

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS  
(AUDITED)***

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016*

**TODD CARPENTER, TREASURER**





# Dave Yost • Auditor of State

Members of the Assembly  
Portage Area Schools Consortium Health & Welfare Pool  
1464 Industry Rd  
Atwater, OH 44201

We have reviewed the *Independent Auditor's Report* of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 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 Portage Area Schools Consortium Health & Welfare 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

December 15, 2016

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**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Independent Auditor's Report

Portage Area Schools Consortium Health & Welfare Pool  
Portage County  
1464 Industry Road  
Atwater, Ohio 44201

To the Members of the Assembly:

***Report on the Financial Statements***

We have audited the accompanying cash-basis financial statements of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Portage Area Schools Consortium Health & Welfare Pool's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, Ohio, as of June 30, 2016, and the respective changes in cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Emphasis of Matter***

As discussed in Note 1, the Portage Area Schools Consortium is comprised of two stand alone pools: the Portage Area Schools Consortium Health & Welfare Pool and the Portage Area Schools Consortium Property & Casualty Pool, which issues a separate report. This report represents only the Health & Welfare Pool. We did not modify our opinion regarding this matter.

***Other Matters***

***Other Information***

We applied no procedures to the Management's Discussion & Analysis presented on pages 3 - 6 or the ten-year loss development information on page 15 of the report, and accordingly, we express no opinion or any other assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016, on our consideration of the Portage Area Schools Consortium Health & Welfare Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Portage Area Schools Consortium Health & Welfare Pool's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
September 27, 2016

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

The management's discussion and analysis of the Portage Area Schools Consortium Health & Welfare Pool (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for fiscal year 2016, within the limitations of the Consortium's cash basis of accounting. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole; readers should also review the notes to the basic financial statements and cash-basis financial statements to enhance their understanding of the Consortium's financial performance.

**Financial Highlights**

Key Financial highlights for fiscal year 2016 are as follows:

- In total, net position was \$2,408,615 at June 30, 2016, which represents a 57.61% decrease from fiscal 2015.
- The Consortium had operating cash receipts of \$46,127,906 for fiscal year 2016. The Consortium had operating cash disbursements of \$49,407,459 for fiscal year 2016. The Consortium received \$576,334 from the Stop/Loss Carrier, which means that there were a number of high claimants within the Consortium in FY16. The Consortium also received \$7,293 in interest income non-operating cash receipts during fiscal year 2016. The total change in net cash assets for fiscal year 2016 was a decrease of \$3,272,260.

**Using these Cash-Basis Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Consortium's cash basis of accounting. This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Consortium's financial activities. The *Statement of Net Position-Cash Basis* and the *Statement of Cash Receipts, Cash Disbursements, and Changes in Net Position-Cash Basis* provide information about the activities of the Consortium.

**Reporting the Consortium Financial Activities**

**Statement of Net Position-Cash Basis and Statements of Cash Receipts, Cash Disbursements, and Changes in Net Position-Cash Basis**

These documents look at all financial transactions and ask the question, "How did we do financially during 2016?" The Statement of Net Position - Cash Basis and Statement of Cash Receipts, Cash Disbursements, and Changes in Net Position-Cash Basis - answers this question.

These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid. These two statements report the Consortium's net position and changes in those net position on a cash basis. This change in net position is important because it tells the reader that, for the Consortium as a whole, the cash basis financial position of the Consortium has improved or diminished.



**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and liabilities and their related expenses (such as claims payable) are not recorded in these cash-basis financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The table below provides a summary of the Consortium's net position at June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
<b><u>Assets</u></b>		
Equity in pooled cash and cash equivalents	\$ 2,408,615	\$ 5,680,875
Total assets	<u>\$ 2,408,615</u>	<u>\$ 5,680,875</u>
<b><u>Net Position</u></b>		
Unrestricted	\$ 2,408,615	\$ 5,680,875
Total net position	<u>\$ 2,408,615</u>	<u>\$ 5,680,875</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016 and June 30, 2015, the Consortium's net position totaled \$2,408,615 and \$5,680,875, respectively.

This table below shows the changes in net position for fiscal years 2016 and 2015.

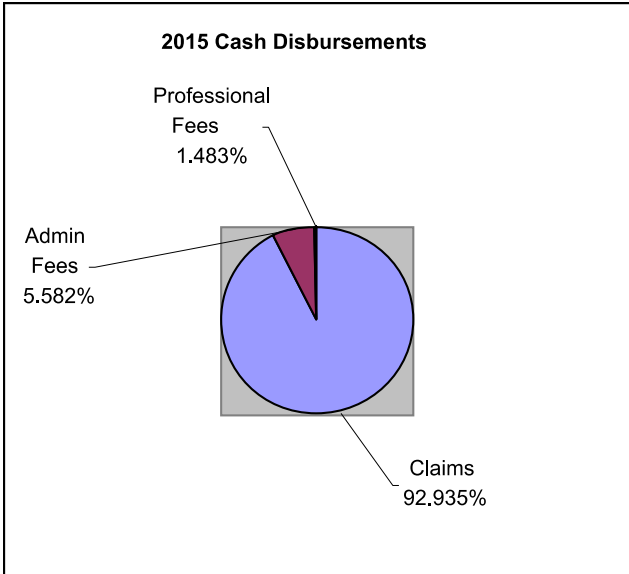
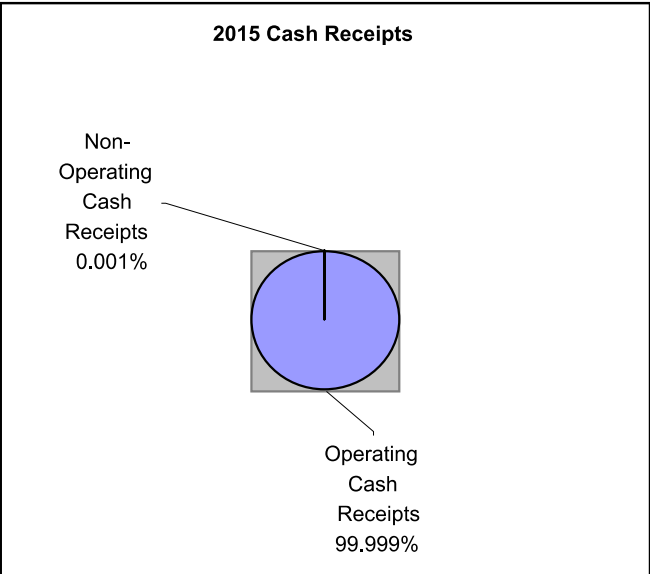
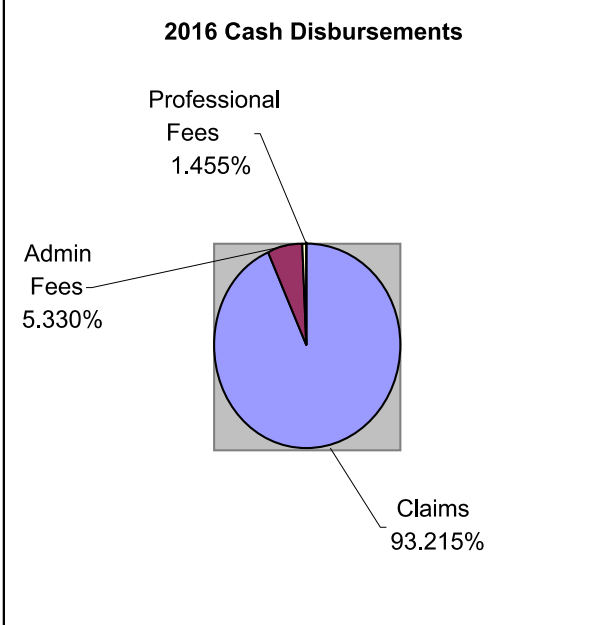
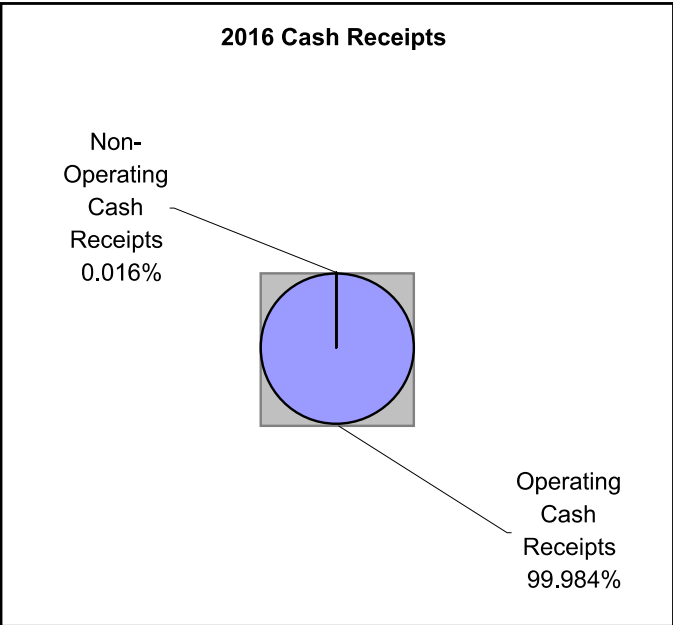
	<u>2016</u>	<u>2015</u>
<b>Change in Net Position</b>		
<b><u>Operating cash receipts</u></b>		
Contributions from members	\$45,538,446	\$41,279,323
Stop loss reimbursement	576,334	1,331,889
Rebates	0	38,720
Subrogation reimbursement	12,951	38,245
Miscellaneous	175	31,104
Total operating cash receipts	<u>46,127,906</u>	<u>42,719,281</u>
<b><u>Operating Cash Disbursements:</u></b>		
Claims	46,054,963	41,478,158
Administrative fees	2,633,265	2,419,220
Professional fees	719,231	661,812
Total operating cash disbursements	<u>49,407,459</u>	<u>44,631,190</u>
<b><u>Non-operating cash receipts:</u></b>		
Interest income	7,293	2,284
Total non-operating cash receipts	<u>7,293</u>	<u>2,284</u>
Change in net position	(3,272,260)	(1,909,625)
Net position at beginning of year	<u>5,680,875</u>	<u>7,590,500</u>
Net position at end of year	<u>\$2,408,615</u>	<u>\$5,680,875</u>

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

For fiscal year 2016, operating cash receipts increased by 7.98% while the operating cash disbursements increased 10.71%, over fiscal year 2015. The operating cash receipts increased due to adding 2 new members, while losing just 1 member and the Consortium taking an overall increase in premiums. The operating cash disbursements increased due adding 2 new members, while losing only 1 member, and an increase in claims.

The charts below illustrate the cash receipts and disbursements for the Consortium for fiscal year 2016 and 2015.



**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

**Current Financial Related Activities**

The Consortium is owned and operated by 24 school districts in Ohio. There are 10 districts within Portage County, and 14 districts outside of Portage County. The Consortium's main source of revenue is premiums paid by the member school districts. The Consortium also receives interest revenue through investments.

The Consortium is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Consortium is committed to protecting the long-term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

The Consortium requires its members to participate in any self-insured program that the member district carries such as Medical, Dental, Prescription, and Vision coverage. The Consortium also carries Life Insurance that is an individual member district choice to participate. The Consortium Trustees and its Third Party Administrators; MHS and UMR, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for Consortium members. It should be noted that the Consortium added 2 members and lost 1 member in fiscal year 2016. The Consortium could be adding 1 additional member in October, 2016. While the Consortium continuously entertains offers to other school districts, it is not known if they will join.

Establishing premiums that satisfy all claims, administration fees, and other expenses for the Consortium, in addition to enhancing the net assets position is important for the short-term and long-term interests of the Consortium.

The most significant challenge facing the Consortium Trustees is the current trend of skyrocketing health care costs, primarily medical and prescription drug. These two programs were the impetus that brought the participating districts together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 2,700 covered employees, in lieu of each individual district independently entering the insurance marketplace. As the claims costs for medical and prescription drug continue to escalate, the Trustees are faced with the unviable task of attempting to balance a quality benefits offering within the financial constraints facing Ohio's public school districts. This is much the same as the dilemma facing American business today, and is complicated by the fact that most of the School Districts in the Consortium must collectively bargain levels with the respective employee unions. Member School Districts may also have more than one plan design, depending on negotiated agreements. The challenge is set before the Consortium and its Trustees, and the future looks better from the collective, as opposed to individual, view of the participating districts.

The Consortium continued the additional costs on the "best practices" in fiscal year 2016. The best practices consist of 1) Wellness Program, 2) Disease Management, 3) Access to Superior Health Care for Complex Medical Conditions, and 4) Dependent Eligibility Audits. It should be noted the Consortium budgeted \$10 per employee per month to be spent on Wellness Programs. Best practices were designed to promote healthier employees and to save money over the long run for school districts.

**Contacting the Consortium's Financial Management**

This financial report is designed to provide our member districts and citizens with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. Effective July 1, 2015, Todd Carpenter took over as Treasurer. If you have any questions about this report or need additional financial information contact: Mr. Todd Carpenter, Treasurer, Portage Area Schools Consortium, 1464 Industry Road, Atwater, Ohio 44201.

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

**STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2016**

**Assets**

Equity in pooled cash and cash equivalents. . . . .	\$ <u>2,408,615</u>
Total assets. . . . .	<u>2,408,615</u>

**Net Position**

Unrestricted. . . . .	<u>2,408,615</u>
Total net position. . . . .	<u>\$ 2,408,615</u>

See accompanying notes to the cash-basis financial statements.

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN NET POSITION - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Operating cash receipts:**

Contributions from members	\$ 45,538,446
Stop loss reimbursement	576,334
Subrogation reimbursement	12,951
Miscellaneous	<u>175</u>
Total operating cash receipts	<u>46,127,906</u>

**Operating cash disbursements:**

Claims	46,054,963
Administrative fees	2,633,265
Professional fees	<u>719,231</u>
Total operating cash disbursements	<u>49,407,459</u>

Excess of operating cash receipts over/ (under) operating cash disbursements	<u>(3,279,553)</u>
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**Non-operating cash receipts:**

Interest Income	<u>7,293</u>
Total non-operating cash receipts	<u>7,293</u>

Change in cash net position	(3,279,260)
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<b>Net position at beginning of year</b>	<u>5,680,875</u>
<b>Net position at end of year</b>	<u><u>\$ 2,408,615</u></u>

See accompanying notes to the cash-basis financial statements.

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE CONSORTIUM**

The Portage Area School Consortium, Portage County, (the "Consortium") is a Council of Governments established pursuant to Ohio Revised Code Chapter 167. The Council of Governments (the Consortium) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Consortium is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10 and amended by GASB No. 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Council bylaws.

The Consortium is a stand alone entity, comprised of two stand alone pools: the Health & Welfare Pool and the Property & Casualty Pool. This report is only concerning the Health & Welfare Pool.

As of June 30, 2016, there are 24 participating members: Aurora City Schools, Belmont-Harrison JVS, Belpre City Schools, Columbiana Exempted Village Schools, Crestwood Local Schools, East Palestine City Schools, ESC of Cuyahoga County, Field Local Schools, Frontier Local Schools, James A. Garfield Local Schools, Green Local Schools, Indian Valley Schools, Leetonia Exempted Village Schools, Lisbon Exempted Village Schools, Maplewood Career Center, New Philadelphia City Schools, Portage County Board of DD, Rootstown Local Schools, Sebring Local Schools, Streetsboro City Schools, United Local, Waterloo Local Schools, Wellsville Local, and Windham Exempted Village Schools. It should be noted that the Portage County ESC left, and the ESC of Cuyahoga County and Field Local joined in fiscal year 2016. It should also be noted the Martins Ferry Local Schools has been accepted for entrance in fiscal year 2017.

The governing body of the Consortium is an Assembly composed of Superintendents (Trustees) of the members and any other representative (Alternate Trustees) of members who have been appointed by the respective governing bodies of the members. All representatives shall serve without compensation. As of June 30, 2016, there were twenty-four participating members of the Consortium. The Operations Committee shall function as an advisory board to the Trustees. It shall consist of Superintendents and Treasurers of the participating member districts of the Consortium. The chairperson of the Consortium shall be a Superintendent of a participating member district of the Consortium. The Chairperson is elected by the Trustees each year on a rotating basis. For fiscal year 2016, Waterloo Local served as the Consortium's fiscal agent and the Treasurer of the Consortium shall be the Treasurer of the Fiscal Agent. The Fiscal Agent is elected each year by the Trustees. Effective July 1, 2016, Waterloo Local School District became the fiscal agent, taking over for the Portage County Educational Service Center. The Consortium administers medical, dental, prescription, vision, and life insurance benefit plans for employees of the participating school systems and their eligible dependents.

The Consortium's management believes these cash basis financial statements present all activities for which the Consortium is financially accountable.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United State of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In cases where these cash basis statements contain items that are the same as, or similar to, those items in the financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNICANT ACCOUNTING POLICIES - (Continued)**

**A. Basis of Presentation**

The Consortium's financial statements consist of a statement of net position - cash basis and statement of cash receipts, cash disbursements and changes in net position - cash basis.

**B. Basis of Accounting**

The Consortium's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Consortium's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received, but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The Consortium uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

Operating revenues are those revenues that are generated directly from the primary activity of the Consortium. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Consortium. All revenues and expenses not meeting this definition are reported as non-operating.

**C. Cash and Investments**

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The Consortium has invested funds in STAR Ohio during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2016.

**D. Budgetary Process**

The Consortium is not required to follow the budgetary process by law, but incorporated in the bylaws that on or before November 30, a written estimate shall be submitted to the Trustees of the program costs for the ensuing fiscal year and members' shares of those program costs.

**E. Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Consortium or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Consortium had no restricted net position at fiscal year end.

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

**NOTE 3 - DEPOSIT AND INVESTMENTS**

State statutes classify monies held by the Consortium into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Consortium treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Consortium has identified as not required for use within the current period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of Consortium's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreements must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that the investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment an any one time: and,



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

**NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)**

8. Under limited circumstances, corporate debt interests rated either of the two highest classifications by at least two national recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purposes of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Consortium, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investment to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

*Deposits:* As of June 30, 2016 the Consortium's bank balance was \$872,015, while the carrying amount of the deposits was \$570,607 due to outstanding checks, in-transit postings, stop payments, nsf's, and other adjustments..

Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$622,015 of the Consortium's bank balance of \$872,015 was exposed to custodial credit risk as discussed below, while \$250,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Consortium's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Consortium.

As of June 30, 2016, the Consortium had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investments Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
Star Ohio	\$ 1,838,008	\$1,838,008	\$ -	\$ -	\$ -
	<u>\$ 1,838,008</u>	<u>\$1,838,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Consortium's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The Consortium's investments were rated AAAM by Standard & Poor's. Ohio law requires that StarOhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Consortium's investment policy does not specifically address credit risk beyond requiring the Consortium to only invest in securities authorized by State statute.

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

**NOTE 3 – DEPOSITS AND INVESTMENTS – (Continued)**

*Concentration of Credit Risk:* The Consortium places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Consortium at June 30:

<u>Investment Type</u>	June 30, 2016	
	<u>Fair Value</u>	<u>% of Total</u>
Star Ohio	\$ 1,838,008	100%
	\$ 1,838,008	100%

**NOTE 4 – RISK MANAGEMENT**

The Consortium contracts with third party administrators, Mutual Health Services, Inc. to process and pay health, dental, and vision claims, and CVS Caremark, Inc. to process and pay prescription claims incurred by its members. Members pay monthly premiums to the Consortium based upon an annual estimate determined by the Trustees. The Fiscal Officer issues payments to the third party administrators for actual insurance claims processed, stop-loss premiums, life insurance premiums, and administrative charges.

The Consortium employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Consortium to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in Actuarial Standard of Practice No. 5 Incurred Health Claims Liabilities (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

A comparison of the Consortium's cash and investments to the actuarially-measured liability as of June 30 are as follows;

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Net Cash and Investments	\$2,408,615	\$5,680,575
Actuarial Liabilities	\$5,258,678	\$5,111,174

**NOTE 5 – CONTRACTED SERVICES**

The Consortium also uses the TPA services of Mutual Health Services (MHS). The Consortium also added United Medical Resources (UMR) in FY2016. Aside from paying claims, the TPA's also helps the Consortium and its members with maintaining the current plan of benefits including design, claim adjudication, customer services, billing and compliance issues. In addition, they review alternative plan design and determine that claims are paid in accordance to specification of the plan.

The Consortium also has contracted with Employee Benefits International to act as a consultant. Employee Benefits will monitor MHS and UMR, seek bids for services, evaluate plan designs and keep the Consortium updated on State and Federal legislative issues.

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

**NOTE 6 - SUBSEQUENT EVENTS**

Martins Ferry Local Schools has been accepted to join the Consortium, effective October 1, 2016. Based upon labor agreements, Martins Ferry has not yet officially made the decision to join.

# OTHER INFORMATION

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

**TEN-YEAR LOSS DEVELOPMENT INFORMATION**

The following table illustrates how the Consortium's cash receipts (including investment income) compare to related payments of claims and other cash disbursements made by the Consortium as of the end of each fiscal year. The rows of the table are defined as follows:

Row 1: This line shows the total of each fiscal year's gross received premiums and investment income.

Row 2: This line shows non-claims related cash disbursements of the Consortium for each fiscal year including premiums, administrative fees, professional fees, and other miscellaneous cash disbursements.

Row 3: This section shows the cumulative net amount of claims paid as of the end of the accident year.

The Consortium reports data on a cash basis. Premiums and investment income are recorded when received and unallocated cash disbursements and claims are recorded when paid by the Consortium. A claims liability is not recorded under the Consortium's cash basis of accounting.

Loss development information for the fiscal years ended June 30, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, and 2007, is as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1 Premiums and investment income	\$22,670,106	\$28,649,869	\$24,529,453	\$29,635,369	\$30,483,680	\$33,299,383	\$33,158,798	\$37,345,779	\$41,281,607	\$45,545,739
2 Unallocated cash disbursements	\$2,088,622	\$2,534,885	\$2,425,290	\$2,443,010	\$2,413,481	\$2,343,572	\$2,248,021	\$2,782,266	\$3,153,032	\$3,352,496
3 Paid cumulative as of:										
End of accident year	\$17,710,029	\$20,021,533	\$23,502,459	\$26,123,479	\$27,789,690	\$28,093,867	\$27,496,484	\$32,148,205	\$37,430,232	\$50,097,946
One year later	\$19,655,510	\$22,751,103	\$23,502,459	\$28,566,616	\$30,140,386	\$30,972,660	\$31,930,443	\$36,196,131	\$42,356,619	
Two years later	\$19,655,510	\$22,751,103	\$23,502,459	\$28,566,616	\$30,140,386	\$30,972,660	\$31,930,443	\$36,196,131		
Three years later	\$19,655,510	\$22,751,103	\$23,502,459	\$28,566,616	\$30,140,386	\$30,976,660	\$31,930,443			
Four years later	\$19,655,510	\$22,751,103	\$23,502,459	\$28,566,616	\$30,140,386	\$30,976,660				
Five years later	\$19,655,510	\$22,751,103	\$23,502,459	\$28,566,616	\$30,140,386					
Six years later	\$19,655,510	\$22,751,103	\$23,502,459	\$28,566,616						
Seven years later	\$19,655,510	\$22,751,103	\$23,502,459							
Eight years later	\$19,655,510	\$22,751,103								
Nine years later	\$19,655,510									



## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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

Portage Area Schools Consortium Health & Welfare Pool  
Portage County  
1464 Industry Road  
Atwater, Ohio 44201

To the Members of the Assembly:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, Ohio as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Portage Area Schools Consortium Health & Welfare Pool's basic financial statements and have issued our report thereon dated September 27, 2016, wherein we noted the Portage Area Schools Consortium Health & Welfare Pool uses a special purpose framework other than generally accepted accounting principles.

#### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Portage Area Schools Consortium Health & Welfare Pool's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Portage Area Schools Consortium Health & Welfare Pool's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Portage Area Schools Consortium Health & Welfare Pool's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

Members of the Assembly  
Portage Area Schools Consortium Health & Welfare Pool

***Compliance and Other Matters***

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

***Portage Area Schools Consortium Health & Welfare Pool Response to Findings***

The Portage Area Schools Consortium Health & Welfare Pool response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Portage Area Schools Consortium Health & Welfare Pool response, and accordingly, we express no opinion on it.

***Purpose of this Report***

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



Julian & Grube, Inc.  
September 27, 2016

**PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

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

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

**Material Weakness – Dental Insurance Claims Processing Service Organization Controls**

Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization, prescribes standards for reporting on the processing (i.e. control and design and operation) of transactions by service organizations. An unqualified, Type II “Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness” (Type 2 SOC 1 Report) in accordance with SSAE No. 16, should provide the Portage Area Schools Consortium Health & Welfare Pool with an appropriate level of assurance that claims are being processed completely and accurately.

The Portage Area Schools Consortium Health & Welfare Pool has outsourced certain employees’ dental insurance claims processing, which is a significant accounting function, to a third-party administrator. The third-party administrator did not obtain a Type 2 SOC 1 Report for the current audit period. The Portage Area Schools Consortium Health & Welfare Pool did not have procedures in place to monitor the progress of the third-party administrator's Type 2 SOC 1 Report.

The Portage Area Schools Consortium Health & Welfare Pool should specify in their contract with the service organization that an annual Type 2 SOC 1 Report be performed. The Portage Area Schools Consortium Health & Welfare Pool should be provided a copy of the Type 2 SOC 1 Report timely, should review the report’s content to help ensure proper control activities are in place at the service organization, and determine that the Complimentary User Entity Controls are implemented by the Portage Area Schools Consortium Health & Welfare Pool. Type 2 SOC 1 Report procedures should be conducted in accordance with American Institute of Certified Public Accountants’ (AICPA) Standards by a firm registered and considered in “good standing” with the Accountancy Board of the respective State. If the service organization is unable or unwilling to provide a Type 2 SOC 1 Report, the Portage Area Schools Consortium Health & Welfare Pool should consider obtaining claim processing services from an organization that provides such a report.

We recommend the Portage Area Schools Consortium Health & Welfare Pool contact their current dental insurance third-party administrator and require a Type 2 SOC 1 Report. The Portage Area Schools Consortium Health & Welfare Pool should implement internal controls to help ensure this is incorporated as a requirement before signing a contract with any third-party administrator.

**Official’s Response:**

The Portage Area Schools Consortium Health & Welfare Pool switched dental third-party administrators for fiscal 2016, and was unaware the new third-party administrator did not provide this required report. The Portage Area Schools Consortium Health & Welfare Pool will implement procedures to help ensure this report is obtained in the future before signing a contract for services to be provided.





# Dave Yost • Auditor of State

**PORTAGE AREA SCHOOL CONSORTIUM HEALTH AND WELFARE INSURANCE POOL**

**PORTAGE 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  
DECEMBER 27, 2016**