

MIDWEST POOL RISK MANAGEMENT AGENCY

VAN WERT COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

(AUDITED)

FOR THE YEAR ENDED

NOVEMBER 30, 2016

DON REGULA, TREASURER



Dave Yost • Auditor of State

Board of Trustees
Midwest Pool Risk Management Agency, Inc.
209 South Blackoff
Wapakoneta, Ohio 45895

We have reviewed the *Independent Auditor's Report* of the Midwest Pool Risk Management Agency, Inc., Van Wert County, prepared by Julian & Grube, Inc., for the audit period December 1, 2015 through November 30, 2016. 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 Midwest Pool Risk Management Agency, Inc. is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

September 25, 2017

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**MIDWEST POOL RISK MANAGEMENT AGENCY
VAN WERT COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Midwest Pool Risk Management Agency
Van Wert County
209 South Blackhoff
Wapakoneta, Ohio 45895

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Midwest Pool Risk Management Agency, Van Wert County, Ohio, as of and for the fiscal year ended November 30, 2016, and the related notes to the financial statements, which collectively comprise the Midwest Pool Risk Management Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Midwest Pool Risk Management Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Midwest Pool Risk Management Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Midwest Pool Risk Management Agency, Van Wert County, Ohio, as of November 30, 2016, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 of the financial statements, during the fiscal year ended November 30, 2016, the Midwest Pool Risk Management Agency converted its financial reporting framework from the cash basis of accounting to accounting principles generally accepted in the United States of America and restated its net position at December 1, 2015. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and *Loss Development Information*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2017, on our consideration of the Midwest Pool Risk Management Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 Midwest Pool Risk Management Agency's internal control over financial reporting and compliance.



Julian & Grube, Inc.
June 9, 2017

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

The discussion and analysis of the Midwest Pool Risk Management Agency, Inc.'s (the "Agency") financial performance provides an overall review of the Agency's financial activities for the fiscal year ended November 30, 2016. The intent of this discussion and analysis is to look at the Agency'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 Agency's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In 2016, the Agency prepared, for the first time, financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Restatements necessary to implement this change in accounting principle are presented in Note 3.A. to the basic financial statements.
- For 2016, the total net position of the Agency increased \$231,782, which represents a 36.30% increase from November 30, 2015 (as restated - see Note 3.A).
- The Agency has hired an independent actuary, Financial Risk Analysts, LLC, to determine the loss and loss adjustment expense reserves. Based upon the actuary's report, the loss and loss adjustment expense reserves was \$458,899 at November 30, 2016.
- The Agency had operating revenues of \$1,726,751 and operating expenses of \$1,575,195 for fiscal year 2016. The Agency had \$3,687 in nonoperating revenue, net which includes \$987 in interest revenue, \$107,192 in dividends from the Public Entity Risk Consortium (PERC) and \$104,492 in PERC dividends distributed to its members. Operating income and the change in net position for the fiscal year were \$151,556 and \$155,243, respectively.

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 Agency's financial activities. The *statement of net position* and the *statement of revenues, expenses, and changes in net position* provide information about the activities of the Agency, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about the Agency's short-term cash flows needs to support operations.

Reporting the Agency 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 the Agency perform financially during fiscal year 2016?" 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 considers all current year's revenues and expenses regardless of when cash is received or paid.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016**

The statement of net position and the statement of revenues, expenses and changes in net position report the Agency's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Agency as a whole, the *financial position* of the Agency has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Agency'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 Agency's finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

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 11-16 of this report.

Required Supplementary Information

Ten years of loss development information can be found on pages 19-21 of this report.

Net Position and Changes in Net Position

The table below provides a summary of the Agency's net position for fiscal year 2016. This is the Agency's first year of reporting a statement of net position using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

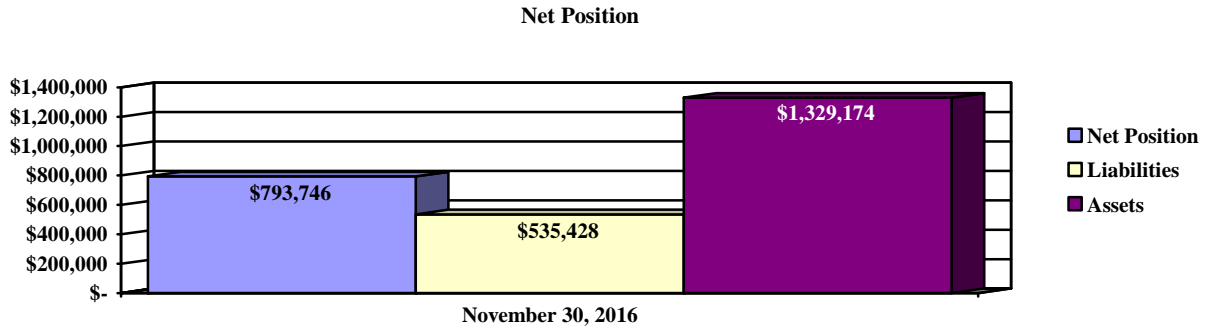
	Net Position
	<u>2016</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 1,040,143
Investments	181,687
Receivables:	
Accounts	152
Due from PERC	<u>107,192</u>
Total assets	<u>1,329,174</u>
<u>Liabilities:</u>	
Due to members	76,539
Loss and loss adjustment expense reserves	<u>458,889</u>
Total liabilities	<u>535,428</u>
<u>Net Position:</u>	
Unrestricted	<u>\$ 793,746</u>

The Agency maintained the approximate same level of investments in 2016 as in 2015 while cash and cash equivalents increased primarily due to fiscal 2016 operations. The Agency's investments reported on the statement of net position consist of nonnegotiable certificates of deposit. Receivables consist primarily of the dividend due from PERC for fiscal year 2016. This dividend will be received by the Agency in fiscal year 2017. The loss and loss adjustment expense reserve at fiscal year-end is provided by Financial Risk Analysts, LLC, the Agency's independent actuary. Net position at November 30, 2016 was \$793,746, all of which is considered unrestricted.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016**

The chart below shows a breakdown of the Agency’s assets, liabilities and net position for 2016:



The table below shows the changes in net position for fiscal year 2016. This is the Agency’s first year for reporting a statement of changes in net position using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

Change in Net Position

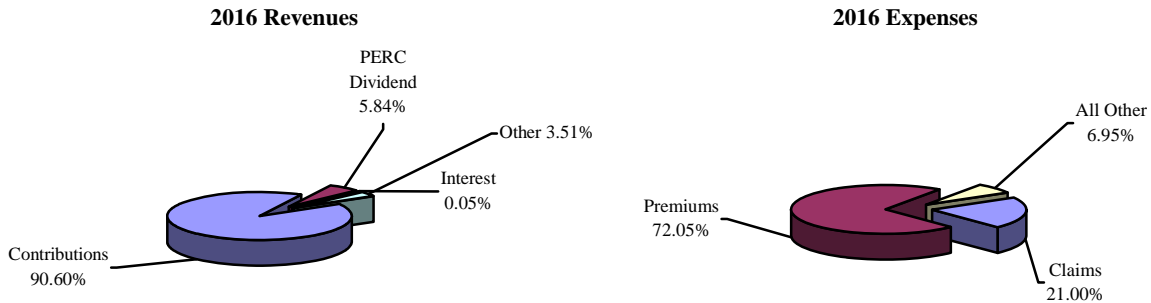
	2016
<u>Operating revenues:</u>	
Member contributions	\$ 1,662,431
Other	64,320
Total operating revenues	1,726,751
<u>Operating expenses:</u>	
Loss and loss adjustment expenses, net	352,783
Insurance premiums:	
Public Entity Risk Consortium	1,139,261
Other	71,021
Professional fees	9,564
Miscellaneous expenses	2,566
Total operating expenses	1,575,195
Operating income	151,556
<u>Non-operating revenues (expense):</u>	
Investment income	987
Dividend from PERC	107,192
PERC dividend distributed to members	(104,492)
Total non-operating revenues (expense)	3,687
Change in net position	155,243
Net position, December 1 (restated)	638,503
Net position, November 30	\$ 793,746

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016**

Net position was primarily affected by the fluctuations in the estimated loss and loss adjustment expenses, net and in insurance premiums to PERC. These expenses represent 22.40% and 72.33%, respectively, of total expenses. Fluctuations in these expenses will result from claims activity and insurance costs established by PERC. Overall, net position at November increased by \$155,243 from the prior year (as restated – see Note 3.A) as member premiums were sufficient to support claims and administrative expenses during the fiscal year.

The chart below reflects the percentage of the revenues and expenses in fiscal year 2016:



Capital Assets and Debt Administration

At November 30, 2016, the Agency had no capital assets or outstanding debt obligations.

Current Financial Related Activities

The Agency is committed to providing the advantages of obtaining insurances and to providing a formalized, jointly administered self-insurance pool to its members. The Agency also provides risk management services, loss prevention programs and other educational materials to its members. The Agency is committed to protecting the financial interests of its members and will continue to monitor claims activity and insurance costs to best meet the needs of its members.

Contacting the Agency’s Financial Management

This financial report is designed to provide interested users and our membership with a general overview of the Agency’s finances and to show the Agency’s accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Don Regula, Treasurer, Auglaize County Commissioner’s Office, 209 S. Blackhoof Street, Room 201, Wapakoneta, Ohio 45895 or by calling (419) 739-6710.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

**STATEMENT OF NET POSITION
NOVEMBER 30, 2016**

Assets:

Current assets:

Cash and cash equivalents	\$ 1,040,143
Investments	181,687
Receivables:	
Accounts	152
Due from Public Entity Risk Consortium.	<u>107,192</u>
Total assets	<u>1,329,174</u>

Liabilities:

Current liabilities:

Due to members	76,539
Loss and loss adjustment expense reserves (see Note 6).	<u>458,889</u>
Total liabilities	<u>535,428</u>

Net position:

Unrestricted.	<u><u>\$ 793,746</u></u>
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THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

Operating revenues:	
Member contributions	\$ 1,662,431
Other	64,320
	1,726,751
Operating expenses:	
Loss and loss adjustment expenses, net (see Note 7)	352,783
Insurance premiums:	
Public Entity Risk Consortium	1,139,261
Other	71,021
Professional fees.	9,564
Miscellaneous expenses	2,566
	1,575,195
Total operating expenses.	1,575,195
Operating income.	151,556
Non-operating revenues (expense):	
Investment income	987
Dividend from Public Entity Risk Consortium.	107,192
Public Entity Risk Consortium dividend distributed to members	(104,492)
	3,687
Total non-operating revenues (expense)	3,687
Change in net position.	155,243
Net position, December 1 (restated)	638,503
Net position, November 30	\$ 793,746

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

Cash flows from operating activities:	
Cash received from member contributions	\$ 1,738,970
Cash received from other operations	64,320
Cash payments for covered losses	(396,328)
Cash payments for Public Entity Risk Consortium premiums	(1,139,261)
Cash payments for other premiums	(71,021)
Cash payments for professional services	(9,564)
Cash payments for miscellaneous expenses	(2,718)
	184,398
 Cash flows from noncapital financing activities:	
Dividend received from Public Entity Risk Consortium	104,492
Public Entity Risk Consortium dividend distributed to members	(104,492)
	-
 Cash flows from investing activities:	
Interest received	508
	508
Net increase in cash and cash equivalents	184,906
Cash and cash equivalents, December 1	855,237
Cash and cash equivalents, November 30	\$ 1,040,143
	\$ 1,040,143
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 151,556
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
(Increase) in accounts receivable	(152)
Increase in due to members	76,539
(Decrease) in loss and loss adjustment expense reserves	(43,545)
	184,398
Net cash provided by operating activities	\$ 184,398

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Midwest Pool Risk Management Agency, Inc., Van Wert County, Ohio (the “Agency”) is legally separate entity organized under Ohio Revised Code (ORC) 1702.01. The Agency was formed pursuant to Chapter 2744.081 of the ORC for the public purpose of enabling the subscribing political subdivisions to obtain insurance and to provide a formalized, jointly administered self-insurance pool for its members. The Agency provides a cooperative program for the provisions and administration of a self-insurance pool to provide coverage for automobile liability, general liability, crime and property, automobile physical damage and public official’s liability in accordance with the Agency’s amended and restated agreement. In addition to the self-insurance pool, the Agency provides risk management services, loss prevention programs and other educational materials. The members of the Agency include the following counties within the State of Ohio: Auglaize, Hancock, Mercer, Shelby and Van Wert.

The Assembly is the legislative body (the “Board of Trustees”) of the Agency consisting of each member’s board of county commissioners. Officers of the Assembly are elected from the Board of Trustees for a one eleven-month term. The Board of Trustees acts as the managerial body of the Agency.

Member premiums are calculated to annually produce a sufficient sum of money within the self-insurance pool adequate to fund administrative expenses of the Agency and to create adequate reserves for claims and allocated loss adjustment expenses.

Under the terms of membership, should annual member premiums not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative expenses, the Board of Trustees can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Agency 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.

For claims, the Agency pays the first \$100,000 of loss per occurrence (the “Self-insured retention”). Amounts over the Agency deductible and the self-insured retention amount of \$100,000, are payable by a commercial insurance policy subject to scheduled limits at each location per a statement of values on file with the company.

Effective December 1, 2005, the Agency joined a Public Entity Risk Consortium (PERC) (excess pool) which consists of seven (7) pool risk groups including the Agency. Under this program, the Agency continues as is, including the \$100,000 self-insurance retention. However, the super pool self-insures amounts in excess of its members’ individual self-insured retention as follows:

Property	\$150,000 per occurrence
Liability	\$400,000 per occurrence
Stop Loss	\$1,650,000 maximum per year

The Agency uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the agency as direct insurer of the risks reinsured. The Agency is contingently liable with respect to certain loss coverage, which would become a liability in the event these insurance carriers are unable to meet the obligations under these contracts.

Members may withdraw from the Agency or from any particular benefits program with at least 12 months notice. There were no members that withdrew from the Agency during the period from December 1, 2015 through November 30, 2016.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

All administrative costs and expenses incurred for the maintenance of the Agency are paid through the pool account balances through November 30, 2016.

Management believes this financial statement presents all activities for which the Agency is financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Agency are not misleading. On this basis, no governmental organizations or agencies other than the Agency itself are included in the financial reporting entity.

B. Fund Accounting

The Agency maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific revenues and expenses. The Agency uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Agency utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

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

The Agency's activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the Agency's operations are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues generally result from charges to members for insurance premiums. Operating expenses for the Agency include the payment of loss and loss adjustment expenses, insurance premiums, professional fees and miscellaneous expenses. Non-operating revenues include investment income, dividend revenue from PERC and PERC dividends distributed to members.

D. Assets, Liabilities, and Net Position

Cash, Cash Equivalents and Investments:

The Agency maintains demand deposit accounts and non-negotiable certificates of deposits.

For purposes of the statement of cash flows and for reporting on the statement of net position, investments with original maturities of three months or less at the time they are purchased by the Agency are considered to be "cash equivalents". Investments with an initial maturity of more than three months are considered to be "investments".

An analysis of the Agency's cash and investments at fiscal year-end is provided in Note 4.

Receivables:

All receivables are shown net of an allowance for uncollectible amounts, as applicable. Receivables in excess of 90 days are evaluated for the ability to collect them and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The Agency's only significant receivable is a dividend declared by PERC related the fiscal year 2016 that will be received by the Agency in fiscal year 2017.

Loss and loss adjustment expense reserves:

Provisions for loss reserves and loss adjustment expense reserves are based on information reported by members and are calculated by an actuary. These amounts represent an estimate of reported unpaid claims plus a provision for claims incurred but not reported. Adjustments to this reserve account are charged or credited to expense in the period in which they are made. The Agency's management believes that the estimate of the liability for loss reserves is reasonable; however, actual incurred loss and loss adjustment expense may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expense may vary from the estimated amounts included in the accompanying financial statements. Should the provision for loss reserves be insufficient, supplemental contributions will be assessed to the Agency members. See Note 6 for more information of the Agency's loss and loss adjustment expense reserves.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016**

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

Net position:

Net position is the excess of revenues over expenses during the period in which the Agency has been in existence. If adequate provision has been made for the payment of all claims and expenses of the Agency, the Board of Trustees, at its discretion, may distribute surplus funds to members during that particular year, provided that such members are also members in the year in which the distribution is made. In lieu of distributing surplus funds to the members, the Board may carry forward the surplus to offset annual or supplemental payments in the subsequent fiscal year.

In the event the Agency is terminated, all members of the Agency are obligated for any necessary supplemental payments applicable to the years during which they were members. After all claims and related expenses have been paid or reserves established for the payment of any such claims, any surplus funds will be distributed to members, past or present, who constituted the Agency for that fiscal year.

E. Budgetary Process

Under Ohio law, the Agency is not required to follow a budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

F. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle:

For the fiscal year ended November 30, 2016, the Agency has presented for the first time its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In conjunction with this presentation, the Agency has converted its activities to the accrual basis of accounting from the cash-basis of accounting. This conversion from the cash-basis of accounting to the accrual basis of accounting required certain adjustments to be recorded at November 30, 2015 to the net cash fund balance as previously reported to reflect the prior year's effect of adopting these new accounting principles. The restatement to the November 30, 2015 net cash fund balance follows:

Fund cash and investments balance, November 30, 2015	\$ 1,036,445
Accrual basis adjustments:	
Due from PERC	104,492
Loss and loss adjustment expense reserve	<u>(502,434)</u>
Restated net position, December 1, 2015	<u>\$ 638,503</u>

B. Compliance

The Agency had no material violations of finance-related legal and contractual provisions.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At November 30, 2016, the carrying amount of the Agency's deposits, including \$181,687 of nonnegotiable certificates of deposits, was \$1,221,830 and the bank balance was \$1,222,051. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of November 30, 2016, \$441,403 of the Agency's bank balance of \$1,222,051 was covered by the Federal Deposit Insurance Corporation and \$780,648 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Agency's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the ORC, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Agency. The Agency has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Agency to a successful claim by the FDIC.

B. Investments

The Agency had no investments at November 30, 2016, as defined by GASB.

C. Reconciliation of Cash and Investment to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net position as of November 30, 2016:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	<u>\$ 1,221,830</u>
 <u>Cash and investments on Statement of Net Position</u>	
Cash and cash equivalents	\$ 1,040,143
Investments	<u>181,687</u>
Total	<u>\$ 1,221,830</u>

NOTE 5 - RISK MANAGEMENT

The Agency contracted with a third-party administrator, Arthur J. Gallagher Risk Management Services, Inc. to provide management services and Gallagher Bassett Services, Inc. to process claims incurred by its members. The members contribute monthly premiums into the self-insurance risk pool fund of the Agency. The Treasurer approves payments to the third-party administrator for actual insurance claims processed, insurance premiums and administrative charges incurred on behalf of the Agency members. Besides the standard monthly contributions, the Agency may extend an assessment to each member.

Member counties that withdraw from the Agency are obligated for payment of any negative balance in their account and the remaining claims of any of its eligible members and dependents are the responsibility of each individual member upon withdrawal from the Agency.

MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

NOTE 6 - LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Agency established a reserve liability that includes a provision for reported and unreported insured events and an estimate of future payment of losses and related loss adjustment expenses. The claims liability as required by GASB Statement No. 10, "*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*", as amended by GASB Statement No. 30, "*Risk Financing Omnibus*", was provided by the Agency's independent actuary, Financial Risk Analysts, LLC.

Fiscal year 2016 was the Agency's first year presenting financial statements in accordance with GAAP. As such, the information needed to present the changes in the aggregate liabilities for the fiscal year ended November 30, 2015 was not available. A two-year comparison will be presented in the subsequent year as the information is available. The changes in the aggregate liabilities for the Agency for the fiscal year ended November 30, 2016 follows:

	<u>2016</u>
Unpaid loss and loss adjustment expense reserves, beginning	\$ 502,434
Incurred loss and loss adjustment expenses, provision for insured events of the current period	492,915
(Decrease) in provision for insured events of the prior years	<u>(140,132)</u>
Total incurred loss and loss adjustment expenses	<u>352,783</u>
Payments:	
Loss and loss adjustment expenses attributable to insured events of the current year	198,260
Loss and loss adjustment expenses paid attributable to insured events of prior years	<u>198,068</u>
Total payments	<u>396,328</u>
Unpaid loss and loss adjustment expense reserves, ending	<u>\$ 458,889</u>

NOTE 7 - LOSS AND LOSS ADJUSTMENT EXPENSES, NET

For fiscal year 2016, the Agency reported loss and loss adjustment expenses, net of \$352,783. The Agency's independent actuary for fiscal year 2016 was Financial Risk Analysts, LLC.

The \$43,545 increase in the loss and loss adjustment expense reserves from November 30, 2015 to November 30, 2016 is reflected in the fiscal year 2016 loss and loss adjustment expenses, net as reported on the Statement of Revenues, Expenses and Changes in Net Position. For fiscal year 2016, actual claims payments for covered losses were \$396,328 as reported on the Statement of Cash Flows.

NOTE 8 - CONTINGENCIES

In the normal course of business, the Agency is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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MIDWEST POOL RISK MANAGEMENT AGENCY, INC.

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR LOSS DEVELOPMENT INFORMATION**

The following table illustrates how the Consortium's premium revenue and investment income compares to related costs of loss and other expenses assumed by the Consortium as of the end of the year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported interest income.
- (2) This line shows each fiscal year's other operating costs of the Consortium including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Consortium's gross incurred losses and allocated loss adjustment expense as originally reported at the end of the year in which the event that triggered coverage occurred (called *accident year*).
- (4) This section shows the cumulative net amounts paid as of the end of the accident year.
- (5) This section shows how each accident year's net incurred losses increased or decreased as of the end of the year. (This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses and emergence of new losses not previously known).
- (6) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought.

As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature accident years. The columns of the table show data for successive accident years. Loss development information for the fiscal years ended November 30, 2007 through 2016 is provided on the next page.

MIDWEST POOL RISK MANAGEMENT, INC.

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR LOSS DEVELOPMENT INFORMATION (CONTINUED)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1. Premiums and interest income	\$ 1,404,333	\$ 1,305,792	\$ 1,420,117	\$ 1,394,602	\$ 1,617,254
2. Unallocated expenses	994,843	977,805	1,020,669	1,055,524	1,062,882
3. Estimated losses incurred and expense, end of year	413,120	659,540	939,936	282,898	286,439
4. Paid, cumulative as of:					
End of accident year	194,593	133,286	201,366	88,921	139,406
One year later	462,424	204,039	294,149	275,346	232,707
Two years later	467,596	205,679	300,417	328,566	375,034
Three years later	562,406	278,802	300,465	338,805	402,777
Four years later	562,406	278,802	300,465	338,805	402,569
Five years later	563,662	268,355	300,465	338,805	412,569
Six years later	562,407	268,355	300,465	338,805	-
Seven years later	562,407	268,355	300,465	-	-
Eight years later	562,407	268,355	-	-	-
Nine years later	562,407	-	-	-	-
5. Re-estimated incurred losses and expense:					
End of accident year	619,115	286,363	412,809	392,916	294,362
One year later	619,860	283,120	373,950	335,948	382,929
Two years later	623,106	282,307	300,417	446,968	407,686
Three years later	562,661	278,802	300,466	338,805	412,756
Four years later	562,406	278,802	300,465	338,805	412,569
Five years later	562,406	268,355	300,465	338,805	412,569
Six years later	562,407	268,355	300,465	338,805	-
Seven years later	562,407	268,355	300,465	-	-
Eight years later	562,407	268,355	-	-	-
Nine years later	562,407	-	-	-	-
6. Decrease in estimated incurred losses and expenses from end of accident year	(56,708)	(18,008)	(112,344)	(54,111)	118,207

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 1,189,225	\$ 1,478,316	\$ 1,482,696	\$ 1,526,298	\$ 1,663,418
1,069,735	1,165,088	1,179,494	1,225,963	1,222,412
376,655	502,842	395,988	313,289	352,783
144,511	269,323	146,302	63,794	198,260
186,080	322,713	231,565	96,426	-
317,227	443,585	353,330	-	-
338,929	477,256	-	-	-
338,929	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
409,426	576,041	395,653	301,084	492,915
376,344	562,261	422,137	182,489	-
389,300	507,816	383,981	-	-
339,269	524,775	-	-	-
338,929	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(70,497)	(51,266)	(11,672)	(118,595)	-

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**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Required by *Government Auditing Standards***

Midwest Pool Risk Management Agency
Van Wert County
209 South Blackhoff
Wapakoneta, Ohio 45895

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Midwest Pool Risk Management Agency, Van Wert County, Ohio, as of and for the fiscal year ended November 30, 2016, and the related notes to the financial statements, which collectively comprise Midwest Pool Risk Management Agency's basic financial statements and have issued our report thereon dated June 9, 2017, wherein we noted that during the fiscal year ended November 30, 2016, the Midwest Pool Risk Management Agency converted its financial reporting framework from the cash basis of accounting to accounting principles generally accepted in the United States of America and restated its net position at December 1, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Midwest Pool Risk Management Agency's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Midwest Pool Risk Management Agency's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Midwest Pool Risk Management Agency's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider a significant deficiency. We consider finding 2016-001 to be a significant deficiency.

Board of Trustees
Midwest Pool Risk Management Agency

Compliance and Other Matters

As part of reasonably assuring whether the Midwest Pool Risk Management Agency's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Midwest Pool Risk Management Agency's Response to Finding

The Midwest Pool Risk Management Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Midwest Pool Risk Management Agency's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Midwest Pool Risk Management Agency's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Midwest Pool Risk Management Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
June 9, 2017

**MIDWEST POOL RISK MANAGEMENT AGENCY
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
NOVEMBER 30, 2016**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2016-001

Significant Deficiency - Financial Statement Presentation

Accurate financial reporting is required in order to provide management and other stakeholders with objective and timely information to enable well-informed decisions.

An adjustment was made to the financial statements for the year ended November 30, 2016, to record a liability for contributions due back to the members.

The audited financial statements and Agency's records have been adjusted for the misstatement identified during the audit.

In general, an accounting and information system should be designed to provide management with accurate and timely information to enable well-informed business decisions to be made. The present system lacks fiscal oversight and approvals and fails to meet the above expectations.

We recommend the Agency consult with their auditors and/or the Auditor of State to help ensure accurate financial reporting.

Client Response: The Fiscal Officer will work to provide a sound fiscal environment for the Agency and has implemented additional policies and procedures to help with financial statement presentation.

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Dave Yost • Auditor of State

MIDWEST POOL RISK MANAGEMENT AGENCY

VAN WERT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 5, 2017**