | - | - | - | - |
| Increase (decrease) in estimated net incurred losses and expenses from end of accident year | 11,830 | 192,659 | - | (176,999) | (279,164) | (47,233) | - | (131,691) | (64,505) | - | - |

* No incurred claims and not reported (IBNR) because first actuarially report was as July 31, 2006.



INDEPENDENT AUDITOR'S 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

Governing Board
Northwest Ohio Educational Council
Self-Insurance Pool Program
716 Askin Street
Maumee, Ohio 43537

We have audited, in accordance with the 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, the financial statements of Northwest Ohio Educational Council Self-Insurance Pool Program (the "SIPP") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the SIPP's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 10, 2015. Our opinion was qualified because we were unable to obtain sufficient appropriate audit evidence supporting amounts reported as loss and loss adjustment reserve liability and related expenses.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SIPP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SIPP's internal control. Accordingly, we do not express an opinion on the effectiveness of the SIPP's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SIPP's financial statements are free from 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 10, 2015

**NORTHWEST OHIO EDUCATIONAL COUNCIL
SELF-INSURANCE POOL PROGRAM
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Finding 2014-001 - Material Weakness

Management relies on the services of an actuary to estimate the SIPP's unpaid claims and claim adjustment liability at year end. Management did not engage an actuary to estimate the SIPP's loss and loss adjustment reserve liability at June 30, 2014. Consequently, we were unable to obtain sufficient-appropriate audit evidence supporting the unpaid claims and claim adjustment liability reported in the SIPP's statement of net position at June 30, 2014.

Failure to engage an actuary to estimate unpaid claims and claim adjustment liabilities could result in an understatement of unpaid claims and claim adjustment liabilities and related expenses. We recommend that the SIPP obtain an annual actuarial estimate of claims liabilities as the end of its fiscal year.

Management's Response:

Management declined to respond to this finding.

Finding 2014-002 - Noncompliance

Ohio Rev. Code § 2744.081 requires joint self-insurance programs insuring against judgments, settlement of claims, expense, loss and damages that arise, or are claimed to have arisen, from an act or omission of the subdivision or any of its employees and to indemnify or hold harmless the subdivision's employees, to reserve amounts to cover potential costs. It also requires the program to prepare a report, reflecting those reserves (i.e., liabilities) and the aggregate of disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries.

The SIPP did not obtain an actuarial estimate of the loss reserve as of June 30, 2014. Failure to obtain an actuarial estimate of unpaid claims and claim adjustment liabilities as of the end of the fiscal year could result in an understatement of unpaid claims and claim adjustment liabilities and related expenses. We recommend that an actuarial report be obtained annually in accordance with Ohio Revised Code requirements.

Management's Response:

Management declined to respond to this finding.

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Dave Yost • Auditor of State

NORTHWEST OHIO EDUCATIONAL COUNCIL SELF-INSURANCE POOL

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
DECEMBER 17, 2015**