

# **Ohio Transit Risk Pool - Medina County**

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**Financial Report  
with Supplemental Information  
November 30, 2013**





# Dave Yost • Auditor of State

Board of Trustees  
Ohio Transit Risk Pool  
1 Park Centre Drive #300  
Wadsworth, Ohio 44281

We have reviewed the *Independent Auditor's Report* of the Ohio Transit Risk Pool, Medina County, prepared by Plante & Moran, PLLC, for the audit period December 1, 2012 through November 30, 2013. 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 Transit Risk Pool is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

June 18, 2014

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# Ohio Transit Risk Pool - Medina County

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## Independent Auditor's Report

To the Board of Trustees  
Ohio Transit Risk Pool - Medina County

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ohio Transit Risk Pool - Medina County (OTRP) as of and for the years ended November 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise OTRP's financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Basic 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 audits. We conducted our audits 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 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 Ohio Transit Risk Pool - Medina County'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.

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Transit Risk Pool - Medina County as of November 30, 2013 and 2012 and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Ohio Transit Risk Pool - Medina County

**Other Matters**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of claims information for all lines of coverage, and statement of reconciliation of net reserves for claims and claims adjustment expenses by type of contract, as identified in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the 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 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2014 on our consideration of Ohio Transit Risk Pool - Medina County'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 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* in considering Ohio Transit Risk Pool - Medina County's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

May 29, 2014

# Ohio Transit Risk Pool - Medina County

## Management's Discussion and Analysis

This section of Ohio Transit Risk Pool - Medina County's (OTRP) annual financial report presents our discussion and analysis of OTRP's financial performance during the year ended November 30, 2013. Please read it in conjunction with OTRP's financial statements, which immediately follow this section.

### Using this Annual Report

OTRP is a not-for-profit corporation that provides property and liability coverage to its participating members. Membership in OTRP is comprised exclusively of Ohio Political Subdivisions, Regional Transit Authorities, County Transit Boards, and other Ohio County Transit operations. OTRP uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

The basic financial statements, which follow this section, provide both long- and short-term information about OTRP's financial status. The statements of net position and revenue, expenses, and changes in net position provide information about the financial activities of OTRP. These are followed by the statement of cash flows, which presents detailed information about the changes in OTRP's cash position during the year. These statements reflect only the risk carried by OTRP, which also includes any potential unrecoverable reinsurance claims.

### Financial Overview

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The three basic financial statements presented are as follows:

- **Statement of Net Position** - This statement presents information reflecting OTRP's assets, liabilities, and net position and is categorized into current and noncurrent assets and liabilities.
- **Statement of Revenue, Expenses, and Changes in Net Position** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being claims and claims adjustment expense, general and administrative expenses, and reinsurance costs. Nonoperating revenue and expenses consist primarily of investment activity and distributions to members.
- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

# Ohio Transit Risk Pool - Medina County

## Management's Discussion and Analysis (Continued)

### Financial Highlights

During 2013, OTRP's financial activities were highlighted by the following significant events:

- OTRP experienced negative claim development in both the 2012 and 2013 loss years. These claims impacted OTRP through a combination of increased frequency in larger claim payments and claim reserves above \$50,000. In 2013, OTRP has 11 claims incurred over \$50,000, with four of them in excess of \$200,000. Overall, the number of open claims increased from 83 to 95 at fiscal year end. Reserves have increased significantly from \$565,098 at November 30, 2012 to \$1,169,793 at November 30, 2013. OTRP continues to implement in-house proactive claims adjustment efforts and the aggressive implementation of loss control strategies contained in OTRP's risk management program.
- OTRP carried a fully funded "Shock Loss Fund." Under OTRP board policy, members are required to fund one-time their annual contribution. During 2012, the board amended the policy to allow members to fund up to three times their annual contribution. This action was due to further analysis of target surplus required to provide solid financial stability. This strategy will allow OTRP to operate under a high level self-insured environment while stabilizing the potential for future special assessments and maximizing member equity returns.
- Due to the full funding of the Shock Loss Fund, OTRP continued to self-insure the first \$1,000,000 for each liability occurrence, and did not purchase a "buy-down" liability reinsurance placement. This coverage had been purchased by OTRP beginning in 2007 to stabilize losses and reduce the potential for future special assessments.
- OTRP continues to purchase reinsurance and an excess policy to cover per-occurrence losses in excess of \$1,000,000. This coverage places OTRP's overall liability limits at \$10,000,000 per occurrence.
- During 2013, OTRP added a full-time administrative specialist to the payroll.
- OTRP offered members flexible liability deductible options tailored to their individual needs, ranging from \$1,000 per occurrence to \$250,000 per occurrence. Members electing to increase their individual deductibles above \$1,000 per occurrence received actuarially calculated credits to their loss fund contributions. Metro RTA selected a \$5,000 per-occurrence liability deductible, while TARTA selected a \$250,000 per-occurrence liability deductible.
- As of fiscal year end 2012 and 2013, all members participate in all lines of coverage.

# **Ohio Transit Risk Pool - Medina County**

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## **Management's Discussion and Analysis (Continued)**

- Under new accountability and commitment from the membership, OTRP was able to eliminate member receivables in past due status as of November 30, 2013 and 2012. Total member receivables related to deductibles at November 30, 2013 and 2012 were \$92,824 and \$67,984, respectively.
- During 2013, distributions to members in the form of interest earned on the Shock Loss Fund were made totaling \$69,507. During 2012, distributions to members, including interest earned on the Shock Loss Fund, were made totaling \$805,083, which was accomplished through a return from the closure of Loss Year (13) 2007 and a return of interest income and contributions under the Shock Loss Fund Board Policy. This brings the total (for all years) members' equity return to \$10,177,718.
- As of fiscal year end 2013, management is closely monitoring claims liability for 2012 and 2013, but has not recommended a special assessment as of fiscal year end 2013. Management is not aware of any carrier insolvency which could create a special assessment.

# Ohio Transit Risk Pool - Medina County

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The financial statements report OTRP's net position and how it has changed. Net position - the difference between OTRP's assets and liabilities - are one way to measure OTRP's financial health or position. Over time, increases and decreases in OTRP's net position are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information follows:

Condensed Statement of Net Position	November 30			2013/2012 (Decrease) Increase
	2013	2012	2011	
<b>Assets</b>				
Cash and cash equivalents and short-term investments	\$ 1,555,954	\$ 2,614,097	\$ 2,707,477	\$ (1,058,143)
Other current assets	104,519	85,438	148,602	19,081
Total current assets	1,660,473	2,699,535	2,856,079	(1,039,062)
Long-term assets:				
Investments	6,770,784	5,804,704	5,349,501	966,080
Capital assets - Net of depreciation	25,390	31,865	41,214	(6,475)
Total assets	<u>\$ 8,456,647</u>	<u>\$ 8,536,104</u>	<u>\$ 8,246,794</u>	<u>\$ (79,457)</u>
<b>Liabilities</b>				
Current	\$ 1,895,025	\$ 1,683,333	\$ 2,261,219	\$ 211,692
Long term	2,271,150	1,579,351	997,762	691,799
Total liabilities	4,166,175	3,262,684	3,258,981	903,491
<b>Net Position</b>				
Invested in capital assets	25,390	31,865	41,214	(6,475)
Unrestricted	4,265,082	5,241,555	4,946,599	(976,473)
Total net position	4,290,472	5,273,420	4,987,813	(982,948)
Total liabilities and net position	<u>\$ 8,456,647</u>	<u>\$ 8,536,104</u>	<u>\$ 8,246,794</u>	<u>\$ (79,457)</u>

# Ohio Transit Risk Pool - Medina County

## Management's Discussion and Analysis (Continued)

Condensed Statement of Changes in Net Position	Year Ended November 30			2012/2013 (Decrease) Increase
	2013	2012	2011	
<b>Operating Revenue</b>	\$ 2,392,413	\$ 2,326,551	\$ 2,195,101	\$ 65,862
<b>Operating Expenses</b>				
Provision for claims	(2,488,764)	(608,414)	(561,587)	1,880,350
Administrative expenses	(862,232)	(785,102)	(803,152)	77,130
Total operating expenses	(3,350,996)	(1,393,516)	(1,364,739)	(1,957,480)
<b>Operating (Loss) Income</b>	(958,583)	933,035	830,362	(1,891,618)
<b>Nonoperating Income (Expenses)</b>				
Investment earnings and realized and unrealized gains and losses on investments	45,142	163,077	118,029	(117,935)
Loss on disposal of fixed assets	-	(5,422)	-	5,422
Distributions to members	(69,507)	(805,083)	(1,914,711)	(735,576)
Total nonoperating expenses	(24,365)	(647,428)	(1,796,682)	623,063
<b>(Decrease) Increase in Net Position</b>	<b>\$ (982,948)</b>	<b>\$ 285,607</b>	<b>\$ (966,320)</b>	<b>\$ (1,268,555)</b>

In addition to net position, when assessing the overall health of OTRP, the reader needs to consider other nonfinancial factors such as the legal climate in the state, the general state of the financial markets, and the level of risk prevention undertaken by OTRP and its members.

### Condensed Comparative Financial Highlights

- Total current assets decreased by \$1,039,062 while long-term investments increased by \$966,080 between 2013 and 2012. These changes were a combination of claim payments as well as receipt of members' funds on deposit.
- OTRP's capital assets, net of depreciation, decreased from 2012 by \$6,475. This is due to ordinary depreciation of OTRP capital assets.
- OTRP's liabilities increased from 2012 by \$903,491. The increase was primarily related to an increase in claims reserve with an offset of unearned contributions from members in excess of the required contribution to the SLF. There were no liabilities in the current year for prepayments related to (LY) 2013.

# Ohio Transit Risk Pool - Medina County

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## Management's Discussion and Analysis (Continued)

- The difference between assets and liabilities, or “net position,” decreased from 2012 by \$79,457. This number was impacted by unfavorable resolution of claims.
- OTRP operating expenses were impacted by both the increase in claims reserve at November 30 from 2012 to 2013 and the addition of another full-time OTRP employee.
- Total OTRP revenue (net of reinsurance/excess insurance premiums) increased to \$2,392,413 in 2013 from \$2,326,551 in 2012. While OTRP did see a very slight increase in overall membership contributions in the amount of \$81,657, this was offset with a decrease in recognized contributions to the Shock Loss Fund totaling \$52,434.

### Reserves for Claims

OTRP administers claims and pays for covered losses experienced by its members. All claims are processed and managed by OTRP. Reserves are established for the estimated amount that will be paid at some future date to settle the loss. Reserves are also established for claims that have occurred, but are not yet known to OTRP and for reported claims that are expected to develop. Pinnacle Actuarial Resources, Inc. conducts an independent actuarial analysis to determine the adequacy and reasonableness of these reserves.

# Ohio Transit Risk Pool - Medina County

## Management's Discussion and Analysis (Continued)

### Budgetary Highlights

OTRP adopts an annual operating budget for the current fiscal year. The budget is presented to OTRP's board of trustees for final review and adoption. OTRP's management prepares the budget and reviews expenditures on a quarterly basis to assure compliance with the adopted budget.

	<u>Annual Budget</u>	<u>Year to Date Actual</u>	<u>Budget vs. Actual</u>
<b>Operating Revenue</b>			
Membership contributions	\$ 3,386,670	\$ 3,820,470	\$ 433,800
Other operating revenue	24,350	34,914	10,564
Less reinsurance/excess insurance premiums	<u>(1,463,190)</u>	<u>(1,462,971)</u>	<u>219</u>
Total operating revenue	1,947,830	2,392,413	444,583
<b>Operating Expenses</b>			
Claims and claims adjustment expenses	(1,187,541)	(2,488,764)	(1,301,223)
Professional fees and other	(178,500)	(202,140)	(23,640)
Pool operations	(159,849)	(128,148)	31,701
Salaries and employee benefits	(521,940)	(521,917)	23
Depreciation	<u>-</u>	<u>(10,027)</u>	<u>(10,027)</u>
Total operating expenses	(2,047,830)	(3,350,996)	(1,303,166)
<b>Nonoperating Income (Expense)</b>			
Net investment income	100,000	45,142	(54,858)
Distributions to members	<u>-</u>	<u>(69,507)</u>	<u>(69,507)</u>
Total nonoperating income (expense)	<u>100,000</u>	<u>(24,365)</u>	<u>(124,365)</u>
<b>Change in Net Position</b>	<b><u>\$ -</u></b>	<b><u>\$ (982,948)</u></b>	<b><u>\$ (982,948)</u></b>

The following is an explanation of the significant variances of the budget to actual for 2013:

- Member contributions were higher than budgeted due to the fact that membership contributions include contributions related to the Shock Loss Fund which were not included in the annual budget. Shock Loss Fund contributions recognized in 2013 totaled \$433,739.
- Claims and claims adjustment expenses were higher than expected due to adverse development of reported claims coupled with an increase in reserves for claims incurred and claims incurred but not reported.

# **Ohio Transit Risk Pool - Medina County**

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## **Management's Discussion and Analysis (Continued)**

- Sick leave liability increased by \$16,581 in 2013 and totals \$73,806. This increase has been recorded as salary and employee benefits expense. Without considering this increase in the liability, salary and employee benefits expense is \$505,336 or 3.3 percent under budget.
- Capital losses and gains (realized or unrealized) are not budgeted for within the OTRP program. OTRP recognized \$70,811 in unrealized losses from the overall investment program which has been netted against interest for this budget presentation.
- Distributions to members occur periodically when liabilities have been satisfied from prior loss years. Distributions are paid from funds contributed from prior budgets and are not budgeted for within the yearly OTRP administration program.

### **Contacting OTRP's Management**

This financial report is designed to provide a general overview of OTRP's finances. Questions concerning any of the data contained herein or requests for additional financial information should be directed to the Chief Executive Officer of OTRP, 1 Park Centre Drive, #300, Wadsworth, OH 44281.

# Ohio Transit Risk Pool - Medina County

## Statement of Net Position

	November 30	
	2013	2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 644,068	\$ 881,449
Investments (Note 2)	911,886	1,732,648
Accounts receivable - Members	92,824	71,848
Prepaid expenses	11,695	13,590
Total current assets	1,660,473	2,699,535
<b>Long-term Assets</b>		
Investments (Note 2)	6,770,784	5,804,704
Capital assets - Net of depreciation (Note 3)	25,390	31,865
Total assets	<b>\$ 8,456,647</b>	<b>\$ 8,536,104</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,991	\$ 23,148
Accrued wages and payroll taxes	84,838	88,225
Current portion of reserves for claims (Note 4)	632,000	280,000
Members' payable (Note 7)	857,329	1,121,423
Current portion of unearned contributions	316,867	170,537
Total current liabilities	1,895,025	1,683,333
<b>Long-term Liabilities</b>		
Reserves for claims - Net of current portion (Note 4)	1,527,657	897,201
Unearned contributions - Net of current portion	743,493	682,150
Total long-term liabilities	2,271,150	1,579,351
Total liabilities	4,166,175	3,262,684
<b>Net Position</b>		
Invested in capital assets	25,390	31,865
Unrestricted	4,265,082	5,241,555
Total net position	4,290,472	5,273,420
Total liabilities and net position	<b>\$ 8,456,647</b>	<b>\$ 8,536,104</b>

# Ohio Transit Risk Pool - Medina County

## Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended November 30	
	2013	2012
<b>Operating Revenue</b>		
Membership contributions	\$ 3,820,470	\$ 3,781,292
Other operating income	34,914	33,581
Reinsurance/Excess insurance premiums	<u>(1,462,971)</u>	<u>(1,488,322)</u>
Total operating revenue	2,392,413	2,326,551
<b>Operating Expenses</b>		
Claims (Note 4):		
Paid	1,506,308	767,975
Change in reserves for claims	<u>982,456</u>	<u>(159,561)</u>
Total claims	2,488,764	608,414
Professional fees and other	202,140	165,389
Pool operations	128,148	142,969
Salaries and employee benefits	521,917	452,817
Depreciation	<u>10,027</u>	<u>23,927</u>
Total operating expenses	<u>3,350,996</u>	<u>1,393,516</u>
<b>Operating (Loss) Income</b>	(958,583)	933,035
<b>Nonoperating Income (Expenses)</b>		
Investment earnings	216,520	244,739
Loss on disposal of capital assets	-	(5,422)
Realized and unrealized losses on investments	(171,378)	(81,662)
Distributions to members	<u>(69,507)</u>	<u>(805,083)</u>
Total nonoperating expenses	<u>(24,365)</u>	<u>(647,428)</u>
<b>(Decrease) Increase in Net Position</b>	(982,948)	285,607
<b>Net Position - Beginning of year</b>	<u>5,273,420</u>	<u>4,987,813</u>
<b>Net Position - End of year</b>	<u><b>\$ 4,290,472</b></u>	<u><b>\$ 5,273,420</b></u>

# Ohio Transit Risk Pool - Medina County

## Statement of Cash Flows

	Year Ended November 30	
	2013	2012
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 4,007,167	\$ 4,421,096
Cash paid for claims	(1,506,308)	(767,975)
Cash paid for reinsurance premiums	(1,462,971)	(1,488,322)
Cash paid for administrative and general expenses	(837,940)	(678,227)
Net cash provided by operating activities	199,948	1,486,572
<b>Cash Flows from Investing Activities</b>		
Investment income received	216,520	244,739
Purchase of capital assets	(3,552)	(29,000)
Proceeds from the sale of capital assets	-	9,000
Purchase of investments	(2,016,696)	(3,274,874)
Proceeds from sales and maturities of investments	1,700,000	2,733,316
Net cash used in investing activities	(103,728)	(316,819)
<b>Cash Flows from Financing Activities - Distributions to members</b>		
	(333,601)	(1,262,404)
<b>Net Decrease in Cash and Cash Equivalents</b>	(237,381)	(92,651)
<b>Cash and Cash Equivalents - Beginning of year</b>	881,449	974,100
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 644,068</b>	<b>\$ 881,449</b>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>		
Operating (loss) income	\$ (958,583)	\$ 933,035
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	10,027	23,927
Loss on disposal of capital assets	-	5,422
Decrease (increase) in assets:		
Accounts receivable	(20,976)	68,831
Prepaid expenses	1,895	(5,667)
Increase (decrease) in liabilities:		
Accounts payable	(19,157)	23,086
Premiums paid in advance	-	(281,714)
Unearned contributions	207,673	852,687
Accrued wages and payroll taxes	(3,387)	26,526
Reserves for claims	982,456	(159,561)
Net cash provided by operating activities	<b>\$ 199,948</b>	<b>\$ 1,486,572</b>

There were no noncash transactions in 2013 or 2012.

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

### Note 1 - Nature of Business and Significant Accounting Policies

The Ohio Transit Risk Pool - Medina County (OTRP) was organized on December 31, 1994 as authorized by Section 2744.081 of the Ohio Revised Code. OTRP is an Ohio not-for-profit corporation organized for the public purpose of allowing its Ohio Political Subdivision Transit members to share loss exposures and financial resources through pooling risks, obtaining coverage, providing methods for paying claims, and providing a formalized, jointly administrated self-insurance pool. In addition to the self-insurance pool, OTRP provides risk management programs and other administrative services. The members of OTRP as of November 30, 2013 include the following Ohio Political Subdivision Transits: Allen County Regional Transit Authority (ACRTA), Laketran, Metro Regional Transit Authority (Metro RTA), Portage Area Regional Transportation Authority (PARTA), Stark Area Regional Transit Authority (SARTA), Western Reserve Transit Authority (WRTA), Butler County Regional Transit Authority (BCRTA), South East Area Transit (SEAT), Delaware County Transit Board (DATA), and Toledo Area Regional Transit Authority (TARTA). On December 1, 2009, OTRP amended its by-laws and no longer offers an associate membership; rather, it offers a voting or nonvoting membership. OTRP currently does not have any nonvoting members. As of fiscal year end 2013, all members participate in all of the OTRP programs.

OTRP provides commercial property (including flood and earthquake coverage), auto physical damage, boiler and machinery, crime, auto liability, general liability, employee practices liability, employee benefits liability, and public officials liability coverage to its members through self-retention and the group purchase of catastrophic coverage and bonds from qualified reinsurers or excess insurers.

OTRP is comprised exclusively of Ohio Political Subdivision Regional Transit Authorities, County Transit Board, and other Ohio County Transit operations. Although its exposure is concentrated to a single geographical area, such exposure is reduced through the group purchase of reinsurance and/or excess insurance.

Member contributions are recognized on the accrual basis and are recorded as revenue in the period earned. Member contributions received in advance are recorded as unearned member contributions. Member contributions are estimated annually to produce a sum of money adequate to fund reserves for claims (at between 75 and 80 percent actuarial confidence level) and unallocated loss adjustment expenses, to purchase reinsurance and/or excess insurance, and to fund the administrative expenses of OTRP. Contributions for individual members are based on a formula which assesses the proportional risk that each member brings to OTRP for each loss year.

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

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

In addition to the member contributions, OTRP members will contribute to the Shock Loss Fund (the "SLF") based on an amount determined each year to be equal to their annual contribution. If a member's balance in their SLF drops below their annual contributions, the member shall fund up to 15 percent of the annual contribution until the balance of the SLF is equal to the current year's contribution. Once a member has an equal balance to the annual contribution, no additional funds will be required. During the year ended November 30, 2012, the board approved a policy allowing members to fund the SLF in an amount up to 300 percent of the required contribution.

The accompanying financial statements are presented using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America. A budget is not legally required; however, the OTRP board of trustees adopts an administrative budget annually.

The accounting policies of OTRP conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The accompanying financial statements are presented using the accrual method of accounting.

OTRP distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with OTRP's principal ongoing operations. The principal operating revenue relates to members' contributions. Operating expenses include the cost of services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. Net investment earnings and any gains or losses that result from the sale of capital assets are reported as nonoperating income.

**Cash and Cash Equivalents** - OTRP considers all cash and cash equivalents held by financial institutions with original maturities of three months or less or held on hand to be cash and cash equivalents. All other short-term and long-term investments are excluded from cash and cash equivalents.

**Investments** - Investments consist of U.S. Treasury securities, U.S. agencies and pass-throughs, long-term certificates of deposit, state and local municipal bonds, and corporate bonds which are stated at fair value. Investment income, including changes in the fair value of investments, is recognized as nonoperating revenue in the statement of revenue, expenses, and changes in net position.

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

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

The board of trustees has established investment policies with the fundamental objectives of preserving capital in the investment portfolio, remaining sufficiently liquid to enable OTRP to meet its cash flow requirements, and attaining a market rate of return on the investments' consistent prudent investment practices and within the risk limitations provided for in OTRP's cash and investment policy.

**Accounts Receivable** - Receivables from members are stated at net invoice amounts. Receivables for deductibles are based on the applicable treaty. Collectibility of balances is reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. Management has determined all amounts are collectible and no allowance for doubtful accounts is required.

**Capital Assets** - Capital assets, which consist of automobiles, computer equipment, and software, are carried at cost, less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful lives of depreciable assets. Costs of maintenance and repairs are charged to expense when incurred.

**Premiums Received in Advance** - Premiums received in advance represent premiums received in the current year for policies remaining effective into the next fiscal year.

**Unearned Contributions** - Unearned contributions represent contributions from members in excess of the required contribution to the SLF that will be recognized as revenue over the periods for which coverage is expected to be provided.

**Reserves for Claims** - Reserves for claims represent OTRP's case reserves for incurred claims, plus an estimate of provisions for loss development and claims incurred but not reported (IBNR) and allocated and unallocated loss adjustment expenses. Reserves are net of actual and anticipated member deductibles as well as salvage and subrogation. No discount factor is applied to any case reserve or IBNR. OTRP claims staff is responsible for the adjustment of all new and open claims and establishment of claims reserves, except for TARTA, which reserves its claims individually up to its deductible of \$250,000. The value of incurred but not reported claims and loss development is calculated by OTRP's actuary, Pinnacle Actuarial Resources, Inc. Management believes that the estimate of the claims reserves liability is reasonable and supported by valid actuarial calculations; however, actual incurred losses may vary from the estimated amount included in the accompanying financial statements. Should OTRP's assets not be sufficient to meet future claim obligations, OTRP's board has the ability to assess the members for supplemental contributions. At this time, no special assessment is required.

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

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

**Net Position** - Net position represents the difference between assets and liabilities in the statement of net position. Net position is reported as unrestricted, invested in capital assets, or as restricted when there are legal limitations imposed on their use by external restrictions by creditors, grantors, laws, or regulations of other governments. At the discretion of the board of trustees, net position may be returned to members in the form of dividends. In 2013 and 2012, the board declared dividends totaling \$69,507 and \$805,083, respectively.

**Claims Deductible** - The individual members are responsible for their deductibles. For commercial property coverage, each individual member has a \$1,000 deductible per occurrence. For auto physical damage, there is a three-tier deductible structure: \$1,000 for those members with 100 vehicles or less; \$5,000 for those with 101-150 vehicles; and \$25,000 for those members with greater than 150 vehicles. During the 2013 loss year, for auto physical damage, TARTA, Metro RTA, and Laketran carried a \$25,000 deductible; SARTA carried a \$5,000 deductible; and all other members carried a \$1,000 deductible. Beginning in the 2008 loss year, for liability claims, OTRP members were provided with the option of a flexible deductible with a corresponding loss fund credit. During the 2013 loss year, Metro RTA carried a \$5,000 per-occurrence deductible for liability, TARTA carried a \$250,000 deductible per occurrence for liability, and all other members carried a \$1,000 deductible for liability.

**Allocated and Unallocated Claims Adjustment Expenses** - Claims adjustment expenses include all adjustment costs to be incurred in connection with the settlement of unpaid claims. Allocated claims adjustment expenses are those that can be associated directly with specific claims paid or in the process of settlement, such as legal defense fees. Unallocated claims adjustment expenses are costs that cannot be associated with specific claims but are generally related to claims paid or in the process of settlement.

**Risk Management** - OTRP is exposed to various risks of loss related to property loss, torts, and errors and omissions. OTRP has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

**Pool Termination** - In the event of the termination of OTRP, all members of OTRP, past and present, are obligated for any necessary supplemental contribution attributable to years during which they were members. After all claims and related expenses have been properly paid or reserves established for the payment of any such claims, any surplus member funds shall be distributed to members, past and present, in proportion to their interest in such surplus member funds.

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

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

**Tax Status** - Under Section 115 of the Internal Revenue Code, premiums and investment income with respect to member contributions and investment income are excluded from taxable income of OTRP. Management believes that OTRP is designed and currently being operated in compliance with applicable requirements of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been included in the financial statements.

**Contribution Deficiency** - Anticipated investment income is considered in determining if a contribution deficiency exists.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates exist relating to reserves for claims as described in Note 4.

**Accounting and Reporting Change** - During the year, OTRP adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, the term "net assets" is now referred to as "net position." In addition, the pronouncement created the categories of deferred inflows of resources and deferred outflows of resources; however, OTRP has no items that meet those definitions.

### **Note 2 - Deposits and Investments**

OTRP has established an investment policy that was originally adopted by OTRP's board of trustees on December 24, 1994 and was amended on September 21, 2012. The policy is ratified annually and is updated as needed. OTRP may invest in any type of security allowed for by state or federal statute. Approved investments may include U.S. dollar denominated debt securities issued by the U.S. government and its agencies, interest-bearing certificates of deposit, STAR-Ohio or other successor investment pools operated or managed by the Treasurer of the State of Ohio, money market funds, state and local municipal bonds, and corporate bonds. Money market funds must be invested in U.S. dollar denominated debt securities issued by the U.S. government and its agencies.

OTRP's investments are held in OTRP's name. OTRP has designated JPMorgan Chase Bank for deposit of its cash and investments. AMBS Investment Counsel acts as the investment portfolio manager.

# Ohio Transit Risk Pool - Medina County

## Notes to Financial Statements November 30, 2013 and 2012

### Note 2 - Deposits and Investments (Continued)

OTRP's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Deposits

Cash and cash equivalents include operating and claims checking accounts. Cash and cash equivalents totaled \$644,068 and \$881,449 at November 30, 2013 and 2012, respectively. At November 30, 2013 and 2012, long-term certificates of deposit totaling \$781,117 and \$503,085, respectively, are included in investments.

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, OTRP's deposits may not be returned to it. OTRP does not have a specific deposit policy for custodial credit risk of bank deposits; however, OTRP believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, OTRP evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. At November 30, 2013, OTRP had \$320,146 in bank deposits that were uninsured and uncollateralized.

At November 30, 2013 and 2012, OTRP had the following investments reported at fair value:

	Fair Value	
	2013	2012
U.S. Treasury securities	\$ 551,907	\$ 456,832
U.S. agencies and pass-throughs	253,388	256,225
State and local municipal bonds	938,348	959,431
Long-term certificates of deposit	781,117	503,085
Corporate bonds	5,157,910	5,361,779
Total investments	<u>\$ 7,682,670</u>	<u>\$ 7,537,352</u>

# Ohio Transit Risk Pool - Medina County

## Notes to Financial Statements November 30, 2013 and 2012

### Note 2 - Deposits and Investments (Continued)

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the custodian, OTRP will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of November 30, 2013 and 2012, all of OTRP's investments were held by the investment's counterparty.

**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. OTRP's investment 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 OTRP's cash requirements.

At November 30, 2013 and 2012, OTRP had the following investments subject to interest rate risk:

Investment Type	2013		2012	
	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 551,907	2.14	\$ 456,832	1.60
U.S. agencies and pass-throughs	253,388	3.45	256,225	4.45
State and local municipal bonds	938,348	2.82	959,431	3.82
Corporate bonds	5,157,910	3.25	5,361,779	2.56
Total fair value	<u>\$ 6,901,553</u>		<u>\$7,034,267</u>	
Portfolio weighted average maturity		<u>3.11</u>		<u>2.74</u>

# Ohio Transit Risk Pool - Medina County

## Notes to Financial Statements November 30, 2013 and 2012

### Note 2 - Deposits and Investments (Continued)

**Credit Risk** - At November 30, 2013 and 2012, the credit quality ratings of debt securities by type, without regard to investment type, are as follows:

Rating	Fair Value	
	2013	2012
U.S. agencies and pass-throughs -		
AAA	\$ 253,388	\$ 256,225
State and local municipal bonds:		
AA	\$ 573,535	\$ 586,142
AA-	208,154	212,364
A+	156,659	160,925
Total	\$ 938,348	\$ 959,431
Corporate bonds:		
AAA	\$ 249,815	\$ 374,381
AA+	833,746	609,975
AA	1,133,269	744,490
AA-	612,053	1,023,465
A+	2,219,001	2,348,923
A	110,026	260,545
Total	\$ 5,157,910	\$ 5,361,779

The rating organization used by OTRP to rate its investments is Standard & Poor's.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. OTRP's investment policy does not place a limit on the amount it may invest in any single issuer. Excluding investments issued or guaranteed by the U.S. government, there were no investments that individually exceed 5 percent of OTRP's total investments at November 30, 2013 and 2012.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in a currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. OTRP's investment policy does not address foreign currency risk. OTRP has no investments subject to foreign currency risk.

# Ohio Transit Risk Pool - Medina County

## Notes to Financial Statements November 30, 2013 and 2012

### Note 3 - Capital Assets

Cost of capital assets and depreciable lives are summarized as follows:

	2013	2012	Depreciable Life - Years
Automobiles	\$ 28,967	\$ 28,967	5
Computer equipment and software	45,912	105,849	3-10
Total cost	74,879	134,816	
Less accumulated depreciation	49,489	102,951	
Net carrying amount	<u>\$ 25,390</u>	<u>\$ 31,865</u>	

Total depreciation expense was \$10,027 and \$23,927 for November 30, 2013 and 2012, respectively.

### Note 4 - Reserves for Claims

OTRP establishes reserves for claims and claims adjustment expenses for both reported and unreported insured events. A summary of changes in the reserves for claims and claims adjustment expenses for OTRP for the years ended November 30, 2013, 2012, and 2011 is as follows:

	2013	2012	2011
Reserve for claims and claims adjustment expenses - Beginning of fiscal year	\$ 1,177,201	\$ 1,336,762	\$ 1,349,996
Incurred claims and claims adjustment expenses:			
Provision for insured events of the current fiscal year	2,167,716	1,204,024	1,247,281
Change in provision for insured events of prior fiscal years	<u>321,048</u>	<u>(595,610)</u>	<u>(685,694)</u>
Total incurred claims and claims adjustment expenses	2,488,764	608,414	561,587
Payments:			
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	588,443	412,826	287,117
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	<u>917,865</u>	<u>355,149</u>	<u>287,704</u>
Total payments	<u>1,506,308</u>	<u>767,975</u>	<u>574,821</u>
Reserve for claims and claims adjustment expenses - End of fiscal year	<u>\$ 2,159,657</u>	<u>\$ 1,177,201</u>	<u>\$ 1,336,762</u>

# Ohio Transit Risk Pool - Medina County

## Notes to Financial Statements November 30, 2013 and 2012

### Note 4 - Reserves for Claims (Continued)

The provision for incurred prior year claims changed due primarily to claims settling for amounts different than originally estimated.

### Note 5 - Self-insured Retention

OTRP retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by excess insurance and reinsurance contracts as described in Note 6. For 2013 and 2012, OTRP's per-occurrence retention for auto physical damage was \$250,000 and the per-occurrence retention for commercial property damage was \$100,000. OTRP's per-occurrence retention for liability claims (including auto liability, public officials' liability, and general liability) was \$1,000,000. For each per-occurrence claim within OTRP's self-insured retention, the member is charged the indicated deductible for the coverage period.

### Note 6 - Reinsurance Coverage

OTRP maintains reinsurance and/or excess insurance contracts with qualified reinsurers and excess insurance carriers, which provide various limits of coverage over OTRP's self-insured retentions. Under OTRP's bylaws, the board of trustees annually determines the types of reinsurance and/or excess insurance contracts to purchase and the appropriate limits. For the year ended November 30, 2013, OTRP purchased the following types of reinsurance and/or excess insurance contracts in excess of self-insured retentions described above:

Commercial property	\$ 200,000,000
Auto physical damage	50,000,000
Auto physical damage over the road	2,000,000
Boiler	50,000,000
Flood (various zones excluded)	25,000,000
Earthquake	25,000,000
General liability	10,000,000
Automobile liability (including transit)	10,000,000
Public official liability	1,000,000
Employee dishonesty - Crime	4,000,000

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

### Note 6 - Reinsurance Coverage (Continued)

Since 2005, OTRP has participated in Transit Reinsurance Limited, Inc. (Transit Re), a captive reinsurer formed by Public Transit in America to stabilize long-term self-insurance and reinsurance costs. OTRP purchases \$4 million in excess of \$1 million in liability coverage with a 10 percent quota share. Additionally, OTRP participates in the shared quota share within the captive's long-range strategic plan of self-insured growth based on capital earned. All reinsurers within Transit Re meet OTRP's underwriting standards for rating and performance.

In the event that a single loss or a series of losses should exceed the amount of coverage provided by the self-insured retention, reinsurance, and/or excess insurance contracts, and including any supplemental payments for which members are obligated in excess of the stated limits, the payment of any remaining loss is the obligation of the individual member against which the claim was made.

In the unlikely event that any of the reinsurers or excess reinsurers fail to meet their obligations under the reinsurance and/or excess insurance contracts, OTRP and its members would be responsible for such defaulted amounts.

All reinsurers/excess insurers are believed by management to be solvent and maintain investment quality financial ratings by AM Best, which meet or exceed OTRP's policy requirements.

### Note 7 - Members' Payable

When all known claims and expense liabilities within an individual loss year have been concluded, and the loss year has been in existence for at least four years, the OTRP board of trustees, under board policy, may refund any remaining surplus funds within that loss year as a distribution. Distributions shall be returned promptly as directed by the board of trustees into a unique general reserve fund (the "GRF") created for each OTRP member. Members may use their funds on-account within the GRF to pay for required contributions for any given year at any time. Once a year, members may remove any balance from their GRF as a cash distribution. The members' payable at November 30, 2013 and 2012 totaled \$857,329 and \$1,121,423, respectively.

### Note 8 - Line of Credit

OTRP has a secured line of credit with JPMorgan Chase Bank with a maximum availability of \$1,000,000, expiring September 23, 2014. Borrowings under the line of credit bear interest at 2.61 percentage points over LIBOR (an effective rate of 2.7745 percent at November 30, 2013). OTRP had no amounts outstanding under the line of credit at November 30, 2013 or 2012. The line of credit is secured by substantially all business assets.

# Ohio Transit Risk Pool - Medina County

## Notes to Financial Statements November 30, 2013 and 2012

### Note 9 - Letter of Credit

During November 2004, the OTRP board of trustees authorized OTRP's participation in a joint venture, Transit Re, a captive insurance company domiciled in Vermont, designed to ensure the constant availability of affordable liability reinsurance protection for its participant/owner transit pools. In order to capitalize Transit Re, participant pools agreed to contribute \$175,000 each either by cash contributions or by irrevocable letter of credit to the Vermont Bureau of Insurance, Securities and Health Care Administration (VT BISHCA), at which time the captive incorporated. OTRP made its initial capital contribution to Transit Re by irrevocable letter of credit from Fifth Third Bank, secured by substantially all business assets. During November 2005, OTRP (along with all other Transit Re participants) authorized an increase in its capital contribution to \$300,000 per captive member for the purpose of launching Transit Re's operations, effective December 1, 2005. OTRP made its capital contribution by increasing its letter of credit from Fifth Third Bank from \$175,000 to \$300,000, secured by substantially all business assets, on behalf of VT BISHCA. During 2009, the existing letter of credit with Fifth Third Bank expired and a new instrument was executed with JPMorgan Chase Bank in the amount of \$300,000. During August 2013, the letter was amended to extend the original date of expiration to October 11, 2014. At November 30, 2013 and 2012, VT BISHCA had not drawn on the letter of credit and no obligations are outstanding.

### Note 10 - Operating Lease

OTRP leases office space under an operating lease expiring on September 1, 2015. Total rent expense under this lease was \$26,789 and \$26,264 for the years ended November 30, 2013 and 2012, respectively.

Future minimum annual commitments under this operating lease are as follows:

Years Ending November 30	Amount
2014	\$ 26,789
2015	20,092
Total	<u>\$ 46,881</u>

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

### Note 11 - Employee Benefit Plans

OTRP contributes to the Ohio Public Employees' Retirement System (OPERS). OPERS administers three separate pension plans: the traditional pension plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) - a defined contribution plan; and the combined plan (CO) - a cost-sharing, multiple-employer, defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and death benefits to qualifying members of both the traditional and the combined plans; however, healthcare benefits are not statutorily guaranteed. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees.

Total required employer contributions made were \$48,938 in 2013 and \$44,480 in 2012. Employer contributions represented 14.0 percent of covered payroll in 2013 and 2012. Employee contributions were \$37,000 in 2013 and \$32,200 in 2012, representing 10.0 percent of covered payroll in 2013 and 2012, and were consistent across all three plans (TP, MD, and CO) and are actuarially determined.

All employees of OTRP are covered under OPERS. Payroll for employees covered by OPERS for the years ended November 30, 2013 and 2012 was approximately \$370,000 and \$324,000, respectively.

In addition to the pension benefits described above, OPERS provides postretirement healthcare coverage to members as specified under the OPERS guidelines. The Ohio Revised Code provides statutory authority for employer contributions.

The portion of employer contributions allocated to health care for members in the traditional plan was 1.0 and 4.0 percent for 2013 and 2012, respectively.

# Ohio Transit Risk Pool - Medina County

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## Notes to Financial Statements November 30, 2013 and 2012

### **Note 12 - Upcoming Accounting Pronouncements**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for OTRP's 2014-2015 fiscal year. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). OTRP is currently evaluating the impact this standard will have on the financial statements when adopted.

## **Required Supplemental Information**

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# Ohio Transit Risk Pool - Medina County

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## Required Supplemental Information Schedule of Claims Information for All Lines of Coverage

The table on the following page illustrates how OTRP's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by OTRP as of the end of each of the last 10 years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs, including overhead and claims expense not allocable to individual claims.
- (3) This line shows the gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

# Ohio Transit Risk Pool - Medina County

## Required Supplemental Information Schedule of Claims Information for All Lines of Coverage (Continued)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>(1) Required Premiums and Investment Revenue:</b>										
Earned	\$ 5,322,770	\$ 5,584,890	\$ 5,340,851	\$ 3,755,581	\$ 3,280,526	\$ 3,435,084	\$ 3,998,316	\$ 3,632,230	\$ 3,944,369	\$ 3,865,612
Ceded	1,682,708	1,601,732	1,875,020	1,363,138	1,858,024	1,783,817	1,745,458	1,342,127	1,488,322	1,462,971
Net earned	3,640,062	3,983,158	3,465,831	2,392,443	1,422,502	1,651,267	2,252,858	2,290,103	2,456,047	2,402,641
<b>(2) Unallocated Expenses</b>	585,165	712,225	772,512	670,451	834,463	757,876	743,149	803,152	785,102	862,232
<b>(3) Estimated Claims and Expenses - End of policy year:</b>										
Incurred	2,499,486	3,160,092	2,887,651	1,938,124	716,677	1,021,592	860,745	1,247,281	1,204,024	2,167,716
Ceded	-	-	75,000	-	-	10,000	-	-	-	-
Net incurred	2,499,486	3,160,092	2,812,651	1,938,124	716,677	1,011,592	860,745	1,247,281	1,204,024	2,167,716
<b>(4) Net Paid (Cumulative) as of</b>										
End of policy year	107,316	165,116	639,957	97,779	108,319	350,020	124,994	287,117	412,826	588,443
One year later	294,400	438,611	767,757	370,271	156,054	501,544	240,902	501,161	1,091,436	-
Two years later	388,704	763,880	1,758,075	721,330	318,242	552,938	278,524	660,798	-	-
Three years later	1,047,282	929,659	1,832,759	806,760	381,776	634,709	343,627	-	-	-
Four years later	1,047,282	932,962	2,131,313	807,530	439,670	649,144	-	-	-	-
Five years later	1,070,827	929,659	2,140,340	807,521	441,389	-	-	-	-	-
Six years later	1,101,099	931,336	2,142,063	807,521	-	-	-	-	-	-
Seven years later	1,101,786	931,337	2,154,244	-	-	-	-	-	-	-
Eight years later	1,101,786	931,337	-	-	-	-	-	-	-	-
Nine years later	1,101,786	-	-	-	-	-	-	-	-	-
<b>(5) Re-estimated Ceded Claims and Expenses</b>	-	-	50,000	-	-	6,900	-	-	-	-
<b>(6) Re-estimated Incurred Claims and Expenses:</b>										
End of policy year	2,499,486	3,160,092	2,812,651	1,938,124	716,677	1,011,592	860,745	1,247,281	1,204,024	2,167,716
One year later	1,929,671	2,581,480	2,401,781	1,801,015	533,215	773,806	450,340	768,635	1,508,914	-
Two years later	1,539,748	1,412,820	2,361,415	1,002,020	477,865	643,609	376,839	813,024	-	-
Three years later	1,099,842	1,015,332	2,029,341	878,276	457,800	640,544	345,452	-	-	-
Four years later	1,216,507	987,411	2,194,134	807,521	442,800	649,144	-	-	-	-
Five years later	1,216,507	979,051	2,140,340	807,521	450,244	-	-	-	-	-
Six years later	1,216,507	931,336	2,153,312	807,521	-	-	-	-	-	-
Seven years later	1,101,786	931,337	2,154,244	-	-	-	-	-	-	-
Eight years later	1,101,786	931,337	-	-	-	-	-	-	-	-
Nine years later	1,101,786	-	-	-	-	-	-	-	-	-
<b>(7) Change in Estimated Incurred Claims and Expenses from End of Policy Year</b>	(1,397,700)	(2,228,755)	(658,407)	(1,130,603)	(266,433)	(362,448)	(515,293)	(434,257)	304,890	-

# Ohio Transit Risk Pool - Medina County

## Required Supplemental Information Statement of Reconciliation of Net Reserves for Claims and Claims Adjustment Expenses by Type of Contract

	Fiscal and Policy Years Ended November 30					
	2013			2012		
	Casualty	Property	Total	Casualty	Property	Total
Reserves for claims and claims adjustment expenses - Beginning of fiscal year	\$ 780,165	\$ 397,036	\$ 1,177,201	\$ 935,733	\$ 401,029	\$ 1,336,762
Incurred claims and claims adjustment expenses:						
Provision for insured events of the current fiscal year	2,153,836	13,880	2,167,716	1,087,739	116,285	1,204,024
Change in provision for insured events of prior fiscal years	<u>320,925</u>	<u>123</u>	<u>321,048</u>	<u>(601,007)</u>	<u>5,397</u>	<u>(595,610)</u>
Total incurred claims and claims adjustment expenses	2,474,761	14,003	2,488,764	486,732	121,682	608,414
Payments:						
Claims and claims adjustment expenses attributable to insured events of the current year	484,268	104,175	588,443	307,665	105,161	412,826
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	<u>910,767</u>	<u>7,098</u>	<u>917,865</u>	<u>334,635</u>	<u>20,514</u>	<u>355,149</u>
Total payments	<u>1,395,035</u>	<u>111,273</u>	<u>1,506,308</u>	<u>642,300</u>	<u>125,675</u>	<u>767,975</u>
Reserve for claims and claims adjustment expenses - End of year	<u><b>\$ 1,859,891</b></u>	<u><b>\$ 299,766</b></u>	<u><b>\$ 2,159,657</b></u>	<u><b>\$ 780,165</b></u>	<u><b>\$ 397,036</b></u>	<u><b>\$ 1,177,201</b></u>

**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***

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

Independent Auditor's Report

To Management and the Board of Trustees  
Ohio Transit Risk Pool - Medina County

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 Ohio Transit Risk Pool - Medina County (OTRP), which comprise the statement of net position as of November 30, 2013 and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated May 29, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Ohio Transit Risk Pool - Medina County'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OTRP's internal control. Accordingly, we do not express an opinion on the effectiveness of OTRP's internal control.

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 plan'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and the Board of Trustees  
Ohio Transit Risk Pool - Medina County

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ohio Transit Risk Pool - Medina County'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 OTRP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

May 29, 2014



# Dave Yost • Auditor of State

**OHIO TRANSIT RISK POOL**

**MEDINA 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  
JULY 01, 2014**