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# Ohio Transit Risk Pool - Medina County

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**Financial Report  
with Supplemental Information  
November 30, 2017**





# Dave Yost • Auditor of State

Board of Trustees  
Ohio Transit Risk Pool  
1 Park Centre Drive  
Suite 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, 2016 through November 30, 2017. 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 black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 11, 2018

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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 basic financial statements of Ohio Transit Risk Pool - Medina County (OTRP) as of and for the years ended November 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise OTRP's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Ohio Transit Risk Pool - Medina County as of November 30, 2017 and 2016 and the respective changes in its financial position and its 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 OTRP's proportionate share of the net pension liability, schedule of pension contributions, schedule of claims information for all lines of coverage, and schedule of reconciliation of net reserves for claims and claims adjustment expenses by type of contract be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2018 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.



May 24, 2018



# 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, 2017. 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.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals OTRP's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

## Ohio Transit Risk Pool - Medina County

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

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GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” - that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, OTRP is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by state statute. A change in these caps requires action of both Houses of the General Assembly and approval of the governor of the State of Ohio. Benefit provisions are also determined by state statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, state statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the OTRP’s statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan’s change in net pension liability not accounted for as deferred inflows/outflows.

Under GASB 68, OTRP is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

## Ohio Transit Risk Pool - Medina County

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

#### **Financial Highlights**

During 2017, OTRP's financial activities were highlighted by the following significant events:

- OTRP experienced a negative claims development beyond the initial IBNR reserves for the 2012 and 2013 loss years. These claims impacted OTRP through a combination of increased frequency in larger claims payments and claims reserves above \$50,000. No single catastrophic loss was sustained. As of November 30, 2017 and 2016, the majority of the liabilities have been resolved, but claim payments continue to impact OTRP's financial position. Overall, the number of open claims increased from 105 to 128 at fiscal year-end. Total reserves have increased from \$2,795,219 at November 30, 2016 to \$4,014,923 at November 30, 2017. The majority of the reserves remain in 2017 and 2016 years, which represents the loss years in which the Ohio Statute of Limitations has not yet tolled. OTRP continues to implement in-house proactive claims adjustment efforts and aggressive loss control strategies through OTRP's risk management program.
- During 2017, the OTRP Board of Trustees did not issue any special assessments or make any equity returns emanating from the closure of a loss year. During 2016, the OTRP Board issued one special assessment of \$553,889 representing additional funding for the 2012 loss year. Simultaneously, OTRP issued member equity returns of \$771,892 from loss years 2008, 2010, and 2011. Currently, the total (for all years) members' equity return is \$12,518,283.
- During 2017 and 2016, distributions to members in the form of interest earned on the Shock Loss Fund were made totaling \$152,237 and \$76,894, respectively. No returns were made from the Shock Loss Fund.
- OTRP carried a fully funded Shock Loss Fund. Under the OTRP Board policy, members are required to fund their shock loss funds to the equal amount of one time of their annual contribution. During 2016, the Board amended the policy to allow members to fund up to four times their annual contribution. This action was due to further actuarial 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. Total Shock Loss Fund contributions for all years that were recognized during 2017 and 2016 totaled \$384,005 and \$539,121, respectively.
- Due to the full funding of the Shock Loss Fund, OTRP determined, with actuarial confidence, to continue to self-insure the first \$2,000,000 for each liability occurrence. The OTRP Board raised their self-insured retention from \$1,000,000 in 2016.
- During 2017 and 2016, OTRP continued to participate in Transit Reinsurance Limited (TRL), a captive insurance company domiciled in the State of Vermont. During 2016, the TRL captive members updated their by-laws, which were subsequently approved by the OTRP Board of Trustees. OTRP participates in a quota share within the captive. OTRP's overall liability reinsurance limits were placed at \$10,000,000 per occurrence for the years ending November 30, 2017 and 2016.
- 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 Regional Transit Authority (METRO RTA) selected a \$5,000 per-occurrence liability deductible, while Toledo Area Regional Transit Authority (TARTA) selected a \$250,000 per-occurrence liability deductible.
- As of fiscal year ends 2017 and 2016, all members participate in all lines of coverage.
- As of November 30, 2017 and 2016, OTRP held member receivables of \$78,915 and \$148,537 respectively, most of which were made up of member receivables related to deductibles due and issued on November 30, 2017 and 2016.

## 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 - is 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 is as follows:

	November 30		
	2017	2016	2015
<b>Condensed Statement of Net Position</b>			
<b>Assets</b>			
Cash and short-term investments	\$ 2,093,214	\$ 2,615,556	\$ 2,740,364
Other assets	93,678	151,852	56,044
Total current assets	2,186,892	2,767,408	2,796,408
Long-term assets:			
Investments	7,798,798	6,617,109	6,177,920
Capital assets - Net of depreciation	22,154	28,252	35,955
Total assets	10,007,844	9,412,769	9,010,283
Deferred Outflows of Resources - Pension	250,495	188,395	70,434
<b>Liabilities</b>			
Current	2,579,162	2,720,585	2,013,692
Long term	3,498,738	2,347,986	2,173,450
Total liabilities	6,077,900	5,068,571	4,187,142
Deferred Inflows of Resources - Pension	2,082	5,708	5,717
<b>Net Position</b>			
Invested in capital assets	22,154	28,252	35,955
Unrestricted	4,156,203	4,498,633	4,851,903
Total net position	<b>\$ 4,178,357</b>	<b>\$ 4,526,885</b>	<b>\$ 4,887,858</b>

## Ohio Transit Risk Pool - Medina County

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

	Year Ended November 30		
	2017	2016	2015
<b>Condensed Statement of Changes in Net Position</b>			
<b>Changes in Net Position</b>			
Total operating revenue	\$ 2,948,180	\$ 3,647,792	\$ 2,675,690
Operating expenses:			
Claims and claims adjustment expenses	(2,181,757)	(2,341,332)	(844,214)
Administrative expenses	(1,105,675)	(879,793)	(846,614)
Total operating expenses	<u>(3,287,432)</u>	<u>(3,221,125)</u>	<u>(1,690,828)</u>
<b>Operating (Loss) Income</b>	(339,252)	426,667	984,862
<b>Nonoperating Expense</b>			
Investment earnings and realized and unrealized gains and losses on investments	142,961	61,146	101,145
Gain on disposal of fixed assets	-	-	4,138
Distributions to members	<u>(152,237)</u>	<u>(848,786)</u>	<u>(128,839)</u>
Total nonoperating expenses	<u>(9,276)</u>	<u>(787,640)</u>	<u>(23,556)</u>
<b>(Decrease) Increase in Net Position</b>	<b><u>\$ (348,528)</u></b>	<b><u>\$ (360,973)</u></b>	<b><u>\$ 961,306</u></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 \$580,816, while long-term assets increased by \$1,175,591 between 2016 and 2017. These changes were caused by a change in strategy of reducing cash and increasing long-term investments.
- OTRP's capital assets, net of depreciation, decreased from 2016 to 2017 by \$6,098. This is due to the ordinary depreciation of OTRP's capital assets.
- OTRP's liabilities increased from 2016 to 2017 by \$1,009,329. The increase in liabilities is primarily attributable to adverse claims development, in combination with an increase in the net pension liability and balance in members' returns to the General Reserve Fund (GRF). There were no liabilities in the current year for prepayments related to (LY24) 2018.
- The difference between assets and liabilities, or "net position," decreased from 2016 to 2017 by \$348,528. The decrease is attributable to increases in the claims and pension liabilities, shock loss deferred revenues, and members' returns to the General Reserve Fund (GRF).
- OTRP operating expenses were fairly stable with continued reflection of the reduced impact by claims and claims adjustment expense.

## Ohio Transit Risk Pool - Medina County

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

- Total OTRP revenue (net of reinsurance/excess insurance premiums) decreased to \$2,948,180 in 2017 from \$3,647,792 in 2016. The decrease is due to lowered purchased insurance premiums which was partially offset with additional voluntary shock loss contributions and recognized deferred revenue in the shock loss fund.

#### **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.

#### **Budgetary Highlights**

OTRP adopts an annual operating budget for the current fiscal year. The budget is presented to the OTRP 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.

	Annual Budget	Year to Date Actual	Budget Versus Actual - Positive (Negative)
<b>Operating Revenue</b>			
Membership contributions	\$ 3,546,553	\$ 3,930,557	\$ 384,004
Other operating revenue	125,250	122,392	(2,858)
Less reinsurance/excess insurance premiums	<u>(1,105,681)</u>	<u>(1,104,769)</u>	<u>912</u>
Total operating income	2,566,122	2,948,180	382,058
<b>Operating Expenses</b>			
Claims and claims adjustment expenses	(1,669,525)	(2,181,757)	(512,232)
Professional fees and other	(150,655)	(150,633)	22
Pool operations	(154,947)	(159,200)	(4,253)
Salaries and employee benefits	(715,995)	(789,744)	(73,749)
Depreciation	<u>-</u>	<u>(6,098)</u>	<u>(6,098)</u>
Total operating expenses	(2,691,122)	(3,287,432)	(596,310)
<b>Nonoperating Income (Expenses)</b>			
Net investment income	125,000	142,961	17,961
Distribution to members	<u>-</u>	<u>(152,237)</u>	<u>(152,237)</u>
Total nonoperating income (expenses)	<u>125,000</u>	<u>(9,276)</u>	<u>(134,276)</u>
<b>Change in Net Position</b>	<u>\$ -</u>	<u>\$ (348,528)</u>	<u>\$ (348,528)</u>

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

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

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The following is an explanation of the significant variances of the budget to actual for 2017:

- Member contributions were higher than budgeted due to the fact that membership contributions include additional voluntary shock loss contributions and revenue recognized from deferred shock loss revenue, both of which are not subject to the yearly budgeting process.
- Claims and claims adjustment expenses were higher than expected, as claims paid during the current year but incurred in prior years are not budgeted on a yearly basis. Claims experience is variable and determined by actual incurred claims experience.
- Operating expenses were also over budget due to an increase in salaries and employee benefits, as a result of the employment of an additional administrative staff member that was hired during 2017.
- Investment losses and gains (realized or unrealized) are not budgeted for within the OTRP program. OTRP recognized \$86,395 in realized/unrealized losses from the overall investment program, which has been netted against net investment income 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. No distributions, other than return of interest, occurred during 2017.

#### **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 at 1 Park Centre Drive, #300, Wadsworth, OH 44281.

## Ohio Transit Risk Pool - Medina County

### Statement of Net Position

	<b>November 30, 2017 and 2016</b>	
	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 1,124,920	\$ 1,253,174
Investments - Fixed income (Notes 3 and 4)	968,294	1,362,382
Receivables - Members	78,915	148,537
Prepaid expenses and other assets	<u>14,763</u>	<u>3,315</u>
Total current assets	2,186,892	2,767,408
Noncurrent assets:		
Investments (Notes 3 and 4)	7,798,798	6,617,109
Capital assets - Net (Note 5)	<u>22,154</u>	<u>28,252</u>
Total noncurrent assets	<u>7,820,952</u>	<u>6,645,361</u>
Total assets	10,007,844	9,412,769
<b>Deferred Outflows of Resources</b> (Note 13)	250,495	188,395
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	12,534	11,487
Current portion of reserves for unpaid claims and claims adjustment expenses (Note 6)	1,400,000	1,266,000
Accrued compensation	23,225	9,576
Members' payable (Note 9)	871,092	1,101,512
Current portion of unearned contributions	<u>272,311</u>	<u>332,010</u>
Total current liabilities	2,579,162	2,720,585
Noncurrent liabilities:		
Reserves for unpaid claims and claims adjustment expenses - Net of current portion (Note 6)	2,614,923	1,529,219
Unearned contributions - net of current portion	283,188	355,257
Net pension liability (Note 13)	<u>600,627</u>	<u>463,510</u>
Total noncurrent liabilities	<u>3,498,738</u>	<u>2,347,986</u>
Total liabilities	6,077,900	5,068,571
<b>Deferred Inflows of Resources</b> (Note 13)	<u>2,082</u>	<u>5,708</u>
<b>Net Position</b>		
Net investment in capital assets	22,154	28,252
Unrestricted	<u>4,156,203</u>	<u>4,498,633</u>
Total net position	<u><u>\$ 4,178,357</u></u>	<u><u>\$ 4,526,885</u></u>



## Ohio Transit Risk Pool - Medina County

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

Years Ended November 30, 2017 and 2016

	2017	2016
<b>Operating Revenue</b>		
Member contributions	\$ 3,930,557	\$ 4,726,791
Less reinsurance premiums expense	(1,104,769)	(1,138,499)
Other operating income	122,392	59,500
Total operating revenue	2,948,180	3,647,792
<b>Operating Expenses</b>		
Provision for claims: (Note 6)		
Paid	962,053	1,594,080
Change in reserve for claims	1,219,704	747,252
Total claims	2,181,757	2,341,332
General and administrative expenses:		
Salary, wages, and fringe benefits	789,744	534,299
Professional fees and other	150,633	152,865
Pool operations	159,200	184,926
Depreciation (Note 5)	6,098	7,703
Total operating expenses	3,287,432	3,221,125
<b>Operating (Loss) Income</b>	(339,252)	426,667
<b>Nonoperating Revenue (Expense)</b>		
Interest and dividend income	229,356	241,339
Realized and unrealized loss on investments	(86,395)	(180,193)
Distributions to members	(152,237)	(848,786)
Total nonoperating expense	(9,276)	(787,640)
<b>Change in Net Position</b>	(348,528)	(360,973)
<b>Net Position - Beginning of year</b>	4,526,885	4,887,858
<b>Net Position - End of year</b>	<u>\$ 4,178,357</u>	<u>\$ 4,526,885</u>

## Ohio Transit Risk Pool - Medina County

### Statement of Cash Flows

Years Ended November 30, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 3,868,411	\$ 4,196,538
Cash paid for claims	(962,053)	(1,594,080)
Cash paid for reinsurance premiums	(1,108,457)	(1,135,249)
Cash paid for administrative and general expenses	(898,858)	(768,734)
	<u>899,043</u>	<u>698,475</u>
Net cash and cash equivalents provided by operating activities	899,043	698,475
<b>Cash Flows Used in Financing Activities - Distributions to members</b>	(230,420)	(403,546)
<b>Cash Flows from Investing Activities</b>		
Investment income received	229,356	241,339
Purchase of investments	(2,467,202)	(2,575,414)
Proceeds from sale and maturities of investments	1,440,969	2,038,847
	<u>(796,877)</u>	<u>(295,228)</u>
Net cash used in investing activities	(796,877)	(295,228)
<b>Net Decrease in Cash and Cash Equivalents</b>	(128,254)	(299)
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>1,253,174</u>	<u>1,253,473</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 1,124,920</u></u>	<u><u>\$ 1,253,174</u></u>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>		
Operating (loss) income	\$ (339,252)	\$ 426,667
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	6,098	7,703
Changes in assets and liabilities:		
Accounts receivable	69,622	(96,053)
Prepaid expenses	(11,448)	245
Accounts payable	1,047	9,815
Unearned contributions	(131,768)	(323,933)
Accrued compensation	13,649	(98,396)
Reserve of claims	1,219,704	747,252
Pension	71,391	25,175
	<u>71,391</u>	<u>25,175</u>
Net cash and cash equivalents provided by operating activities	<u><u>\$ 899,043</u></u>	<u><u>\$ 698,475</u></u>

For 2017 and 2016, there were noncash transactions totaling \$50,522 and \$34,129, respectively, relating to unrealized losses on investments.

November 30, 2017 and 2016

### Note 1 - Nature of Business

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 for 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, 2017 include the following Ohio Political Subdivision Transits: Allen County Regional Transit Authority (ACRTA), Lake County Regional Public Transportation (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 bylaws 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 2017, 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, the 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.

### Note 2 - Significant Accounting Policies

#### ***Basis of Accounting***

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.

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***

Cash and cash equivalents include operating and claims checking accounts and money market funds.

November 30, 2017 and 2016

**Note 2 - Significant Accounting Policies (Continued)**

***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. 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.

***Reserve for Unpaid Claims and Claims Adjustment Expenses***

Reserves for claims represent OTRP's case reserves for incurred claims, plus an estimate of provisions for loss development, 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 claims obligations, OTRP's board has the ability to assess the members for supplemental contributions. There was no special assessment required during 2017. During 2016, a special assessment was issued in the amount of \$553,889 related to negative loss development in loss year 2012.

***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.

***Member Contributions***

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 65 and 75 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 that assesses the proportional risk that each member brings to OTRP for each loss year.

**Note 2 - Significant Accounting Policies (Continued)**

***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.

***Shock Loss Fund***

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 contributions. If a member's balance in the SLF drops below the member's 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. There is a board-approved policy allowing members to fund the SLF in an amount up to 400 percent of the required contribution.

***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 2017 and 2016, the board declared dividends, including distributions of interest on SLF, totaling \$152,237 and \$848,786, 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 2017 loss year, for auto physical damage, TARTA, Metro RTA, and Laketrans 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 2017 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.

***Pensions***

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS), and additions to/deductions from OPERS fiduciary net position have been determined on the same basis as they are reported by OPERS. OPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

November 30, 2017 and 2016

**Note 2 - Significant Accounting Policies (Continued)**

***Deferred Outflows of Resources***

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The government deferred outflows of resources related to the net pension liability, as described in Note 13.

***Deferred Inflows of Resources***

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government deferred inflows of resources related to the net pension liability, as described in Note 13.

***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.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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 the reserve for unpaid claims and claims adjustment expenses, as described in Note 6.

***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.

***Premium Deficiency Reserve***

The OTRP determines whether a premium deficiency reserve is necessary, including investment income as a factor in the premium deficiency calculation. No premium deficiency reserve was required at November 30, 2017 and 2016.

November 30, 2017 and 2016

### Note 2 - Significant Accounting Policies (Continued)

#### *Upcoming Accounting Pronouncement*

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Under GASB Statement No. 75 and similar to GASB statement No. 68 (pensions), OTRP, as a cost-sharing employer, will be required to recognize its proportionate share of the collective unfunded net other postemployment benefits (OPEB) liability, OPEB expense, and deferred OPEB outflows (inflows) of the State's Retirement System plan within its financial statements. This will be a significant change for every participating employer in all cost-sharing plans around the country. Entities will see a significant liability reflected on their balance sheets along with an impact to OPEB expenses and a corresponding reduction to unrestricted net position. There are also expanded disclosures and required supplemental information to be added to OTRP's financial statements. OTRP will also be required to track certain components of the net OPEB liability (deferred inflows/outflows) and amortize over the appropriate periods in accordance with the standard. OTRP has not yet determined what its share of the unfunded net OPEB liability is, but it is expected to be significant and material to OTRP's financial statements. The provisions of this statement are effective for financial statements for the year ending November 30, 2018.

#### *Reclassification*

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

### Note 3 - 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 June 12, 2013. 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. Effective May 2017, OTRP has designated Key Bank for deposit of its investments. Prior to May 2017, OTRP had designated JPMorgan Chase Bank for deposit of its investments. As of November 30, 2017 and 2016, OTRP has designated JPMorgan Chase Bank for deposit of its cash. Financial Advisory Corporation acts as the investment portfolio manager.

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 and money market funds. Cash and cash equivalents totaled \$1,124,920 and \$1,253,174 at November 30, 2017 and 2016, respectively. At November 30, 2017 and 2016, long-term certificates of deposit totaled \$201,504 and \$100,326, respectively. At November 30, 2017, short-term certificates of deposit totaled \$40,251.

#### *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, 2017, OTRP had \$929,411 in bank deposits that were uninsured and uncollateralized.



November 30, 2017 and 2016

**Note 3 - Deposits and Investments (Continued)****Investments**

Investments are reported at fair value. At November 30, 2017 and 2016, OTRP had the following investments:

	Fair Value	
	2017	2016
U.S. Treasury securities	\$ 1,016,452	\$ 199,820
U.S. agencies and pass-throughs	1,102,290	885,008
State and local municipal bonds	198,958	602,266
Corporate bonds	6,207,637	6,192,071
Total	<u>\$ 8,525,337</u>	<u>\$ 7,879,165</u>

**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, 2017 and 2016, all of OTRP's investments were held by the investments' 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, 2017 and 2016, OTRP had the following investments subject to interest rate risk:

Investment	2017		2016	
	Carrying Value	Weighted-average Maturity (Years)	Carrying Value	Weighted-average Maturity (Years)
U.S. Treasury securities	\$ 1,016,452	2.87	\$ 199,820	1.17
U.S. agencies and pass-throughs	1,102,290	2.73	885,008	2.18
State and local municipal bonds	198,958	1.67	602,266	1.11
Corporate bonds	6,207,637	3.28	6,192,071	3.75
Total	<u>\$ 8,525,337</u>		<u>\$ 7,879,165</u>	

**Credit Risk**

Credit risk is the risk that an issuer to an investment will not fulfill its obligations.



November 30, 2017 and 2016

**Note 3 - Deposits and Investments (Continued)**

At November 30, 2017, the credit quality ratings of fixed-income securities by type (other than the U.S. government) are as follows:

	Fair Value	Rating	Rating Organization
U.S. agencies and pass-throughs	\$ 1,102,290	AA+	S&P
Total	<u>\$ 198,958</u>		
Corporate bonds	252,520	AAA	S&P
	580,476	AA+	S&P
	627,331	AA	S&P
	2,283,166	AA-	S&P
	1,496,572	A+	S&P
	837,987	A	S&P
	<u>129,585</u>	BBB	S&P
Total corporate bonds	<u>\$ 6,207,637</u>		

At November 30, 2016, the credit quality ratings of fixed-income securities by type (other than U.S. government) are as follows:

	Fair Value	Rating	Rating Organization
U.S. agencies and pass-throughs	\$ 300,300	AAA	S&P
	<u>584,708</u>	AA+	S&P
Total	<u>\$ 885,008</u>		
State and local municipal bonds	199,798	AA+	S&P
	200,454	AA	S&P
	<u>202,014</u>	AA-	S&P
Total	<u>\$ 602,266</u>		
Corporate bonds	252,250	AAA	S&P
	446,098	AA+	S&P
	759,071	AA	S&P
	2,189,098	AA-	S&P
	1,475,025	A+	S&P
	<u>1,070,529</u>	A	S&P
Total	<u>\$ 6,192,071</u>		

**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 was one investment that individually exceeded 5 percent of OTRP’s total investments at November 30, 2017 and 2016.

**Note 3 - Deposits and Investments (Continued)**

*Foreign Currency Risk*

Foreign currency risk is the risk that an investment denominated in the 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.

**Note 4 - Fair Value Measurements**

OTRP categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. OTRP's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

OTRP has the following recurring fair value measurements as of November 30, 2017:

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:			
U.S. Treasury securities	\$ 1,016,452	\$ -	\$ -
U.S. agencies and pass-throughs	-	1,102,290	-
State and local municipal bonds	-	198,958	-
Corporate bonds	-	6,207,637	-
Total debt securities	1,016,452	7,508,885	-
Certificate of deposit	-	241,755	-
Total investments by fair value	\$ 1,016,452	\$ 7,750,640	\$ -

**Note 4 - Fair Value Measurements (Continued)**

OTRP has the following recurring fair value measurements as of November 30, 2016:

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:			
U.S. Treasury securities	\$ 199,820	\$ -	\$ -
U.S. agencies and pass-throughs	-	885,008	-
State and local municipal bonds	-	602,266	-
Corporate bonds	-	6,192,071	-
Total debt securities	199,820	7,679,345	-
Certificate of deposit	-	100,326	-
Total investments by fair value	<u>\$ 199,820</u>	<u>\$ 7,779,671</u>	<u>\$ -</u>

U.S. Treasury securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair values of debt securities and certificates of deposit were determined primarily based on observable market data for the same or similar securities, including quoted prices in markets that are not active, or matrix pricing or other similar techniques that use observable market inputs, such as benchmark yields, expected prepayment speeds and volumes, and issuer ratings, and are classified as Level 2.

**Note 5 - Capital Assets**

Cost of capital assets is summarized as follows:

	2017	2016
Transportation equipment	\$ 39,594	\$ 39,594
Computer equipment and software	45,912	45,912
Total cost	85,506	85,506
Less accumulated depreciation	63,352	57,254
Net carrying amount	<u>\$ 22,154</u>	<u>\$ 28,252</u>

Total depreciation expense was \$6,098 and \$7,703 for November 30, 2017 and 2016, respectively.

November 30, 2017 and 2016

**Note 6 - Reserve for Unpaid Claims and Claims Adjustment Expenses**

OTRP establishes reserves for claims and claims adjustment expenses for both reported and unreported insured events. A summary of changes in the reserves for unpaid claims and claims adjustment expenses for OTRP for the years ended November 30, 2017, 2016, and 2015 is as follows:

	2017	2016	2015
Reserve for unpaid claims and claims adjustment expenses - Beginning of year	\$ 2,795,219	\$ 2,047,967	\$ 2,290,603
Incurred claims and claims adjustment expenses:			
Provisions for incurred claims in current year	1,677,935	1,776,025	1,339,502
Change in provision for claims incurred in prior years	503,822	565,307	(495,288)
Total incurred claims and claims adjustment expenses	2,181,757	2,341,332	844,214
Payments:			
Claims and claims adjustment expenses paid for claims incurred in the fiscal year	413,432	69,420	150,264
Claims and claims adjustment expenses paid for claims incurred in prior years	548,621	1,524,660	936,586
Total payments	962,053	1,594,080	1,086,850
Reserve for unpaid claims and claims adjustment expenses - End of year	<u>\$ 4,014,923</u>	<u>\$ 2,795,219</u>	<u>\$ 2,047,967</u>

During 2017 and 2016, there was unfavorable development related to prior accident years totaling approximately \$504,000 and \$565,000, respectively. During 2015, there was favorable development totaling approximately \$495,000. These developments primarily related to claims settling for amounts different than originally estimated. During 2017 and 2016, there was a higher frequency of larger claims resulting in the unfavorable development.

**Note 7 - 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 8. For 2017 and 2016, 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 \$2,000,000 at November 30, 2017 and 2016. OTRP's per occurrence retention for crime and fidelity coverage was \$100,000 at November 30, 2017 and 2016. OTRP's per occurrence retention for boiler and machinery was \$50,000 at November 30, 2017 and 2016. For each per occurrence claim within OTRP's self-insured retention, the member is charged the indicated deductible as disclosed in Note 2.

**Note 8 - Reinsurance Agreements**

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, 2017, OTRP purchased the following types of reinsurance and/or excess insurance contracts in excess of self-insured retentions described above:

Policy	Amount
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
Computer fraud - Crime	4,000,000
Funds transfer fraud - Crime	4,000,000
Errors and omissions	10,000,000
Employee benefits	10,000,000
Pollution	1,000,000

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 \$10 million in excess of \$2 million in liability coverage with a 10 percent quota share. Additionally, OTRP participates in the retained quota share within the captive. 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 9 - 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 per year, members may remove any balance from their GRF as a cash distribution. The members' payable at November 30, 2017 and 2016 totaled \$871,092 and \$1,101,512, respectively.

**Note 10 - Line of Credit**

OTRP has a secured line of credit with JPMorgan Chase Bank with a maximum availability of \$700,000, expiring on July 15, 2018. Borrowings under the line of credit bear interest at the adjusted LIBOR (the "note rate") and at the rate of 5.905 percent per annum above the note rate (an effective rate of 7.151 percent at November 30, 2017). OTRP had no amounts outstanding under the line of credit at November 30, 2017 or 2016. The line of credit is secured by substantially all business assets.

**Note 11 - 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 agree to contribute \$300,000 each either by cash contributions or by irrevocable letter of credit. Since December 1, 2005, the OTRP board of trustees has approved the capitalization through the issuance of an irrevocable letter of credit issued in the name of the Department of Financial Regulation (DFR), State of Vermont. The 12-month letter currently issued by JPMorgan Chase Bank was issued on October 11, 2009 and is subsequently renewed each year. During October 2016, the letter was amended to extend the original date of expiration to October 11, 2017. At November 30, 2017 and 2016, the DFR had not drawn on the letter of credit, and no obligations are outstanding. The letter is secured by substantially all business assets.

**Note 12 - Operating Leases**

OTRP leases office space under an operating lease expiring on November 30, 2020. Total rent expense under this lease was \$50,963 for the years ended November 30, 2017 and 2016.

Future minimum rental commitments are as follows:

Years Ending November 30	Amount
2018	\$ 50,963
2019	50,963
2020	50,963
Total	\$ 152,889

**Note 13 - Employee Benefit Plans**

***Plan Description***

OTRP contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS provides retirement, disability, annual cost-of-living adjustments, death benefits, and healthcare benefits to vested retirees. OPERS offers three separate retirement plans:

Defined benefit plan - Traditional pension plan. This is a cost-sharing, multiemployer plan. This plan provides disability, annual cost-of-living adjustments, death benefits, and healthcare benefits. Healthcare benefits are based on years of service.

Defined contribution plan - Member-directed plan. Employee contributions are invested in self-directed investments. Benefits are dependent upon contributions and investment earnings. This plan does not include disability, annual cost-of-living adjustments, death benefits, or healthcare benefits.

Combined plan - Has elements of the traditional pension plan and member-directed plan. Employee contributions are invested in self-directed investments. The employer contributions are used to fund a reduced defined benefit plan. This plan provides disability, annual cost-of-living adjustments, death benefits, and healthcare benefits. Healthcare benefits are based on years of service.

OPERS issues a separate, publicly available financial report that includes financial statements and required supplemental information. The OPERS Comprehensive Annual Financial Report can be downloaded from OPERS website at [www.opers.org](http://www.opers.org). The Ohio Revised Code provides statutory authority for employer and employee contributions. OTRP contributes 12.0 percent of covered payroll and the employee pretax contribution rate is 10.0 percent of covered payroll. A portion of employer contributions was allocated to postemployment healthcare benefits, as disclosed in Note 14.

***Benefits Provided***

Plan benefits are established under Chapter 145 of the Ohio Revised Code, as amended by Substitute Senate Bill 343 in 2012. The requirements to retire depends on years of service (15 to 30 years) and from attaining the age of 48 to 62, depending on when the employee became a member. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. Member retirement benefits are calculated on a formula that considers years of service (15-30 years), age (48-62 years), and final average salary using a factor ranging from 1.0 percent to 2.5 percent.

A plan member who becomes disabled before age 60 or at any age, depending on when the member entered the plan, and has completed 60 contributing months is eligible for a disability benefit.

A death benefit of \$500-\$2,500 is determined by the number of years of service credit of the retiree. Benefits may transfer to a beneficiary upon death with 1.5 years of service credits with the plan obtained within the last 2.5 years, except for law enforcement and public safety personnel, who are eligible immediately upon employment.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent.

***Contributions***

Contributions to the plan from OTRP were \$70,041 and \$59,417 for the years ended November 30, 2017 and 2016, respectively.

November 30, 2017 and 2016

**Note 13 - Employee Benefit Plans (Continued)**

**Net Pension Liability, Deferrals, and Pension Expense**

At November 30, 2017 and 2016, OTRP reported a liability of \$600,627 and \$463,510, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OTRP's proportion of the net pension liability was based on OTRP's actuarially required contribution for the year ended November 30, 2017 relative to all other contributing employers. At December 31, 2016, OTRP's proportion was 0.003 percent, which is the same as its proportion measured as of December 31, 2015.

For the years ended November 30, 2017 and 2016, OTRP recognized pension expense of \$71,391 and \$25,175, respectively. At November 30, 2017, the OTRP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (2,082)
Change in assumptions	95,343	-
Contributions made after measurement date	65,257	-
Net difference between projected and actual earnings on pension plan investments	89,506	-
Difference between actual and proportionate share of contributions	389	-
Total	<u>\$ 250,495</u>	<u>\$ (2,082)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending November 30	Amount
2018	\$ 75,172
2019	77,846
2020	31,912
2021	(2,529)
2022	97
Thereafter	269

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2018).

**Actuarial Assumptions**

The total pension liability is based on the results of an actuarial valuation, which was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date - December 31, 2016

Actuarial cost method - Individual entry age

Cost of living - 3.0 percent

Salary increases, including inflation - 3.25 percent - 10.75 percent



**Note 13 - Employee Benefit Plans (Continued)**

Inflation - 3.25 percent

Investment rate of return - 7.50 percent, net of pension plan investment expense

Experience study date - Period of five years ended December 31, 2015

Mortality basis - RP-2014 Healthy Annuitant mortality table

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at contractually required rates for all plans.

Based on those assumptions, each pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	23.00 %	2.75 %
Domestic equities	20.70	6.34
Real estate	10.00	4.75
Private equity	10.00	8.97
International equity	18.30	7.95
Other investments	18.00	4.92

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of OTRP at November 30, 2017, calculated using the discount rate of 7.50 percent, as well as what OTRP’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net pension liability	\$ (917,763)	\$ (600,627)	\$ (336,337)

**Note 13 - Employee Benefit Plans (Continued)**

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in a separately issued OPERS financial report.

**Note 14 - Other Postemployment Benefits**

*Plan Description*

In addition to pension benefits, the Ohio Revised Code provides authority for public employees to fund postemployment healthcare benefits through their contributions to OPERS.

OPERS maintains a cost-sharing, multiple-employer healthcare plan to retirees who participated in the defined benefit or combined plan with 10 or more years of qualifying Ohio service credit. Coverage includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement.

Under Ohio law, postemployment healthcare benefits under OPERS are permitted, but not mandated; therefore, a portion of employer contributions is set aside for funding postemployment health care. During calendar years 2017 and 2016, this allocation was 2 percent of covered payroll for both plans, as recommended by OPERS' actuary. Payment amounts vary depending on the number of covered dependents and coverage selected.

Employer contributions to the following retirement benefit program for November 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
OPERS	\$ 10,162	\$ 6,660	\$ 8,422

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## Required Supplemental Information

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**Ohio Transit Risk Pool - Medina County**

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**Required Supplemental Information  
Schedule of Pension Contributions**

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	<b>Last Two Fiscal Years</b>	
	<b>Year Ended November 30</b>	
	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 49,341	\$ 48,920
Contributions in relation to the statutorily required contribution	<u>49,341</u>	<u>48,920</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>
OTRP's covered employee payroll	\$ 411,175	\$ 407,667
Contributions as a percentage of covered employee payroll	12.00 %	12.00 %

**Ohio Transit Risk Pool - Medina County**

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Required Supplemental Information  
Schedule of OTRP's Proportionate Share of the Net Pension Liability

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	<b>Last Two Plan Years</b>	
	<b>For the Plan Year Ended November 30</b>	
	<u>2017</u>	<u>2016</u>
OTRP's proportion of the Plan's collective net pension liability: As a percentage	0.00265 %	0.00270 %
Amount	\$ 600,627	\$ 463,510
OTRP's covered employee payroll	\$ 411,175	\$ 407,667
OTRP's proportionate share of the collective pension liability (amount), as a percentage of OTRP's covered employee payroll	68.46 %	87.95 %
Plan fiduciary net position as a percentage of total pension liability	77.38 %	81.19 %

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

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November 30, 2017

#### Claims Development Information

The table on the following page illustrates how OTRP's earned revenue (net of excess insurance) and investment income compared 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 columns of the table show data for successive policy 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 excess insurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the OTRP, including overhead and claims expense not allocable to individual claims.
3. This line shows the OTRP's gross incurred claims and allocated claim adjustment expenses, claims assumed by excess insurers, 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 excess insurers 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 mature, 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.

# Ohio Transit Risk Pool - Medina County

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

**November 30, 2017**

Policy Year Ended November 30	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Required contributions and investment income:										
Earned	\$ 3,709,854	\$ 8,572,809	\$ 4,366,408	\$ 4,076,363	\$ 6,088,200	\$ 4,745,694	\$ 4,734,688	\$ 4,191,105	\$ 4,847,437	\$ 4,195,910
Ceded	1,858,024	1,903,143	1,745,458	1,342,127	1,488,322	1,462,971	1,464,770	1,414,270	1,138,499	1,104,769
Net	1,851,830	6,669,666	2,620,950	2,734,236	4,599,878	3,282,723	3,269,918	2,776,835	3,708,938	3,091,141
2. Expenses other than allocated claim adjustment expenses	714,321	771,596	692,438	792,485	748,051	855,077	911,484	846,614	879,793	1,105,675
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	716,677	1,021,592	860,745	1,247,281	1,204,024	2,167,716	1,277,737	1,549,466	1,776,025	1,677,935
Ceded	-	10,000	-	-	-	-	-	209,964	-	-
Net	716,677	1,011,592	860,745	1,247,281	1,204,024	2,167,716	1,277,737	1,339,502	1,776,025	1,677,935
4. Cumulative paid claims and allocated claim adjustment expenses:										
End of policy year	108,319	350,020	124,994	287,117	412,826	588,443	412,022	150,264	69,420	413,432
One year later	156,054	501,544	240,902	501,161	1,091,436	999,438	503,600	843,500	192,477	-
Two years later	318,242	552,938	278,524	660,798	1,314,138	1,862,829	613,223	1,162,955	-	-
Three years later	381,776	634,709	343,627	728,632	1,512,664	2,244,136	719,755	-	-	-
Four years later	439,670	642,244	344,145	730,687	1,853,159	2,243,560	-	-	-	-
Five years later	441,389	642,244	344,145	730,687	1,853,311	-	-	-	-	-
Six years later	441,899	635,343	344,145	730,687	-	-	-	-	-	-
Seven years later	432,899	642,244	344,145	-	-	-	-	-	-	-
Eight years later	432,899	642,244	-	-	-	-	-	-	-	-
Nine years later	432,899	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	-	-	6,900	-	-	-	-	209,937	-	-
6. Re-estimated incurred claims and allocated claim adjustment expenses:										
End of policy year	716,677	1,011,592	860,745	1,247,281	1,204,024	2,097,716	1,277,737	1,339,502	1,776,025	1,677,935
One year later	533,215	773,806	450,340	768,635	1,508,338	2,143,152	887,370	1,773,430	1,750,027	-
Two years later	477,865	643,609	376,839	813,024	15,588,504	2,287,517	760,533	2,325,877	-	-
Three years later	457,800	640,544	345,452	763,730	1,562,262	2,255,510	744,089	-	-	-
Four years later	442,800	642,244	344,145	731,358	1,853,159	2,249,174	-	-	-	-
Five years later	450,244	642,244	344,145	730,687	1,853,311	-	-	-	-	-
Six years later	443,609	642,244	344,145	730,687	-	-	-	-	-	-
Seven years later	432,899	642,244	344,145	-	-	-	-	-	-	-
Eight years later	432,899	642,244	-	-	-	-	-	-	-	-
Nine years later	432,899	-	-	-	-	-	-	-	-	-
7. Change in estimated incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	(283,778)	(369,348)	(516,600)	(516,594)	649,287	81,458	(533,648)	986,375	(25,998)	-

## Ohio Transit Risk Pool - Medina County

### Required Supplemental Information

### Schedule of Reconciliation of Net Reserves for Claims and Claims Adjustment Expenses by Type of Contract

**Fiscal and Policy Years Ended November 30, 2017, 2016, and 2015**

	2017			2016			2015		
	Casualty	Property	Total	Casualty	Property	Total	Casualty	Property	Total
<b>Reserve for Unpaid Claims and Claims Adjustment Expenses -</b>									
Beginning of fiscal year	\$ 2,384,166	\$ 411,053	\$ 2,795,219	\$ 1,648,170	\$ 399,797	\$ 2,047,967	\$ 1,990,837	\$ 299,766	\$ 2,290,603
Incurred claims and claims adjustment expenses:									
Provision for insured events of the current fiscal year	657,590	1,020,345	1,677,935	1,744,657	31,368	1,776,025	1,018,867	320,635	1,339,502
Change in provision for insured events of prior fiscal years	416,964	86,858	503,822	313,141	252,166	565,307	(330,192)	(165,096)	(495,288)
Total incurred claims and claims adjustment expenses	1,074,554	1,107,203	2,181,757	2,057,798	283,534	2,341,332	688,675	155,539	844,214
Payments:									
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	162,026	251,406	413,432	38,052	31,368	69,420	117,504	32,760	150,264
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	454,040	94,581	548,621	1,283,750	240,910	1,524,660	913,838	22,748	936,586
Total payments	616,066	345,987	962,053	1,321,802	272,278	1,594,080	1,031,342	55,508	1,086,850
<b>Reserve for Unpaid Claims and Claims Adjustment Expenses -</b>									
End of fiscal year	<u>\$ 2,842,654</u>	<u>\$ 1,172,269</u>	<u>\$ 4,014,923</u>	<u>\$ 2,384,166</u>	<u>\$ 411,053</u>	<u>\$ 2,795,219</u>	<u>\$ 1,648,170</u>	<u>\$ 399,797</u>	<u>\$ 2,047,967</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*

**Independent Auditor's Report**

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

We have audited, 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, the financial statements of Ohio Transit Risk Pool - Medina County (OTRP), which comprise the statement of net position as of November 30, 2017 and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 24, 2018.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether OTRP'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 OTRP'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 24, 2018



# 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  
JUNE 21, 2018**