

Ohio Transit Risk Pool - Medina County

**Financial Report
with Supplemental Information
November 30, 2016**



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, 2015 through November 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The 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 21, 2017

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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, 2016 and 2015, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2016 and 2015, 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 OTRP's contributions, schedule of claims development, and schedule of reconciliation of reserve for unpaid claims 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 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 25, 2017 on our consideration of Ohio Transit Risk Pool - Medina County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ohio Transit Risk Pool - Medina County's internal control over financial reporting and compliance.

Plante & Moran, PLLC

May 25, 2017

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, 2016. Please read it in conjunction with OTRP's financial statements, which immediately follow this section.

Using this Annual Report

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

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

Financial Overview

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

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

Ohio Transit Risk Pool - Medina County

Management's Discussion and Analysis (Continued)

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 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. 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 new 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

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. 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.

Ohio Transit Risk Pool - Medina County

Management's Discussion and Analysis (Continued)

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.

As a result of implementing GASB 68, the OTRP is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at November 30, 2015, from \$4,187,862 to \$3,926,552.

Financial Highlights

During 2016, 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, 2016 and 2015, the majority of the liabilities have been resolved, but claim payments continue to impact OTRP's financial position. Overall, the number of open claims decreased from 112 to 105 at fiscal year end. Total reserves have increased from \$2,047,967 at November 30, 2015 to \$2,795,219 at November 30, 2016. The majority of the reserves remain in 2016 and 2015 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 2016, the OTRP board issued one special assessment in the amount 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 \$12,160,312.
- During 2016, distributions to members in the form of interest earned on the Shock Loss Fund were made totaling \$76,894. 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 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 2016 totaled \$539,121.

Ohio Transit Risk Pool - Medina County

Management's Discussion and Analysis (Continued)

- Due to the full funding of the Shock Loss Fund, OTRP determined, with actuarial confidence, to self-insure the first \$2,000,000 for each liability occurrence. This is the first time in the pool's history that the members have raised their self-insured retentions above \$1,000,000.
- During 2016, OTRP continued to participate in Transit Reinsurance Limited, 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.
- OTRP offered members flexible liability deductible options tailored to their individual needs, ranging from \$1,000 per occurrence to \$250,000 per occurrence. Members electing to increase their individual deductibles above \$1,000 per occurrence received actuarially calculated credits to their loss fund contributions. Metro RTA selected a \$5,000 per-occurrence liability deductible, while TARTA selected a \$250,000 per-occurrence liability deductible.
- As of fiscal year ends 2016 and 2015, all members participate in all lines of coverage.
- As of November 30, 2016, OTRP held member receivables of \$148,537, most of which was made up of member receivables related to deductibles due and issued on November 30, 2016.
- During 2016, the OTRP board of trustees approved a change in the paid time off (PTO) policy, resulting in the liability for accrued compensation decreasing by \$94,522.

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		
	2016	2015	2014
Condensed Statement of Net Position			
Assets			
Cash and short-term investments	\$ 2,615,556	\$ 2,740,364	\$ 1,973,049
Other assets	151,852	56,044	178,738
Total current assets	2,767,408	2,796,408	2,151,787
Long-term assets:			
Investments	6,617,109	6,177,920	6,488,632
Capital assets - Net of depreciation	28,252	35,955	38,300
Total assets	9,412,769	9,010,283	8,678,719
Deferred Outflows of Resources - Pension	188,395	70,434	-
Liabilities			
Current	2,720,585	2,013,692	2,159,781
Long term	2,347,986	2,173,450	2,331,076
Total liabilities	5,068,571	4,187,142	4,490,857
Deferred Inflows of Resources - Pension	5,708	5,717	-
Net Position			
Invested in capital assets	28,252	35,955	38,300
Unrestricted	4,498,633	4,851,903	4,149,562
Total net position	<u>\$ 4,526,885</u>	<u>\$ 4,887,858</u>	<u>\$ 4,187,862</u>

Ohio Transit Risk Pool - Medina County

Management's Discussion and Analysis (Continued)

	Year Ended November 30		
	2016	2015	2014
Condensed Statement of Changes in Net Position			
Changes in Net Position			
Total operating revenue	\$ 3,647,792	\$ 2,675,690	\$ 3,119,590
Operating expenses:			
Claims and claims adjustment expenses	(2,341,332)	(844,214)	(1,245,649)
Administrative expenses	(879,793)	(846,614)	(911,484)
Total operating expenses	(3,221,125)	(1,690,828)	(2,157,133)
Operating Income	426,667	984,862	962,457
Nonoperating Expense			
Investment earnings and realized and unrealized gains and losses on investments	61,146	101,145	150,328
Gain (loss) on disposal of fixed assets	-	4,138	(4,693)
Distributions to members	(848,786)	(128,839)	(1,210,702)
Total nonoperating expenses	(787,640)	(23,556)	(1,065,067)
(Decrease) Increase in Net Position	\$ (360,973)	\$ 961,306	\$ (102,610)

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 \$29,000, while long-term assets increased by \$431,486 between 2016 and 2015. 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 by \$7,703. This is due to the ordinary depreciation of OTRP's capital assets.
- OTRP's liabilities increased from 2015 by \$881,429. The increase is reflective of adverse claims development in combination with an increase in net pension liability and members' returns to the General Reserve Fund (GRF). There were no liabilities in the current year for prepayments related to (LY23) 2015.
- The difference between assets and liabilities, or "net position," decreased from 2015 by \$360,973. This was impacted by claims liabilities, 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) increased to \$3,647,792 in 2016 from \$2,675,690 in 2015. The increase is due to the raising of the retention in the loss fund which lowered the purchased insurance premiums, additional voluntary shock loss contributions, recognized deferred revenue from the closing of a loss year, and revenue related to a special assessment for a prior year.

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 OTRP's board of trustees for final review and adoption. OTRP's management prepares the budget and reviews expenditures on a quarterly basis to assure compliance with the adopted budget.

Ohio Transit Risk Pool - Medina County

Management's Discussion and Analysis (Continued)

	Annual Budget	Year to Date Actual	Budget Versus Actual - Positive (Negative)
Operating Revenue			
Membership contributions	\$ 3,465,205	\$ 4,726,791	\$ 1,261,586
Other operating revenue	55,000	59,500	4,500
Less reinsurance/excess insurance premiums	<u>(1,121,652)</u>	<u>(1,138,499)</u>	<u>(16,847)</u>
Total operating income	2,398,553	3,647,792	1,249,239
Operating Expenses			
Claims and claims adjustment expenses	(1,604,617)	(2,341,332)	(736,715)
Professional fees and other	(141,255)	(152,865)	(11,610)
Pool operations	(162,174)	(184,926)	(22,752)
Salaries and employee benefits	(590,507)	(534,299)	56,208
Depreciation	<u>-</u>	<u>(7,703)</u>	<u>(7,703)</u>
Total operating expenses	(2,498,553)	(3,221,125)	(722,572)
Nonoperating Income (Expenses)			
Net investment income	100,000	61,146	(38,854)
Distribution to members	<u>-</u>	<u>(848,786)</u>	<u>(848,786)</u>
Total nonoperating income (expenses)	<u>100,000</u>	<u>(787,640)</u>	<u>(887,640)</u>
Change in Net Position	<u>\$ -</u>	<u>\$ (360,973)</u>	<u>\$ (360,973)</u>

The following is an explanation of the significant variances of the budget to actual for 2016:

- Member contributions were higher than budgeted due to the fact that membership contributions include additional voluntary shock loss contributions, recognized deferred revenue from the closing of a loss year, and revenue related to a special assessment for a prior year, all 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.
- Sick leave liability accrued for all years was decreased by \$94,522 as a result of a change in the paid time off policy that was approved in 2016 by the OTRP board of trustees.
- Operational expenses were also impacted by the direct employment of an additional administrative staff member hired during 2016.

Ohio Transit Risk Pool - Medina County

Management's Discussion and Analysis (Continued)

- Investment losses and gains (realized or unrealized) are not budgeted for within the OTRP program. OTRP recognized \$180,193 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.

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

	November 30, 2016	November 30, 2015
Assets		
Current assets:		
Cash (Note 2)	\$ 1,253,174	\$ 1,253,473
Investments - Fixed income (Note 2)	1,362,382	1,486,891
Accounts receivable - Members	148,537	52,484
Prepaid expenses	3,315	3,560
Total current assets	2,767,408	2,796,408
Noncurrent assets:		
Investments (Note 2)	6,617,109	6,177,920
Capital assets - Net of depreciation (Note 4)	28,252	35,955
Total noncurrent assets	6,645,361	6,213,875
Total assets	9,412,769	9,010,283
Deferred Outflows of Resources (Note 12)	188,395	70,434
Liabilities		
Current liabilities:		
Accounts payable	11,487	1,672
Current portion of reserves for unpaid claims and claims adjustment expenses (Note 5)	1,266,000	677,000
Accrued compensation	9,576	107,972
Members' payable (Note 8)	1,101,512	697,966
Current portion of unearned contributions	332,010	496,082
Total current liabilities	2,720,585	1,980,692
Noncurrent liabilities:		
Reserves for unpaid claims and claims adjustment expenses - Net of current portion (Note 5)	1,529,219	1,370,967
Net pension liability (Note 12)	463,510	320,365
Unearned contributions - Net of current portion (Note 12)	355,257	515,118
Total noncurrent liabilities	2,347,986	2,206,450
Total liabilities	5,068,571	4,187,142
Deferred Inflows of Resources (Note 12)	5,708	5,717
Equity		
Net position:		
Net investment in capital assets	28,252	35,955
Unrestricted	4,498,633	4,851,903
Total net position	<u>\$ 4,526,885</u>	<u>\$ 4,887,858</u>

Ohio Transit Risk Pool - Medina County

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended December 31	
	2016	2015
Operating Revenue		
Member contributions	\$ 4,726,791	\$ 4,044,960
Less reinsurance premiums expense	(1,138,499)	(1,414,270)
Other operating income	59,500	45,000
Total operating revenue	3,647,792	2,675,690
Operating Expenses		
Provision for claims (Note 5):		
Paid	1,594,080	1,086,850
Change in reserve for claims	747,252	(242,636)
Total claims	2,341,332	844,214
Salary, wages, and fringe benefits	534,299	563,006
Professional fees and other	152,865	131,053
Pool operations	184,926	146,072
Depreciation (Note 4)	7,703	6,483
Total operating expenses	3,221,125	1,690,828
Operating Income	426,667	984,862
Nonoperating Revenue (Expenses)		
Interest and dividend income	241,339	217,791
Realized and unrealized loss on investments	(180,193)	(116,646)
Distribution to members	(848,786)	(128,839)
Gain on disposal of capital assets	-	4,138
Total nonoperating expenses	(787,640)	(23,556)
Change in Net Position	(360,973)	961,306
Net Position - Beginning of year (Note 1)	4,887,858	4,187,862
Adjustment for Change in Accounting Principle - GASB Statement No. 68	-	(261,310)
Net Position - Beginning of year	4,887,858	3,926,552
Net Position - End of year	\$ 4,526,885	\$ 4,887,858

Ohio Transit Risk Pool - Medina County

Statement of Cash Flows

	Year Ended December 31	
	2016	2015
Cash Flows from Operating Activities		
Cash received from members	\$ 3,449,286	\$ 3,810,066
Cash paid for claims	(846,828)	(1,086,850)
Cash paid for reinsurance premiums	(1,135,249)	(1,414,270)
Cash paid for administrative and general expenses	(768,734)	(703,446)
Net cash provided by operating activities	698,475	605,500
Cash Flows from Capital and Related Financing Activities -		
Distributions to members	(403,546)	(148,897)
Cash Flows from Investing Activities		
Investment income received	241,339	217,791
Purchase of investments	(2,575,414)	(1,374,830)
Proceeds from sales and maturities of investments	2,038,847	1,420,995
Net cash (used in) provided by investing activities	(295,228)	263,956
Net (Decrease) Increase in Cash	(299)	720,559
Cash - Beginning of year	1,253,473	532,914
Cash - End of year	\$ 1,253,174	\$ 1,253,473

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

	Year Ended December 31	
	2016	2015
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 426,667	\$ 984,862
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	7,703	6,483
Changes in assets and liabilities:		
Accounts receivable	(96,053)	103,437
Prepaid expenses	245	19,257
Accounts payable	9,815	(5,459)
Unearned contributions	(323,933)	(261,423)
Accrued compensation	(98,396)	6,641
Reserve for claims	747,252	(242,636)
Pension	25,175	(5,662)
Net cash provided by operating activities	\$ 698,475	\$ 605,500

There were no noncash transactions in 2016 and 2015.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note I - Nature of Business and Significant Accounting Policies

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, 2016 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 2016, all members participate in all of the OTRP programs.

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

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

Member contributions are recognized on the accrual basis and are recorded as revenue in the period earned. Member contributions received in advance are recorded as unearned member contributions. Member contributions are estimated annually to produce a sum of money adequate to fund reserves for claims (at between 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 which assesses the proportional risk that each member brings to OTRP for each loss year.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

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

In addition to the member contributions, OTRP members will contribute to the Shock Loss Fund (the "SLF") based on an amount determined each year to be equal to their annual 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 300 percent of the required contribution.

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

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

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

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.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

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

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 - Reserves for claims represent OTRP's case reserves for incurred claims, plus an estimate of provisions for loss development and claims incurred but not reported (IBNR) and allocated and unallocated loss adjustment expenses. Reserves are net of actual and anticipated member deductibles as well as salvage and subrogation. No discount factor is applied to any case reserve or IBNR. OTRP claims staff is responsible for the adjustment of all new and open claims and establishment of claims reserves, except for TARTA, which reserves its claims individually up to its deductible of \$250,000. The value of incurred but not reported claims and loss development is calculated by OTRP's actuary, Pinnacle Actuarial Resources, Inc. Management believes that the estimate of the claims reserves liability is reasonable and supported by valid actuarial calculations; however, actual incurred losses may vary from the estimated amount included in the accompanying financial statements. Should OTRP's assets not be sufficient to meet future claims obligations, OTRP's board has the ability to assess the members for supplemental contributions. During 2016, a special assessment was issued in the amount of \$553,889 related to negative loss development in loss year 2012. There was no special assessment required during 2015.

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

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

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

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 2016 and 2015, the board declared dividends, including distributions of interest on SLF, totaling \$848,786 and \$128,839, respectively.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

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

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 2016 loss year, for auto physical damage, TARTA, Metro RTA, and Laketran carried a \$25,000 deductible; SARTA carried a \$5,000 deductible; and all other members carried a \$1,000 deductible. Beginning in the 2008 loss year, for liability claims, OTRP members were provided with the option of a flexible deductible with a corresponding loss fund credit. During the 2016 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.

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 12.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

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

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 12.

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 5.

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

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

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

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

New Accounting Pronouncement - On December 1, 2015, OTRP adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. OTRP applied this statement retrospectively by providing comparative disclosures for each period presented (see Note 3). The adoption of this statement did not have a significant impact on amounts reported in the basic financial statements.

Note 2 - Deposits and Investments

OTRP has established an investment policy that was originally adopted by OTRP's board of trustees on December 24, 1994 and was amended on 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. OTRP has designated JPMorgan Chase Bank for deposit of its cash and investments. 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. Cash and cash equivalents totaled \$1,253,174 and \$1,253,473 at November 30, 2016 and 2015, respectively. At November 30, 2016 and 2015, long-term certificates of deposit totaled \$100,326 and \$301,381, respectively.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 2 - Deposits and Investments (Continued)

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, 2016, OTRP had \$1,003,489 in bank deposits that were uninsured and uncollateralized.

Investments - Investments are reported at fair value. At November 30, 2016 and 2015, OTRP had the following investments:

	Fair Value	
	2016	2015
U.S. Treasury securities	\$ 199,820	\$ 199,390
U.S. agencies and pass-throughs	885,008	300,868
State and local municipal bonds	602,266	914,342
Corporate bonds	6,192,071	5,948,830
Total investments	<u>\$ 7,879,165</u>	<u>\$ 7,363,430</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, 2016 and 2015, 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.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 2 - Deposits and Investments (Continued)

At November 30, 2016, OTRP had the following investments subject to interest rate risk:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 199,820	1.17
U.S. agencies and pass-throughs	885,008	2.18
State and local municipal bonds	602,266	1.11
Corporate bonds	6,192,071	3.75
Total	<u>\$ 7,879,165</u>	

At November 30, 2015, OTRP had the following investments subject to interest rate risk:

Investment	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 199,390	2.17
U.S. agencies and pass-throughs	300,868	1.94
State and local municipal bonds	914,342	0.83
Corporate bonds	5,948,830	3.56
Total	<u>\$ 7,363,430</u>	

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

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 2 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Rating Organization
U.S. agencies and pass-throughs	\$ 300,300	AAA	S&P
	584,708	AA+	S&P
Total	\$ 885,008		
State and local municipal bonds	\$ 199,798	AA+	S&P
	200,454	AA	S&P
	202,014	AA-	S&P
Total	\$ 602,266		
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
	1,070,529	A	S&P
Total	\$ 6,192,071		

At November 30, 2015, the credit quality ratings of fixed-income securities by type (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. agencies and pass-throughs	\$ 300,868	AAA	S&P
State and local municipal bonds	\$ 353,571	AA	S&P
	409,478	AA-	S&P
	151,293	A+	S&P
Total	\$ 914,342		
Corporate bonds	\$ 243,331	AAA	S&P
	1,148,536	AA+	S&P
	1,035,085	AA	S&P
	1,019,307	AA-	S&P
	1,903,281	A+	S&P
	599,290	A	S&P
Total	\$ 5,948,830		

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 2 - Deposits and Investments (Continued)

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

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. OTRP's investment policy does not place a limit on the amount it may invest in any single issuer. Excluding investments issued or guaranteed by the U.S. government, there was one investment that individually exceeded 5 percent of OTRP's total investments at November 30, 2016. There were no investments that individually exceeded 5 percent of OTRP's total investments at November 30, 2015.

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

Note 3 - Fair Value Measurement

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 asset. 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 above 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 or liability.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 3 - Fair Value Measurement (Continued)

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

Assets Measured at Fair Value on a Recurring Basis

	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 level	\$ 199,820	\$ 7,779,671	\$ -

OTRP has the following recurring fair value measurements as of November 30, 2015:

Assets Measured at Fair Value on a Recurring Basis

	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	\$ 199,390	\$ -	\$ -
U.S. agencies and pass-throughs	-	300,868	-
State and local municipal bonds	-	914,342	-
Corporate bonds	-	5,948,830	-
Total debt securities	199,390	7,164,040	-
Certificate of deposit	-	301,381	-
Total investments by fair value level	\$ 199,390	\$ 7,465,421	\$ -

The fair values of debt securities and the certificate 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.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 4 - Capital Assets

Cost of capital assets is summarized as follows:

	<u>2016</u>	<u>2015</u>
Transportation equipment	\$ 39,594	\$ 39,594
Computer equipment and software	<u>45,912</u>	<u>45,912</u>
Total cost	85,506	85,506
Less accumulated depreciation	<u>57,254</u>	<u>49,551</u>
Net carrying amount	<u>\$ 28,252</u>	<u>\$ 35,955</u>

Total depreciation expense was \$7,703 and \$6,483 for November 30, 2016 and 2015, respectively.

Note 5 - 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, 2016, 2015, and 2014 is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reserves for Unpaid Claims and Claims Adjustment Expenses - Beginning of year	\$ 2,047,967	\$ 2,290,603	\$ 2,159,657
Incurred Claims and Claims Adjustment Expenses			
Provision for claims incurred in current year	1,776,025	1,339,502	1,277,737
Change in provision for claims incurred in prior years	<u>565,307</u>	<u>(495,288)</u>	<u>(32,088)</u>
Total incurred claims and claims adjustment expenses	2,341,332	844,214	1,245,649
Payments			
Claims and claims adjustment expenses paid for claims incurred in current year	69,420	150,264	412,022
Claims and claims adjustment expenses paid for claims incurred in prior years	<u>1,524,660</u>	<u>936,586</u>	<u>702,681</u>
Total payments	<u>1,594,080</u>	<u>1,086,850</u>	<u>1,114,703</u>
Reserves for Unpaid Claims and Claims Adjustment Expenses - End of year	<u>\$ 2,795,219</u>	<u>\$ 2,047,967</u>	<u>\$ 2,290,603</u>

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 5 - Reserve for Unpaid Claims and Claims Adjustment Expenses (Continued)

During 2016, there was unfavorable development related to prior accident years totaling approximately \$565,000. During 2015 and 2014, there was favorable development totaling approximately \$495,000 and \$32,000, respectively. These developments primarily related to claims settling for amounts different than originally estimated. During 2016, there was a higher frequency of larger claims resulting in the unfavorable development.

Note 6 - 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 7. For 2016 and 2015, 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 and \$1,000,000 at November 30, 2016 and 2015, respectively. OTRP's per-occurrence retention for crime and fidelity coverage was \$100,000. For each per-occurrence claim within OTRP's self-insured retention, the member is charged the indicated deductible as disclosed in Note 1.

Note 7 - 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, 2016, OTRP purchased the following types of reinsurance and/or excess insurance contracts in excess of self-insured retentions described above:

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

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 7 - Reinsurance Agreements (Continued)

Since 2005, OTRP has participated in Transit Reinsurance Limited, Inc. (Transit Re), a captive reinsurer formed by Public Transit in America to stabilize long-term self-insurance and reinsurance costs. OTRP purchases \$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 8 - Members' Payable

When all known claims and expense liabilities within an individual loss year have been concluded, and the loss year has been in existence for at least four years, the OTRP board of trustees, under board policy, may refund any remaining surplus funds within that loss year as a distribution. Distributions shall be returned promptly as directed by the board of trustees into a unique general reserve fund (the "GRF") created for each OTRP member. Members may use their funds on-account within the GRF to pay for required contributions for any given year at any time. Once a year, members may remove any balance from their GRF as a cash distribution. The members' payable at November 30, 2016 and 2015 totaled \$1,101,512 and \$697,966, respectively.

Note 9 - 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 6.442 percent at November 30, 2016). OTRP had no amounts outstanding under the line of credit at November 30, 2016 or 2015. The line of credit is secured by substantially all business assets.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 10 - 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, 2016 and 2015, 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 11 - Operating Lease

OTRP leases office space under an operating lease expiring on November 30, 2020. Total rent expense under this lease was \$50,963 and \$26,789 for the years ended November 30, 2016 and 2015, respectively.

Future minimum rental commitments are as follows:

Years Ending November 30	Amount
2017	\$ 50,963
2018	50,963
2019	50,963
2020	50,963
Total	<u>\$ 203,852</u>

Note 12 - 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, multiple-employer plan. This plan provides disability, annual cost-of-living adjustments, death benefits, and healthcare benefits. Healthcare benefits are based on years of service.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 12 - Employee Benefit Plans (Continued)

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 the OPERS website at www.opers.org. The Ohio Revised Code provides statutory authority for employer and employee contributions. OTRP contributes 14.0 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 13.

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 \$59,417 and \$53,340 for the years ended November 30, 2016 and 2015, respectively.

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 12 - Employee Benefit Plans (Continued)

Net Pension Liability, Deferrals, and Pension Expense - At November 30, 2016 and 2015, OTRP reported a liability of \$463,510 and \$320,365, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 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, 2016, relative to all other contributing employers. At December 31, 2015, OTRP's proportion was 0.003 percent, which is the same as its proportion measured as of December 31, 2014.

For the years ended November 30, 2016 and 2015, OTRP recognized pension expense of \$25,175 and \$(5,661), respectively. At November 30, 2016, OTRP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (5,708)
Contributions made after measurement date	54,961	-
Net difference between projected and actual earnings on pension plan investments	123,401	-
Difference between actual and proportionate share of contributions	10,033	-
Total	<u>\$ 188,395</u>	<u>\$ (5,708)</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
2017	\$ 29,863
2018	32,042
2019	34,748
2020	30,894
2021	44
Thereafter	135

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2017).

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 12 - Employee Benefit Plans (Continued)

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, 2015

Actuarial cost method - Individual entry age

Cost of living - 3.0 percent

Salary increases, including inflation - 4.25 percent-10.05 percent

Inflation - 3.75 percent

Investment rate of return - 8.00 percent, net of pension plan investment expense

Experience study date - Period of five years ended December 31, 2010

Mortality basis - RP-2000 Mortality Table projected 20 years using Projection Scale AA

Discount Rate - The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer 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 for 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 weighting 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 %	2.31 %
Domestic equities	21	5.84
Real estate	10	4.25
Private equity	10	9.25
International equity	18	7.40
Other investments	18	4.59

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 12 - Employee Benefit Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of OTRP at November 30, 2016, calculated using the discount rate of 8.00 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 (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability	\$ (738,496)	\$ (463,510)	\$ (231,581)

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 13 - Other Postemployment Benefits

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 2016 and 2015, 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:

	Fiscal Year Ended November 30		
	2016	2015	2014
OPERS	\$ 6,660	\$ 8,422	\$ 6,661

Ohio Transit Risk Pool - Medina County

Notes to Financial Statements November 30, 2016 and 2015

Note 14 - Upcoming Accounting Pronouncements

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.

Required Supplemental Information

Ohio Transit Risk Pool - Medina County

Required Supplemental Information Schedule of Net Pension Liability and Pension Funding

Schedule of OTRP's Proportionate Share of the Net Pension Liability:

	2016	2015
	OPERS	OPERS
Plan year end	December 31, 2015	December 31, 2014
OTRP's proportion of the Plan's collective net pension liability: As a percentage	0.0027%	0.0027%
Amount	\$ 463,510	\$ 320,365
OTRP's covered-employee payroll	\$ 407,667	\$ 279,128
OTRP's proportionate share of the collective pension liability (amount), as a percentage of OTRP's covered-employee payroll	87.95%	87.13%
Plan fiduciary net position as a percentage of the total pension liability	81.19%	86.53%

Schedule of OTRP's Contributions:

	2016	2015
	OPERS	OPERS
Statutorily required contribution	\$ 48,920	\$ 39,078
Contributions in relation to the actuarially determined statutorily required contribution	\$ 48,920	\$ 39,078
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 407,667	\$ 279,128
Contributions as a percentage of covered employee payroll	12.00%	14.00%

Ohio Transit Risk Pool - Medina County

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

The table on the following page illustrates how OTRP's earned revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by OTRP as of the end of each of the last 10 years. The 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 OTRP, including overhead and claims expense not allocable to individual claims.
3. This line shows 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 matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

Ohio Transit Risk Pool - Medina County

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Required contributions and investment income:										
Earned	\$ 4,321,310	\$ 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
Ceded	1,363,138	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
Net	2,958,172	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
2. Expenses other than allocated claims adjustment expenses	684,700	714,321	771,596	692,438	792,485	748,051	855,077	911,484	846,614	879,793
3. Estimated claims and allocated claims adjustment expenses - End of policy year:										
Incurred	1,938,124	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
Ceded	-	-	10,000	-	-	-	-	-	209,964	-
Net	1,938,124	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
4. Cumulative paid claims and allocated claims adjustment expenses:										
End of policy year	97,779	108,319	350,020	124,994	287,117	412,826	588,443	412,022	150,264	69,420
One year later	370,271	156,054	501,544	240,902	501,161	1,091,436	999,438	503,600	843,500	-
Two years later	721,330	318,242	552,938	278,524	660,798	1,314,138	1,862,829	613,223	-	-
Three years later	806,760	381,776	634,709	343,627	728,632	1,512,664	2,244,136	-	-	-
Four years later	807,530	439,670	642,244	344,145	730,687	1,853,159	-	-	-	-
Five years later	807,521	441,389	642,244	344,145	730,687	-	-	-	-	-
Six years later	807,521	441,899	635,343	344,145	-	-	-	-	-	-
Seven years later	807,521	432,899	642,244	-	-	-	-	-	-	-
Eight years later	807,521	432,899	-	-	-	-	-	-	-	-
Nine years later	807,521	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	-	-	-	6,900	-	-	-	-	209,937	-
6. Re-estimated incurred claims and allocated claims adjustment expenses:										
End of policy year	1,938,124	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
One year later	1,801,015	533,215	773,806	450,340	768,635	1,508,338	2,143,152	887,370	1,773,430	-
Two years later	1,002,020	477,865	643,609	376,839	813,024	1,558,504	2,287,517	760,533	-	-
Three years later	878,276	457,800	640,544	345,452	763,730	1,562,262	2,255,510	-	-	-
Four years later	807,521	442,800	642,244	344,145	731,358	1,853,159	-	-	-	-
Five years later	807,521	450,244	642,244	344,145	730,687	-	-	-	-	-
Six years later	807,521	443,609	642,244	344,145	-	-	-	-	-	-
Seven years later	807,521	432,899	642,244	-	-	-	-	-	-	-
Eight years later	807,521	432,899	-	-	-	-	-	-	-	-
Nine years later	807,521	-	-	-	-	-	-	-	-	-
7. Change in estimated incurred claims and allocated claims adjustment expenses subsequent to initial policy year end	(1,130,603)	(283,778)	(369,348)	(516,600)	(516,594)	649,135	157,794	(517,204)	433,928	-

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 Year Ended November 30								
	2016			2015			2014		
	Casualty	Property	Total	Casualty	Property	Total	Casualty	Property	Total
Reserve for unpaid claims and claims adjustment expenses - Beginning of fiscal year	\$ 1,648,170	\$ 399,797	\$ 2,047,967	\$ 1,990,837	\$ 299,766	\$ 2,290,603	\$ 1,859,891	\$ 299,766	\$ 2,159,657
Incurred claims and claims adjustment expenses:									
Provision for insured events of the current fiscal year	1,744,657	31,368	1,776,025	1,018,867	320,635	1,339,502	1,018,948	258,789	1,277,737
Change in provision for insured events of prior fiscal years	313,141	252,166	565,307	(330,192)	(165,096)	(495,288)	79,043	(111,131)	(32,088)
Total incurred claims and claims adjustment expenses	2,057,798	283,534	2,341,332	688,675	155,539	844,214	1,097,991	147,658	1,245,649
Payments:									
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	38,052	31,368	69,420	117,504	32,760	150,264	265,732	146,290	412,022
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	1,283,750	240,910	1,524,660	913,838	22,748	936,586	701,313	1,368	702,681
Total payments	1,321,802	272,278	1,594,080	1,031,342	55,508	1,086,850	967,045	147,658	1,114,703
Reserve for claims and claims adjustment expenses - End 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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ohio Transit Risk Pool - Medina County (OTRP) which comprise the statement of net position as of November 30, 2016, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated May 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ohio Transit Risk Pool - Medina County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ohio Transit Risk Pool - Medina County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 25, 2017



Dave Yost • Auditor of State

OHIO TRANSIT RISK POOL

MEDINA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 6, 2017**