

Ohio Township Association Risk Management Authority

**Financial Report
with Required Supplemental Schedules
December 31, 2013**



Dave Yost • Auditor of State

Board of Directors
Ohio Township Association Risk Management Authority
29200 Northwestern Highway, Suite 300
P.O. Box 5088
Southfield, MI 48034

We have reviewed the *Independent Auditor's Report* of the Ohio Township Association Risk Management Authority, Lucas County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Township Association Risk Management Authority is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

May 12, 2014

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Ohio Township Association Risk Management Authority

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Independent Auditor's Report

To the Board of Directors
Ohio Township Association Risk Management Authority

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of Ohio Township Association Risk Management Authority (the "Pool") as of and for the years ended December 31, 2013 and 2012 and the related notes to the basic financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 *Governmental 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 Pool'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 basic financial statements.

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

To the Board of Directors
Ohio Township Association Risk Management Authority

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Pool as of December 31, 2013 and 2012 and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, casualty claims development information, property claims development information, and statement of reconciliation of unpaid claims and claim adjustment expense liability by type of contract, as identified in the table of contents, 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 supplementary 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on said information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2014 on our consideration of the Pool'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 the Pool's internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 24, 2014

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. Along with the notes to the basic financial statements, it provides detailed financial information concerning the Ohio Township Association Risk Management Authority (the "Pool" or OTARMA). The management's discussion and analysis (MD&A) provides a review of the Pool's operating results for the years 2011 through 2013, as well as its financial condition at December 31, 2013, 2012, and 2011. The MD&A should be read in conjunction with the basic financial statements and notes thereto.

Overview

OTARMA is a local government risk pool that offers comprehensive liability and property coverages specifically tailored to meet the needs of townships throughout the state of Ohio and provide them with an alternative to traditional insurance. OTARMA differs philosophically from traditional insurance programs in that OTARMA is owned by its members and serves only its members' interests.

Historically, the property and casualty insurance industry has been unable to provide the consistency of pricing and coverages needed by governmental authorities. The national insurance crisis of the late 1980s, in which political subdivisions in the State of Ohio were unable to purchase affordable insurance, led to the formation of local government risk pools. The transition from insurance to pooling has been so successful that there are over 500 governmental entity pools currently operating in the United States of America. OTARMA was formed in 1987 and has grown steadily to 948 members today.

The growth and success of pooling is often attributed to the availability of broad coverage and price stability, which OTARMA has consistently delivered since its formation. In addition to those advantages enjoyed by many pools, OTARMA stands out by providing responsive claims handling, coverage specific to Ohio townships, and customized loss control services, proving that its service-oriented philosophy has been a successful long-term solution for its members.

OTARMA's Annual Report provides members with detailed information about the Pool and OTARMA's website provides members with information on news and events and contains links to valuable resources including a comprehensive online loss control library with numerous risk management tools available in a variety of resources. OTARMA enjoys the distinct privilege of being the pool with the most townships in Ohio and the only pool endorsed by the Ohio Township Association (OTA). The OTA endorsement is significant; the OTA is dedicated to the promotion and preservation of Ohio township government and serves as a resource to aid in effective township government.

OTARMA continues to build on its longstanding success by consistently providing customized coverage at a fair and stable price and being responsible, loyal, and responsive to its membership.

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

Administration

York Risk Pooling Services, Inc. ("York" or "Management"), functions as the administrator of the Pool and provides underwriting, claims, loss control, risk management, and reinsurance services for the Pool. York's pool administration team includes certified public accountants, credentialed underwriters, attorneys that specialize in public entity claims and a host of other subject matter experts, who have decades of experience in the successful management of public entity pools.

Financial Overview and Highlights

The analysis below presents a comparison of the Pool's current year financial position to prior years:

	2013	2012	2011
Assets			
Cash and cash equivalents	\$ 5,418,961	\$ 2,839,751	\$ 2,964,191
Investment securities - At fair value	20,950,930	22,894,947	22,436,051
Member contributions to be billed in the future	7,450,976	7,899,698	8,636,662
Other assets	1,133,419	1,136,874	1,049,261
Total assets	<u>\$ 34,954,286</u>	<u>\$ 34,771,270</u>	<u>\$ 35,086,165</u>
Liabilities			
Claims and claim adjustment expense reserves	\$ 7,944,334	\$ 8,746,546	\$ 9,086,447
Unearned premium reserves	46,288	89,668	127,452
Other liabilities	495,741	518,868	504,893
Total liabilities	8,486,363	9,355,082	9,718,792
Net Position - Unrestricted	<u>26,467,923</u>	<u>25,416,188</u>	<u>25,367,373</u>
Total liabilities and net position	<u>\$ 34,954,286</u>	<u>\$ 34,771,270</u>	<u>\$ 35,086,165</u>

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

Approximately 75 percent in 2013, 74 percent in 2012, and 72 percent in 2011 of total assets consists of cash, cash equivalents, and investments. As a result of the Pool's conservative investment objectives and policies, the overall investment return (excluding the net realized and unrealized losses on investments) totaled 2.32 percent during the year ended December 31, 2013. At December 31, 2013, 2012, and 2011, substantially all of the Pool's investments were invested in U.S. government securities, U.S. agency securities, mutual funds, certificates of deposit, or common stock.

In accordance with the requirements of Governmental Accounting Standards Board (GASB) No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, member contributions, claims and claim adjustment expenses, and operating expenses are recognized in the statement of revenue, expenses, and changes in net position on an accrual basis of accounting. Pursuant to the Intergovernmental Contract signed by each member of the Pool, the budgetary funding requirement for each member is based upon the estimated cash outflow of the Pool on an annual basis. As a result of the long claim cycle for casualty claims, member contributions are collected from active members when the estimated claims and claim adjustment expenses are anticipated to be paid. These estimated amounts are accounted for in the statement of net position as "member contributions to be billed in the future." Changes to these estimates are reflected in the statement of revenue, expenses, and changes in net position, in a method similar to that of claim reserves, as detailed below. Because amounts are estimated in this manner, amounts will fluctuate from year to year due to changes in the estimate of the future cost of settling all existing claims.

The Pool's claims and claim adjustment expense reserves totaled \$7,944,334 in 2013, \$8,746,546 in 2012, and \$9,086,447 in 2011. For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors. Because these estimates depend on complex factors such as jury decisions, court interpretations, changes in doctrines of legal liability, damage awards, inflation, and legislative changes, the process used in estimating claims reserves does not necessarily result in an exact amount. Consistent with industry practices, adjustments to claims reserves are charged to expense in the periods in which they are made. During the year ended December 31, 2013, the Pool decreased its provision for claims incurred in prior years by \$2,281,367 as a result of a decrease in claim frequency from the original actuarial estimate and favorable outcomes on certain cases settled or expected to be settled in the near future. Total claim payments increased by 3 percent, from \$5,060,500 in 2012 to \$5,210,254 in 2013.

Net position at December 31, 2013 increased \$1,051,735 from the year ended December 31, 2012, as growth in membership, lower than anticipated claim expenses and reductions in reinsurance more than offset the \$1,003,681 of budgetary distributions and \$25,836 of member distributions out of the cumulative reserve fund during 2013.

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

The following table shows the major components of income from operations for the current year compared to prior years:

	2013	2012	2011
Operating Revenue			
Member contributions	\$ 13,667,928	\$ 13,281,541	\$ 12,982,083
Reinsurance premiums ceded	(1,641,573)	(1,781,937)	(1,994,904)
Change in contributions that will be billed in the future to pay unpaid claims	<u>(448,722)</u>	<u>(736,964)</u>	<u>(841,570)</u>
Total operating revenue	11,577,633	10,762,640	10,145,609
Operating Expenses			
Provision for claims	4,408,042	4,720,599	4,405,600
General and administrative expenses	<u>5,240,046</u>	<u>4,846,386</u>	<u>4,689,808</u>
Total operating expenses	<u>9,648,088</u>	<u>9,566,985</u>	<u>9,095,408</u>
Operating Income	1,929,545	1,195,655	1,050,201
Nonoperating Revenue (Expenses)			
Investment earnings	156,466	324,421	622,286
Budgetary distributions	(1,003,681)	-	(2,062)
Cumulative reserve fund distributions	<u>(25,836)</u>	<u>(1,468,652)</u>	<u>(1,458,064)</u>
Total nonoperating expense	(873,051)	(1,144,231)	(837,840)
Withdrawals - Member capital	<u>(4,759)</u>	<u>(2,609)</u>	<u>(35,516)</u>
Increase in Net Position	<u><u>\$ 1,051,735</u></u>	<u><u>\$ 48,815</u></u>	<u><u>\$ 176,845</u></u>

The Pool's membership increased from 944 to 948 members in 2013. Member contributions increased from \$13,281,541 in 2012 to \$13,667,928 in 2013.

Ohio Township Association Risk Management Authority

Management's Discussion and Analysis (Continued)

The Pool uses reinsurance and excess risk-sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool; however, they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains risks up to an amount specified in the contracts (at December 31, 2013, the Pool retained \$350,000 for casualty claims and \$250,000 for property claims). The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain. Reinsurance premiums ceded to APEEP and the Pool's excess reinsurers totaled approximately \$1,642,000 and \$1,782,000 for the years ended December 31, 2013 and 2012, respectively. In addition, amounts deducted from claims and claim expense reserves as of December 31, 2013 and 2012 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$3,632,000 and \$5,157,000, respectively.

In accordance with generally accepted accounting principles, all investments maintained by the Pool must be reported at fair market value ("marked to market" concept). Annual changes in these values are recognized in the statement of revenue, expenses, and changes in net position as unrealized gains or losses on investments. Net realized and unrealized losses on investments totaled \$352,580 and \$193,928 for the years ended December 31, 2013 and 2012, respectively.

Total operating expenses of the Pool were consistent in 2013 and 2012 totaling \$9,648,088 and \$9,566,985, or 71 percent and 72 percent of member contributions, respectively.

Economic Facts and Next Year's Rates

The rates charged by the Pool for member contributions for the next year are not expected to change significantly. All other operating expenses are expected to remain consistent with amounts reported in 2013. The provision for claim payments is expected to be consistent with historical trends and Management is unaware of any new economic events or legislative events that would have a significant impact on the operations of the Pool.

Contacting the Pool's Management

This financial report is intended to provide OTARMA members and regulators with a general overview of the accountability for the revenue OTARMA receives. Additional information regarding the Pool can be found on OTARMA's website, www.otarma.org. If you have questions about this report or need additional information, contact John W. Brockschmidt, President, York Risk Pooling Services, Inc. at (248) 204-5142.

Ohio Township Association Risk Management Authority

Statement of Net Position

	December 31	
	2013	2012
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 5,418,961	\$ 2,839,751
Member contributions receivable	963,536	937,636
Investment securities - At fair value (Note 2)	8,099,150	4,293,914
Accrued investment income	167,048	191,113
Deductibles receivable	2,835	8,125
Member contributions to be billed in the future	3,000,000	2,850,000
Total current assets	17,651,530	11,120,539
Noncurrent Assets		
Investment securities - At fair value (Note 2)	12,851,780	18,601,033
Member contributions to be billed in the future	4,450,976	5,049,698
Total noncurrent assets	17,302,756	23,650,731
Total assets	\$ 34,954,286	\$ 34,771,270
Liabilities and Net Position		
Liabilities		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 3)	\$ 3,493,358	\$ 3,696,848
Reinsurance premiums payable (Note 4)	66,094	75,127
Accounts payable and accrued expenses	429,647	443,741
Total current liabilities	3,989,099	4,215,716
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 3)	4,450,976	5,049,698
Unearned premium reserves	46,288	89,668
Total long-term liabilities	4,497,264	5,139,366
Total liabilities	8,486,363	9,355,082
Net Position - Unrestricted	26,467,923	25,416,188
Total liabilities and net position	\$ 34,954,286	\$ 34,771,270

Ohio Township Association Risk Management Authority

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended December 31	
	2013	2012
Operating Revenue		
Member contributions (Note 7)	\$ 13,667,928	\$ 13,281,541
Reinsurance premiums ceded (Note 4)	(1,641,573)	(1,781,937)
Change in contributions that will be billed in the future to pay unpaid claims	<u>(448,722)</u>	<u>(736,964)</u>
Total operating revenue	11,577,633	10,762,640
Operating Expenses		
Claims and claim adjustment expenses (Note 3):		
Paid	7,969,393	6,077,542
Recoveries	(2,759,139)	(1,017,042)
Change in claims and claim adjustment expense reserves	<u>(802,212)</u>	<u>(339,901)</u>
Total claims and claim adjustment expenses	4,408,042	4,720,599
Marketing and administrator fees	4,019,946	3,903,087
Other	<u>1,220,100</u>	<u>943,299</u>
Total operating expenses	<u>9,648,088</u>	<u>9,566,985</u>
Operating Income	1,929,545	1,195,655
Nonoperating Revenue (Expenses)		
Investment earnings - Interest and dividends	509,046	518,349
Net realized and unrealized losses on investments	(352,580)	(193,928)
Budgetary distributions (Note 5)	(1,003,681)	-
Cumulative reserve fund distributions (Note 6)	<u>(25,836)</u>	<u>(1,468,652)</u>
Total nonoperating expense	(873,051)	(1,144,231)
Withdrawals - Member capital	<u>(4,759)</u>	<u>(2,609)</u>
Increase in Net Position	1,051,735	48,815
Net Position - Beginning of year	<u>25,416,188</u>	<u>25,367,373</u>
Net Position - End of year	<u><u>\$ 26,467,923</u></u>	<u><u>\$ 25,416,188</u></u>

Ohio Township Association Risk Management Authority

Statement of Cash Flows

	Year Ended December 31	
	2013	2012
Cash Flows from Operating Activities		
Cash received from members	\$ 13,598,648	\$ 13,151,014
Cash received from reinsurance recoveries	2,759,139	1,017,042
Cash paid for claims	(7,964,103)	(6,076,758)
Cash paid for reinsurance premiums	(1,650,606)	(1,790,821)
Cash paid for administrative and general expenses	<u>(5,254,140)</u>	<u>(4,823,527)</u>
Net cash provided by operating activities	1,488,938	1,476,950
Cash Flows from Investing Activities		
Investment income received	533,111	522,695
Purchase of investments	(16,104,789)	(20,701,043)
Proceeds from sales and maturities of investments	<u>17,696,226</u>	<u>20,048,219</u>
Net cash provided by (used in) investing activities	2,124,548	(130,129)
Cash Flows from Noncapital Financing Activities		
Payments for member withdrawals - Capitalization	(4,759)	(2,609)
Payments for member distributions - Budgetary	(1,003,681)	-
Payments for member distributions - Cumulative reserve fund	<u>(25,836)</u>	<u>(1,468,652)</u>
Net cash used in noncapital financing activities	<u>(1,034,276)</u>	<u>(1,471,261)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,579,210	(124,440)
Cash and Cash Equivalents - Beginning of year	<u>2,839,751</u>	<u>2,964,191</u>
Cash and Cash Equivalents - End of year	<u>\$ 5,418,961</u>	<u>\$ 2,839,751</u>

Ohio Township Association Risk Management Authority

Statement of Cash Flows (Continued)

A reconciliation of operating income to net cash from operating activities is as follows:

	Year Ended December 31	
	2013	2012
Operating income	\$ 1,929,545	\$ 1,195,655
Adjustments to reconcile operating income to net cash from operating activities:		
(Increase) decrease in assets:		
Member contributions receivable	(25,900)	(92,743)
Deductibles receivable	5,290	784
Member contributions to be billed in the future	448,722	736,964
(Decrease) increase in liabilities:		
Unearned premium reserves	(43,380)	(37,784)
Claims and claim adjustment expense reserves	(802,212)	(339,901)
Reinsurance premiums payable	(9,033)	(8,884)
Accounts payable and accrued expenses	(14,094)	22,859
Net cash provided by operating activities	<u>\$ 1,488,938</u>	<u>\$ 1,476,950</u>
Supplemental Disclosure of Cash Flow Information -		
Noncash investing activities - Net realized and unrealized losses on investments	<u>\$ (352,580)</u>	<u>\$ (193,928)</u>

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 1 - Nature of Business and Significant Accounting Policies

The Pool was created in March 1987 and organized under the laws of the State of Ohio as a local government risk pool. The Ohio Township Association endorses and promotes the Pool. A total of 948 townships within the State of Ohio participate in the Pool. OTARMA's primary objectives are to offer customized property and casualty coverage at a fair and stable price, provide a high level of service, and be responsive to the needs of its members.

Members entering the Pool agree to participate in the Pool for a period of not less than one year and provide capitalization contributions as defined in the contract signed between the member and the Pool. Members electing to withdraw from the Pool may receive a partial refund of their capitalization contribution as defined by the contract, provided the member has given 60 days' written notice prior to its anniversary date. In addition, upon withdrawal, all payments for casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal.

The accompanying financial statements are presented using the full accrual method of accounting in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities.

The Pool distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Pool's principal ongoing operations. The principal operating revenue relates to member contributions. Operating expenses include claims and claim adjustment expenses and general and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating.

The Pool engages York Risk Pooling Services, Inc. (York) to serve as the administrator of the Pool. York specializes in public entity risk pool management and provides a full spectrum of administrative services. As provided for in its administrative agreement, York contracts specific services to subcontractors. Marketing and member services are provided by Burnham and Flower Agency of Ohio, Inc. Loss control services are provided by KLA Risk Consulting. Claim services are provided by York's wholly owned subsidiary, Public Entity Risk Services of Ohio. These organizations are reimbursed for their services pursuant to the terms of their respective agreements with York.

Cash Equivalents - Cash equivalents are liquid assets maturing no more than three months from purchase date and include money market funds, certificates of deposit, and U.S. Treasury bills.

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

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

Investments - Investments are stated at fair value, based on quoted market prices. Investment income is recognized when earned.

Investment Earnings - Investment earnings, including changes in the fair value of investments, are recognized as nonoperating revenue in the statement of revenue, expenses, and changes in net position.

Member Contributions Receivable - Member contributions receivable represent amounts due from members of the Pool and are considered collectible. Accordingly, the Pool has no allowance for doubtful accounts for financial reporting purposes.

Member Contributions to be Billed in the Future - Member contributions to be billed in the future represent an estimate of amounts due from members which have not been billed to members and will be billed and collected in the future, when the estimated incurred claims, claim adjustment expenses, and related administrative expenses for each certificate year are anticipated to be paid.

Claims and Claim Adjustment Expense Reserves - Claims and claim adjustment expense reserves represent the estimated liability for unpaid claims and related claims expenses from reported claims and claims incurred but not reported. Changes to estimates are currently reflected in the statement of revenue, expenses, and changes in net position.

Capitalization Contributions - Casualty capitalization contributions are accounted for under the provisions of GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools* (Interpretation No. 4). Under Interpretation No. 4, capitalization contributions to pools to which risk is transferred must be accounted for as revenue by initially recording such contributions as unearned premiums, then amortizing them into revenue over an appropriate period not to exceed 10 years. Unearned premium reserves resulting from the application of Interpretation No. 4 are being amortized pro rata over the funding period, the period over which a member makes casualty capitalization contributions.

Member Contributions - Member contributions are recognized under the accrual method of accounting and follow the provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Member contributions are estimated and recognized using a variety of actuarial and statistical techniques and reflect the amount to be contributed by members for payment of incurred claims, claim adjustment expenses, reinsurance expenses, and related administrative expenses for each certificate year.

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

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

Use of Estimates - Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the statement of net position date and the amounts of revenue and expenses during the reporting period to prepare these basic financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Tax Status - The Pool's income is excludable from gross income under Section 115 of the Internal Revenue Code and is thus exempt from federal income taxes. Management believes that the Pool continues to operate in a manner whereby it continues to be tax exempt.

Note 2 - Deposits and Investments

The Pool designated JPMorgan Chase for the deposit of its funds and UBS Financial Services to handle the investments for the Pool.

The Pool's cash and investments are subject to several types of risk, which are examined in more detail below.

At December 31, 2013, deposits and investments are reported in the basic financial statements as follows:

	2013	
	Cash and Cash Equivalents	Investment Securities
Deposits:		
Cash	\$ 1,504,208	\$ -
Investments:		
Money market mutual funds	\$ 2,560,858	\$ -
U.S. Treasury securities	1,103,950	9,278,809
Certificates of deposit	249,945	80,123
U.S. agencies and pass-throughs	-	9,358,973
Mutual fund (stock)	-	610,752
Mutual fund (debt)	-	106,169
Common stock	-	1,516,104
Total	<u>\$ 5,418,961</u>	<u>\$ 20,950,930</u>

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 2 - Deposits and Investments (Continued)

At December 31, 2012, deposits and investments are reported in the basic financial statements as follows:

	2012	
	Cash and Cash Equivalents	Investment Securities
Deposits:		
Cash	\$ 252,218	\$ -
Money market	632,092	-
Total deposits	<u>\$ 884,310</u>	<u>\$ -</u>
Investments:		
Money market mutual funds	\$ 1,955,441	\$ -
U.S. Treasury securities	-	10,038,068
U.S. agencies and pass-throughs	-	11,132,632
Mutual fund (stock)	-	533,655
Common stock	-	1,190,592
Total	<u>\$ 2,839,751</u>	<u>\$ 22,894,947</u>

Custodial Credit Risk of Bank Deposits - The Pool maintains balances in its deposit accounts to adequately cover current operating and claim payment expenses. At December 31, 2013 and 2012, the Pool had \$1,176,087 and \$382,092 of deposits (including money market funds during 2012) that were uninsured and uncollateralized.

Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. The Pool's policy related to custodial credit risk of bank deposits is to evaluate each financial institution with which it deposits funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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. The Pool's investment policy does not restrict investment maturities. The Pool's 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 the Pool's cash requirements.

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 2 - Deposits and Investments (Continued)

At December 31, 2013, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 10,382,759	2.87
U.S. agencies and pass-throughs	9,358,973	2.19
Money market mutual fund (debt)	2,560,858	0.10
Money market fund (debt)	106,169	5.14
Total fair value	<u>\$ 22,408,759</u>	
Portfolio weighted average maturity		<u>2.28</u>

At December 31, 2012, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 10,038,068	2.94
U.S. agencies and pass-throughs	11,132,632	2.98
Money market mutual fund (debt)	1,955,441	0.10
Total fair value	<u>\$ 23,126,141</u>	
Portfolio weighted average maturity		<u>2.72</u>

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 2 - Deposits and Investments (Continued)

Credit Risk - Credit risk is the risk that an issuer to an investment will not fulfill its obligations. In accordance with the Pool's investment policy, the Pool may invest in U.S. government securities and certain equities.

At December 31, 2013 and 2012, the credit quality ratings of debt securities by investment type (other than the U.S. government) are as follows:

Rating	Fair Value	
	2013	2012
U.S. agencies and pass-throughs:		
Aaa	\$ 5,958,531	\$ 7,480,139
Aa2	3,400,442	3,652,493
Total	<u>\$ 9,358,973</u>	<u>\$ 11,132,632</u>
Mutual funds (debt) - B	<u>\$ 106,169</u>	<u>\$ -</u>

The rating organizations used by the Pool to rate its investments were Moody's and Standard & Poor's.

Concentration of Credit Risk - The Pool places no limit on the amount it may invest in any one issuer. At December 31, 2013, the Pool had investments of \$1,084,579 in Federal Home Loan Bank, \$1,707,288 in Freddie Mac, and \$6,567,105 in Fannie Mae; these investments represent 9.7 percent, 15.2 percent, and 58.6 percent, respectively, of the Pool's total investments subject to concentration of credit risk. At December 31, 2012, the Pool had investments of \$1,891,865 in Federal Home Loan Bank, \$1,150,236 in Freddie Mac, and \$8,090,531 in Fannie Mae; these investments represent 15.4 percent, 9.3 percent, and 65.7 percent of the Pool's total investments subject to concentration of credit risk.

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 3 - Claims and Claim Adjustment Expense Reserves

For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Because actual claim costs depend on complex factors such as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claim liabilities does not necessarily result in an exact amount, particularly for coverage such as third-party liability; it is reasonably possible that a material change in the estimate will occur within the near term and thus the actual claims paid may be substantially different than these estimates. Consistent to industry practices, adjustments to claim reserves are charged to expense in the periods in which they are made.

The following summarizes changes in claims and claim adjustment expense reserves for the years ended December 31, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Claims and Claim Adjustment Expense			
Reserves - Beginning of year	\$ 8,746,546	\$ 9,086,447	\$ 9,936,923
Incurred Claims and Claim Adjustment			
Expenses:			
Provision for claims incurred in current year	6,689,409	6,461,848	5,883,627
Change in provision for claims incurred in prior years	<u>(2,281,367)</u>	<u>(1,741,249)</u>	<u>(1,478,027)</u>
Total expenses	4,408,042	4,720,599	4,405,600
Payments:			
Claims and claim adjustment expenses paid for claims incurred in current year	(2,206,981)	(2,851,466)	(2,453,047)
Claims and claim adjustment expenses paid for claims incurred in prior years	<u>(3,003,273)</u>	<u>(2,209,034)</u>	<u>(2,803,029)</u>
Total payments	<u>(5,210,254)</u>	<u>(5,060,500)</u>	<u>(5,256,076)</u>
Claims and Claim Adjustment Expense			
Reserves - End of year	<u>\$ 7,944,334</u>	<u>\$ 8,746,546</u>	<u>\$ 9,086,447</u>

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 3 - Claims and Claim Adjustment Expense Reserves (Continued)

Reserves for claims and claim adjustment expenses attributable to insured events in prior years changed as a result of reestimation of unpaid claims and claim adjustment expenses. This change is generally a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 4 - Reinsurance and Excess Risk-sharing Agreements

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large specific and aggregate losses. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool, although they do not discharge the Pool's primary liability for such payments. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers or excess risk-sharing agreements. Premiums ceded to reinsurance carriers and the risk-sharing pool during the years ended December 31, 2013 and 2012 totaled \$1,641,573 and \$1,781,937, respectively, and the amounts deducted from claims and claim adjustment expense reserves as of December 31, 2013 and 2012 for reinsurance and excess risk-sharing agreements totaled approximately \$3,632,000 and \$5,157,000, respectively.

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides reinsurance and excess risk-sharing programs for its member pools, all of which are public entity risk pools.

Note 5 - Member Distributions - Budgetary

In 2013, the board of directors approved a budgetary cash distribution to members of approximately \$1,000,000. For the year ended December 31, 2013, budgetary cash distributions returned to the members totaled \$1,003,681. There were no approved or paid budgetary distributions for the year ended December 31, 2012.

Note 6 - Member Distributions - Cumulative Reserve Fund

Beginning in 2011, the Pool changed the funding and maintenance levels for member's Cumulative Reserve Funds (CRF) from 300 percent to 200 percent of its total current basis rate. Members will continue to follow a six year cycle before fully vesting in their CRF. In the year after a member becomes fully vested, the Pool makes the first of two annual distributions to the member to reduce the member's CRF balance to 200 percent (if its basis rate exceeds 200 percent). For members joining the Pool on January 1, 2011 or later, members will only fund their CRF to 200 percent; therefore no distribution will be necessary after a member is fully vested. CRF distributions totaled \$25,836 for the year ended December 31, 2013 and \$1,468,652 for the year ended December 31, 2012.

Ohio Township Association Risk Management Authority

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 7 - Member Contributions

The following summarizes the components of member contributions for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Member contributions - Operating	\$ 13,513,585	\$ 13,109,420
Member contributions - Cumulative reserve fund	110,963	134,337
Change in unearned premium reserves	<u>43,380</u>	<u>37,784</u>
Total member contributions	<u>\$ 13,667,928</u>	<u>\$ 13,281,541</u>

Required Supplemental Schedules

Ohio Township Association Risk Management Authority

Casualty Claims Development Information

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Required contributions and investment income :										
Earned	\$ 6,087,953	\$ 7,022,261	\$ 7,976,953	\$ 7,501,562	\$ 7,280,411	\$ 7,137,094	\$ 6,862,131	\$ 6,609,936	\$ 6,624,968	\$ 6,778,509
Ceded	947,665	1,136,343	1,096,907	1,419,049	1,221,895	1,114,223	960,105	884,370	896,331	814,052
Net	5,140,288	5,885,918	6,880,046	6,082,513	6,058,516	6,022,871	5,902,026	5,725,566	5,728,637	5,964,457
2. Expenses other than allocated claim adjustment expenses	1,952,051	2,031,927	2,072,105	2,014,329	2,032,316	2,052,690	2,001,633	2,133,385	2,227,739	2,384,949
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	5,015,109	5,070,171	4,518,977	5,261,308	5,665,051	4,987,471	5,689,607	4,216,736	3,782,620	5,412,092
Ceded	524,939	448,888	427,789	796,650	1,101,690	421,258	1,706,120	694,898	280,266	610,618
Net	4,490,170	4,621,283	4,091,188	4,464,658	4,563,361	4,566,213	3,983,487	3,521,838	3,502,354	4,801,474
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	294,098	314,354	346,036	369,546	434,047	478,197	477,826	501,138	718,837	627,262
One year later	832,000	892,705	832,787	1,205,989	939,105	1,334,999	1,185,524	868,189	1,327,348	-
Two years later	1,444,200	1,588,974	1,612,959	1,705,436	1,717,639	1,941,696	1,667,463	1,358,231	-	-
Three years later	2,429,413	2,357,397	2,678,137	2,432,602	2,318,923	2,266,178	2,009,248	-	-	-
Four years later	2,957,396	2,549,169	3,094,370	3,041,373	2,502,839	2,445,378	-	-	-	-
Five years later	3,002,515	2,578,655	3,215,785	3,359,146	2,583,448	-	-	-	-	-
Six years later	3,113,806	2,584,262	3,243,128	3,471,318	-	-	-	-	-	-
Seven years later	3,115,411	2,587,167	3,412,229	-	-	-	-	-	-	-
Eight years later	3,115,411	2,685,554	-	-	-	-	-	-	-	-
Nine years later	3,119,070	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	221,216	259,239	2,011,486	770,210	-	(2,899)	2,682,380	1,397,749	94,284	610,618
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	4,490,170	4,621,283	4,091,188	4,464,658	4,563,361	4,566,213	3,983,487	3,521,838	3,502,354	4,801,474
One year later	4,290,646	4,002,462	3,634,702	4,316,937	4,214,489	4,011,253	3,474,777	3,185,845	2,554,661	-
Two years later	3,759,479	3,429,248	3,895,319	3,567,536	3,272,262	3,919,516	3,074,912	2,580,519	-	-
Three years later	4,294,101	2,886,195	4,070,436	3,325,321	2,759,585	3,012,831	2,405,670	-	-	-
Four years later	3,244,973	2,891,536	3,548,854	3,593,397	2,695,271	2,635,441	-	-	-	-
Five years later	3,200,665	2,776,601	3,520,393	3,419,589	2,638,476	-	-	-	-	-
Six years later	3,196,817	2,597,758	3,586,565	3,524,753	-	-	-	-	-	-
Seven years later	3,115,411	2,602,880	3,478,615	-	-	-	-	-	-	-
Eight years later	3,115,411	2,714,878	-	-	-	-	-	-	-	-
Nine years later	3,119,070	-	-	-	-	-	-	-	-	-
7. Decrease in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ (1,371,100)	\$ (1,906,405)	\$ (612,573)	\$ (939,905)	\$ (1,924,885)	\$ (1,930,772)	\$ (1,577,817)	\$ (941,319)	\$ (947,693)	\$ -

Ohio Township Association Risk Management Authority

Property Claims Development Information

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Required contributions and investment income:										
Earned	\$ 5,533,121	\$ 5,996,083	\$ 6,285,330	\$ 6,537,998	\$ 6,668,098	\$ 6,771,733	\$ 6,783,382	\$ 6,850,634	\$ 7,009,382	\$ 7,281,816
Ceded	883,832	982,243	973,575	999,555	948,429	1,063,882	1,119,658	1,110,532	885,606	827,521
Net	4,649,289	5,013,840	5,311,755	5,538,443	5,719,669	5,707,851	5,663,724	5,740,102	6,123,776	6,454,295
2. Expenses other than allocated claim adjustment expenses	2,014,315	2,156,482	2,220,448	2,312,054	2,391,094	2,481,997	2,509,725	2,556,423	2,618,646	2,855,097
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	2,122,742	2,101,728	1,997,715	3,618,929	4,777,256	3,080,269	3,053,830	2,778,501	3,536,170	1,909,062
Ceded	291,322	29,494	63,091	92,042	463,369	704,459	317,665	415,974	576,233	21,127
Net	1,831,420	2,072,234	1,934,624	3,526,887	4,313,887	2,375,810	2,736,165	2,362,527	2,959,937	1,887,935
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	1,373,094	1,382,464	1,371,775	1,622,730	2,912,543	2,034,838	2,402,760	1,951,909	2,133,072	1,579,719
One year later	1,739,689	1,770,066	1,689,615	1,961,352	3,535,737	2,394,347	2,496,917	2,445,465	3,025,524	-
Two years later	1,757,678	1,776,163	1,647,863	1,990,499	3,558,202	2,346,005	2,501,900	2,450,028	-	-
Three years later	1,762,522	1,778,813	1,640,046	1,971,281	3,568,698	2,345,936	2,507,511	-	-	-
Four years later	1,779,805	1,779,446	1,661,945	1,971,022	3,567,831	2,334,896	-	-	-	-
Five years later	1,703,831	1,779,446	1,666,858	1,970,819	3,572,462	-	-	-	-	-
Six years later	1,703,781	1,779,446	1,664,270	1,970,519	-	-	-	-	-	-
Seven years later	1,703,781	1,779,446	1,660,406	-	-	-	-	-	-	-
Eight years later	1,703,781	1,779,455	-	-	-	-	-	-	-	-
Nine years later	1,703,781	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	296,064	190,264	21,535	1,143,823	764,881	704,459	283,819	315,222	706,083	21,127
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	1,831,420	2,072,234	1,934,624	3,526,887	4,313,887	2,375,810	2,736,165	2,362,527	2,959,937	1,887,935
One year later	1,984,417	1,818,920	1,764,027	2,261,392	3,712,790	2,426,014	2,488,333	2,434,318	3,164,495	-
Two years later	1,968,388	1,779,960	1,668,772	2,003,993	3,589,594	2,366,194	2,502,075	2,450,867	-	-
Three years later	1,967,775	1,787,457	1,645,112	1,978,387	3,581,952	2,360,602	2,550,250	-	-	-
Four years later	1,983,914	1,779,446	1,686,485	1,974,118	3,581,086	2,334,840	-	-	-	-
Five years later	1,703,839	1,779,446	1,677,099	1,976,685	3,574,944	-	-	-	-	-
Six years later	1,703,781	1,779,446	1,661,550	1,970,685	-	-	-	-	-	-
Seven years later	1,703,781	1,779,446	1,660,406	-	-	-	-	-	-	-
Eight years later	1,703,781	1,779,455	-	-	-	-	-	-	-	-
Nine years later	1,703,781	-	-	-	-	-	-	-	-	-
7. (Decrease) increase in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (127,639)</u>	<u>\$ (292,779)</u>	<u>\$ (274,218)</u>	<u>\$ (1,556,202)</u>	<u>\$ (738,943)</u>	<u>\$ (40,970)</u>	<u>\$ (185,915)</u>	<u>\$ 88,340</u>	<u>\$ 204,558</u>	<u>\$ -</u>

Ohio Township Association Risk Management Authority

Statement of Reconciliation of Unpaid Claims and Claim Adjustment Expense Liability by Type of Contract

	Fiscal and Policy Years Ended December 31					
	2013			2012		
	Liability	Property	Total	Liability	Property	Total
Unpaid claims and claim adjustment expenses liability - Beginning of year	\$ 7,899,698	\$ 846,848	\$ 8,746,546	\$ 8,636,662	\$ 449,785	\$ 9,086,447
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	4,801,474	1,887,935	6,689,409	3,502,498	2,959,350	6,461,848
Change in provision for insured events of prior fiscal years	<u>(2,517,709)</u>	<u>236,342</u>	<u>(2,281,367)</u>	<u>(1,807,343)</u>	<u>66,094</u>	<u>(1,741,249)</u>
Total incurred claims and claim adjustment expense	2,283,765	2,124,277	4,408,042	1,695,155	3,025,444	4,720,599
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	627,262	1,579,719	2,206,981	718,981	2,132,485	2,851,466
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>2,105,225</u>	<u>898,048</u>	<u>3,003,273</u>	<u>1,713,138</u>	<u>495,896</u>	<u>2,209,034</u>
Total payments	<u>2,732,487</u>	<u>2,477,767</u>	<u>5,210,254</u>	<u>2,432,119</u>	<u>2,628,381</u>	<u>5,060,500</u>
Unpaid claims and claim adjustment expenses liability - End of year	<u>\$ 7,450,976</u>	<u>\$ 493,358</u>	<u>\$ 7,944,334</u>	<u>\$ 7,899,698</u>	<u>\$ 846,848</u>	<u>\$ 8,746,546</u>

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

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

Independent Auditor's Report

To Management and the Board of Directors
Ohio Township Association Risk Management Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Ohio Township Association Risk Management Authority, which comprise the statement of net position as of December 31, 2013, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and related notes to the basic financial statements, and have issued our report thereon dated April 24, 2014.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described below as Finding 2013-001 to be a material weakness.

To Management and the Board of Directors
Ohio Township Association Risk Management Authority

Finding Type - Material Weakness (Finding 2013-001)

Criteria - The Ohio Township Risk Management Authority (the “Pool”) utilizes a service organization's, York Risk Service Group, Inc., Claims Connect system for processing all of the Pool's claims transactions. The Pool places reliance on the Claims Connect systems information technology (IT) internal control structure to be suitably designed to provide reasonable assurance that certain IT control objectives are being achieved, including appropriate restricted access to programs and data, performance of backups, identification, tracking, recording and resolving processing problems in a complete and timely manner, provide security that logical access is appropriately restricted, and provide documentation that software patches and updates were completed.

Context, Cause, and Effect - The Independent Service Auditors Report cited that the information technology control objectives were suitably designed to provide reasonable assurance that the control objectives would be achieved; however, the related controls were not operating effectively (results and samples varied depending on the control objective tested) throughout the period from November 1, 2012 to October 31, 2013. Proper procedures and controls are not in place to ensure that information technology controls are operating effectively for the areas stated in the criteria above. There is a risk that improper, inaccurate, or unauthorized transactions could be recorded. Therefore, the Pool should not have been relying on the service organization and their information technology controls.

Recommendation - We recommend the Pool review and understand York's action plan to correct the various findings identified in the Report of Independent Service Auditors on the Claims Connect system. This includes periodic updates of the action plan to ensure the action plan is executed to allow the Pool assurance that IT controls exist at the service organization in order to maintain the integrity of the data being processed for the Pool.

Views of Responsible Officials and Planned Correction Actions - York has a senior leadership task force assigned to implement more formal control documentation, ensuring that controls are appropriate, and valid providing for an unqualified report going forward. York will be working with PricewaterhouseCoopers throughout this audit year to assure that the appropriate documentation procedures are in place. An appropriate control environment is an obligation York takes very seriously and is continuing to assure that the controls are in place to meet this obligation is a priority.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ohio Township Association Risk Management Authority's basic 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*.

To Management and the Board of Directors
Ohio Township Association Risk Management Authority

Ohio Township Association Risk Management Authority's Response to Finding

Ohio Township Association Risk Management Authority's response to the finding identified in our audit is stated above . Ohio Township Association Risk Management Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Plante & Moran, PLLC

April 24, 2014



Dave Yost • Auditor of State

OHIO TOWNSHIP ASSOCIATION RISK MANAGEMENT AUTHORITY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 22, 2014**