

HEALTH TRANSIT POOL OF OHIO

MEDINA COUNTY

Financial Report with Supplemental Information

For the Year Ended
December 31, 2016

Varney, Fink & Associates, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Trustees
Health Transit Pool of Ohio
One Park Centre Drive
Wadsworth, Ohio 44281

We have reviewed the *Independent Auditor's Report* of the Health Transit Pool of Ohio, Medina County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2016 through December 31, 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 Health Transit Pool of Ohio is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

September 20, 2017

This page intentionally left blank.

HEALTH TRANSIT POOL OF OHIO

For the Year Ended

December 31, 2016

TABLE OF CONTENTS

Independent Auditor’s Report	1
Management’s Discussion and Analysis (unaudited)	3
Financial Statements:	
Statement of Net Position.....	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows.....	9
Notes to Financial Statements.....	10
Required Supplemental Information:	
Claims Development Information.....	15
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17

This page intentionally left blank.

INDEPENDENT AUDITOR’S REPORT

Board of Trustees
Health Transit Pool of Ohio
One Park Centre Drive
Wadsworth, Ohio 44281

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of Health Transit Pool of Ohio, Medina County, (Health TP), (a not-for-profit corporation), as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Health TP’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to 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 audit 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 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 risks assessments the auditor, considers internal control relevant to Health TP’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 Health TP’s internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management’s 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 the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health TP, as of December 31, 2016 and 2015, and the changes in its financial

position and its cash flows for the years ended December 31, 2016 and 2015, in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis, claims development information, and the reconciliation for claims liability by type of contract policy*, listed in the table of contents, to supplement the financial statements. Although this information is not part of the financial statements, the Governmental Accounting Standards Board considers it essential for placing the financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of Health TP'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 provide an opinion 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 Health TP's internal control over financial reporting and compliance.

Varney, Fink & Associates

Varney, Fink & Associates, Inc.
Certified Public Accountants
Wadsworth, Ohio

June 29, 2017

This section of Health Transit Pool of Ohio’s (Health TP) annual financial report presents management’s overview discussion and analysis of Health TP’s financial performance during the year ended December 31, 2016. Please read it in conjunction with Health TP’s financial statements, which immediately follow this section.

Introduction

In 2013, the Health Transit Pool of Ohio (Health TP) set out to establish a health benefits program with eligibility for any Public Transit operating under Ohio statutory authority. The purpose of the Health Transit Pool of Ohio (Health TP) is to offer a cost-effective alternative to the commercial market for medical, dental, vision, life and prescription drug coverage in addition to providing the corresponding risk management services. Health TP achieves these goals through group purchasing, self-insurance and the pooling of risk. Membership in Health TP is comprised exclusively of Ohio Political Subdivisions, Regional Transit Authorities, County Transit Boards, and other Ohio County Transit operations.

Health TP executed by-laws effective November 1, 2013, and is a Ohio Nonprofit Corporation authorized and governed pursuant to Section 9.833 of the Ohio Revised Code. The formation of Health TP was funded by the three founding members, METRO Regional Transit Authority (Akron), Stark Area Regional Transit Authority (Canton) and Toledo Area Regional Transit Authority (Toledo). In 2016 two additional members joined the pool; Portage Area Regional Transportation Authority (PARTA) and Western Reserve Transit Authority (Youngstown).

Using this Annual Report

Health TP operates as a proprietary enterprise fund and as such uses full accrual accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recognized when incurred. Health TP is not legally required to adopt a budget; however, under the by-laws the Health TP Board adopts a budget each year to monitor all expenses of the pool. Budget comparisons are not required for Health TP and therefore are not presented as required supplementary information in this report.

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 of Net Position represents Health TP’s position as of the period ending December 31, 2016 and 2015. Information is presented about assets and liabilities with net position presented as the difference between the two. More detailed information is available in the accompanying financial statements.

Statement of Revenue, Expenses, and Changes in Net Position - This statement reflects the operating and nonoperating revenue and expenses for the period ending December 31, 2016 and 2015. 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 stop loss/reinsurance costs. Non-operating revenues 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 period ended December 31, 2016 and 2015.

Condensed Financial Information

The following tables present the summarized financial position for Health TP on December 31, 2016 and 2015. In addition to net position, when assessing the overall health of Health TP, 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 Health TP and its members.

CONDENSED STATEMENT OF NET POSITION

	December 31, 2016	December 31, 2015
Assets:		
Cash	\$ 546,307	\$ 428,207
Accounts Receivable	673,630	628,894
Prepays	11,362	-
Total Assets:	1,231,299	1,057,101
Total Liabilities:	1,689,807	1,285,477
Net Position:	\$ (458,508)	\$ (228,376)

Currently Health TP holds no investments other than cash. Other assets include accounts receivable and prepaids. The statement shows that Health TP’s total assets were \$1,231,299 as of December 31, 2016, an increase of \$174,198 (16.5%) over 2015.

Liabilities represent accounts payable for outside services, amounts actuarially calculated as reasonable estimates for incurred but not yet reported to the pool (IBNR), unearned premiums for the upcoming fiscal year, credits owed to the Members for pre-paid pooled claims and Members deposit funds on account to fund future liabilities.

Reserves for Claims

Health TP utilized Medical Mutual to adjust and pay medical claims. 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 Health TP and for reported claims that are expected to develop (IBNR). Spring Consulting, Inc. conducts an independent actuarial analysis to determine a funding rate and the adequacy and reasonableness of these reserves. The reserve at December 31, 2016 for IBNR is \$325,000.

REVENUES, EXPENSES AND CHANGES IN NET POSITON

	December 31, 2016	December 31, 2015
Operating Revenues:		
Membership Contributions (premium earned)	\$ 14,772,310	\$ 11,419,698
Members Claims Expense	(12,005,646)	(9,548,027)
Reinsurance/Stop-Loss Insurance Premiums	<u>(1,503,454)</u>	<u>(1,116,884)</u>
Total Operating Revenues	1,263,210	754,787
Operating Expenses:		
Claims/Loss Expense	1,205,893	612,947
IBNR Actuarial Reserves	124,947	53,099
Corporate Legal Fees	4,430	4,676
All other Administrative Expenses	<u>158,072</u>	<u>145,708</u>
Total Operating Expenses	1,493,342	816,430
Operating (Loss)	<u>(230,132)</u>	<u>(61,643)</u>
Net Position - Beginning of year	<u>(228,376)</u>	<u>(166,733)</u>
Net Position - End of year	<u>\$ (458,508)</u>	<u>\$ (228,376)</u>

Contributions (Premiums) earned are recognized during the fiscal year of the coverage period. This amount is reduced by the members deductible claims cost and the reinsurance and stop-loss purchased from the commercial insurance market to reduce the risk of large losses. During 2016, Health TP members retained the first \$75,000 per person for medical and prescription coverage with the pool retaining the loss from \$75,000 to \$175,000 per person. Medical Mutual reimburses all amounts above the stop loss of \$175,000.

The retentions for the pool are determined at renewal each year by the Board of Trustees with analysis considered from the commercial costs as contrasted with the actuarial expense associated with raising or lower the retained risk.

Total membership contributions for the year ended December 31, 2016 were \$14,772,310 and the total operating loss was (\$230,132).

Financial Highlights and Future Planning

Health TP was designed to provide budget stability in an uncertain volatile health benefits market. With this purpose in mind, Health TP will continue to adjust with market conditions allowing the maximum benefits of the members. The Board will continually review the attachment point of purchased commercial insurance as it relates to the cost of self-insurance as a group.

Significant savings were seen by Health TP members through the sharing of group purchased fixed costs. By using industry standard purchasing methods, the group is able to control costs through the transparent purchasing process.

Health HP will be moving toward providing group wellness and other risk management services as a pool to help control the overall cost of the incurred claims.

Health TP will continue to market the pool to other eligible agencies.

Contacting Health TP's Management

This financial report is designed to provide a general overview of Health TP’s finances. Questions concerning any of the data contained herein or requests for additional financial information should be directed to the Administrator of Health TP, 1 Park Centre Drive, #300, Wadsworth, OH 44281.

Health Transit Pool of Ohio
Statement of Net Position
December 31, 2016

	December 31, 2016	December 31, 2015
Assets		
Cash	\$546,307	\$428,207
Accounts Receivable	673,630	628,894
Prepays	11,362	0
<i>Total Assets</i>	<i>1,231,299</i>	<i>1,057,101</i>
Liabilities		
Accounts Payable	0	1,947
Unearned Premium	34,800	310,823
Reserves for Unpaid Claims	325,000	200,053
Members Funds Held On Behalf	1,330,007	772,654
<i>Total Liabilities</i>	<i>1,689,807</i>	<i>1,285,477</i>
Net Position		
Net Position - Unrestricted	(458,508)	(228,376)
<i>Total Net Position</i>	<i>(\$458,508)</i>	<i>(\$228,376)</i>

The accompanying notes are an integral part of these financial statements.

Health Transit Pool of Ohio
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Membership Contributions	\$14,772,310	\$11,419,698
Members Claim Expense	(12,005,646)	(\$9,548,027)
Reinsurance/Stop-Loss Insurance Premiums	<u>(1,503,454)</u>	<u>(1,116,884)</u>
<i>Total Net Operating Revenues</i>	<u>1,263,210</u>	<u>754,787</u>
Operating Expenses:		
Claims/Loss Expense	1,205,893	612,947
IBNR Actuarial Reserves	124,947	53,099
Corporate Legal Fees	4,430	4,676
Actuarial Fees	19,500	22,219
Commissions/Consulting	62,763	54,651
All Other Administrative Expenses	<u>75,809</u>	<u>68,838</u>
<i>Total Operating Expenses</i>	<u>1,493,342</u>	<u>816,430</u>
<i>Operating (Loss)</i>	<u>(230,132)</u>	<u>(61,643)</u>
<i>Net Position at Beginning of Year</i>	<u>(228,376)</u>	<u>(166,733)</u>
<i>Net Position at End of Year</i>	<u><u>(\$458,508)</u></u>	<u><u>(\$228,376)</u></u>

The accompanying notes are an integral part of these financial statements.

Health Transit Pool of Ohio
Statement of Cash Flows
For the Year Ended December 31, 2016

	December 31, 2016	December 31, 2015
Cash Flows From Operating Activities		
Cash Received From Members	\$14,736,988	\$11,146,981
Cash Paid for Claims	(1,205,893)	(736,220)
Cash Paid for Members Claims	(11,730,731)	(9,364,515)
Cash Paid for Commercial Premiums & Claims Admin	(1,503,454)	(1,116,884)
Cash Paid for Administrative and General Expenses	<u>(178,810)</u>	<u>(150,222)</u>
Net Cash Flows Provided By (Used For) Operating Activities	118,100	(220,860)
Cash Flows From Investing Activities	<u>0</u>	<u>0</u>
Cash Flows From Financing Activities	<u>0</u>	<u>0</u>
Net Increase (Decrease) in Cash	118,100	(220,860)
Cash - Beginning of Year	<u>428,207</u>	<u>649,067</u>
Cash - End of Year	<u><u>\$546,307</u></u>	<u><u>\$428,207</u></u>
Reconciliation of Operating (Loss) to Net Cash from Operating Activity		
Operating (Loss)	(\$230,132)	(\$61,643)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Decrease (increase) in Assets:		
Accounts Receivable	(44,736)	(390,535)
Prepays	(11,362)	0
Increase (Decrease) in Liabilities:		
Accounts Payable	(1,947)	(51)
Members Payable - Claims	0	(262,318)
Reserve for Unpaid Claims	124,947	(70,174)
Members Funds Held On Behalf	557,353	335,353
Unearned Member Contributions	<u>(276,023)</u>	<u>228,508</u>
Net Cash Flows Provided By (Used For) Operating Activities	<u><u>\$118,100</u></u>	<u><u>(\$220,860)</u></u>

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION OVERVIEW

The Joint Self-Insurance Act authorizes Ohio political subdivisions to enter into an agreement to establish, maintain and administer joint self-insurance pools and joint risk management programs.

In 2013, the Ohio Transit Risk Pool (OTRP) set out to establish a health benefits program with eligibility for any Public Transit operating under Ohio statutory authority. The purpose of the Health Transit Pool of Ohio (Health TP) is to offer a cost-effective alternative to the commercial market for medical, dental, vision, life and prescription drug coverage and to provide the corresponding risk management services. Health TP achieves these goals through group purchasing, self-insurance and the pooling of risk.

Health TP executed by-laws effective November 1, 2013, and is a Ohio Nonprofit Corporation authorized and governed pursuant to Section 9.833 of the Ohio Revised Code. The formation of Health TP was funded by the three founding members, Metro RTA (Akron), Stark Area Regional Transit Authority (Canton) and Toledo Area Regional Transit Authority (Toledo).

Health TP is governed by and construed in accordance with the laws of the State, and it is the intention of all Health TP members that their agreements and by-laws shall comply with Section 9.833 of the Ohio Revised Code.

Health TP is governed by a Board of Trustees consists of one voting member appointed by the Board of each Health TP member. The executive committee consists of a President, Vice-President, Secretary, Treasurer and Assistant Treasurer.

Health TP uses third party administrators to process, approve, and deny claims, and to make payments to the medical providers. For 2016, medical, optical and prescription benefits (Medical), Medical Mutual was the third party administrator. For dental, life and short-term disability benefits (Ancillary), Guardian was the third party administrator. For COBRA administration the third party administrator was Ceridian.

Health TP utilizes the Ohio Transit Risk Pool (OTRP) as the managing Administrator. The financial activity for Health TP is independent and no funds are held at OTRP on behalf of Health TP.

Health TP utilizes additional third party services under contract: Accounting, Actuarial, Auditing, Brokerage, Banking and Corporate Legal.

Management believes the financial statements included in this report represent all of the financial activity of Health TP over which Health TP has the ability to exercise direct operating control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Basis of Accounting

Health TP uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

- Cash

Health TP's assets are held in the name of Health TP in a single separate demand deposit account. There are currently no investment accounts.

- Budgetary Process

The Health TP by-laws require that the Board of Health TP develop and approve and review a budget each fiscal year.

- Accounts Receivable

Receivables from members are stated at net invoice amounts. Collectability 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.

- Operating Cash Receipts and Cash Disbursements

Operating cash receipts are those receipts that are generated directly from the primary activity of the enterprise fund. For Health TP, these cash receipts are charges coverage and services provided. Operating cash disbursements are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. Receipts and disbursements not meeting these definitions are reported as non-operating.

- Member's Contribution Revenue and Unearned Contributions

Contributions are paid monthly by participating members and are recognized as revenue over the policy period. Receivables are recorded when earned. Contributions collected in advance of applicable coverage periods are classified as unearned contributions.

- Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- Tax Status

Health TP is a not-for-profit corporation as defined under Section 115 of the Internal Revenue Code. Accordingly, Health TP is exempt from federal, state and local taxes.

3. RISK MANAGEMENT

Health TP is exposed to various risks of loss from torts including but not limited to theft, loss of assets, business interruption; errors and omissions and directors and officers. Health TP owns no capital assets and is administered 100% by outside services. Each vendor is required under their respective agreements to carry all relevant insurance coverages with proof of coverage provided as required. OTRP provides comprehensive liability coverage to the Board of Directors.

Catastrophic loss protection is provided through the purchase of Reinsurance/Stop Loss/Excess coverage above the pooled risk. Health TP by-laws allow for a provision for special assessment in the event liabilities of the pool should exceed those amounts budgeted.

4. POOL TERMINATION

In the event of the termination of Health TP, all members of Health TP 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 reserved established for the payment of any such claims, any surplus members funds shall be distributed to members, past in present, in proportion to their interest in such surplus.

5. MEMBER WITHDRAW/REMOVAL

Any Pool member wishing to withdraw from participation in Health TP shall give notification at least one hundred eighty days prior to the anniversary date of Health TP’s health plan. The effective date of withdraw will be January 1st. Any Pool withdrawn member shall continue to have all obligations for those loss years in which the withdrawn member participated. Funds may be returned by a withdrawn member pursuant to the agreements of Health TP.

Any Pool member which withdraws from Health TP shall not have any return of equity, if any, until the policy years during which the withdrawn or terminated Member’s participated in the Pool have been formally closed by vote of the Board of Trustees. Such funds will only be returned after all outstanding payments and future obligations have been met.

6. MEMBER ADDITION

The Pool may add additional members wishing to participate in Health TP. The new members must complete an application and execute a copy of Health TP’s by-laws. During 2016, Health TP accepted two new members into the pool; Portage Area Transportation Authority (Kent) and Western Reserve Transit Authority (Youngstown).

7. DEPOSITS

Health TP has adopted a Cash and Investment policy. The policy required that all funds on deposit in banks in excess of FDIC limits be secured by some form of collateral.

Cash and cash equivalents totaled \$546,307 and \$428,207 at December 31, 2016 and 2015.

As of December 31, 2016, \$296,307 of Health TP’s bank balance was exposed to custodial risk while \$250,000 was covered by FDIC. Of the uninsured bank balance, all was collateralized with securities held by the pledging institution’s trust department, but not in Health TP’s name.

8. ACTUARIAL LOSS RESERVE FOR UNPAID CLAIMS

Health TP’s reserve for unpaid claims is determined using actuarial analysis and is computed in accordance with accepted loss reserving standards. The reserve represents a liability for both reported and unreported insured events and the ultimate net cost of all claims incurred which were unpaid at December 31, 2015.

Although Health TP’s actuary considers both Health TP’s experience and industry data in determining such reserves, assumption and projections as to future events are necessary and ultimate loss may differ significantly from amount projected. Reserves are not discounted. No reserve is posted for ancillary coverages as they are not self-insured.

A comparison of Health TP’s cash to the remaining actuarially-measured liability as of December 31, 2016 is as follows:

Cash	\$ 546,307
Actuarial Reserve	\$ 325,000

9. RESERVES FOR CLAIMS

Health TP establishes reserves for claims adjustment expenses for both reported and unreported insured events. A summary of changes in the reserves for claims and claims adjustment expenses for OTRP for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
1.) Reserve for unpaid claims, beginning of period	\$ 810,000	\$ 600,000
2.) Incurred losses and loss adjustment expenses	551,302	213,000
3.) Payment of Claims	<u>(1,036,302)</u>	<u>(612,947)</u>
4.) Reserve for Unpaid Claims, end of period	<u>\$ 325,000</u>	<u>\$ 200,053</u>

10. SELF-INSURED RETENTION

During 2016, Health TP members retained the first \$75,000 per person for medical and prescription coverage with the pool retaining the loss from \$75,000 to \$175,000 per person. Medical Mutual reimburses all amounts above the stop loss of \$175,000.

11. EXCESS INSURANCE COVERAGE

Reinsurance/Stop Loss/Excess coverage is purchased above the pooled risk to protect Health TP and its members from catastrophic loss. During both the 2016 and 2015 coverage year, Health TP purchased excess stop loss insurance for its Medical and Prescription plan. This coverage includes a specific stop loss limit of \$175,000 per subscriber and aggregate stop loss at 125% of expected claims to an aggregate maximum limit of reimbursement of \$1,000,000. Stop loss coverage for Ancillary coverage is not considered necessary because there is a maximum benefit in place.

12. MEMBERS PAYABLE - CLAIMS

Due to the lag in reporting paid claims from the carrier, claims liabilities including pre-paid claims and claims within the reinsurance layer are pre-paid by the Health TP members through weekly invoicing. Over the remaining period of the contract for major medical, claims will continue to develop and liabilities will continue to develop for the loss year. Future liabilities representing pre-paid claims will subsequently be identified and credits will be provided to Members as credit memos for a future time.

13. MEMBERS FUNDS HELD ON BEHALF

Due to the lag in reporting paid claims from the carrier and the nature of the timing of the self-insured claims for the members, Health TP members deposit fund on-account as a pre-payment of future liabilities. As of December 31, 2016 and 2015 Health TP held \$1,330,007 and 772,654, respectively.

14. SUBSEQUENT EVENTS

Due to potential claim liabilities for Loss Year (3) 2016, the Health TP Board may be required to make a supplemental special assessment to the pool members to cover any liability that may arise from claims that occurred in 2016 but paid in 2017.

REQUIRED SUPPLEMENTAL INFORMATION

HEALTH TRANSIT POOL OF OHIO
CLAIMS DEVELOPMENT INFORMATION
YEARS ENDED DECEMBER 31, 2016

The table on the following page outlines how Health TP's earned revenues (net of reinsurance) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by Health TP as of the end of the last two years. The columns of the table show data for successive policy years.

The following table is reported on a policy-year basis. This method assigns incurred losses and claim adjustment expenses to the year in which the event that triggered coverage under the risk pool insurance policy or participating contract occurred.

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 any investment income, contribution revenue ceded to excess insurers, and net earned contributions revenue and any reported investment revenue.
- (2) This line shows each fiscal year's other operating costs, including overhead and claims expense not allocable to individual claims.
- (3) This line shows the gross incurred claims and allocated claims adjustment expenses, claims assumed by reinsurers, 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 (policy year).
- (4) This section illustrates the cumulative amounts paid as of the end of the two policy years.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
- (6) This line shows the increase or decreased in the previous year's estimate. 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.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIALS STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Health Transit Pool of Ohio
One Park Centre Drive
Wadsworth, Ohio 44281

To the Board of Trustees:

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 Health Transit Pool of Ohio, Medina County, (Health TP), as of December 31, 2016 and 2015, which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Health TP'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 Health TP's internal control. Accordingly, we do not express an opinion on the effectiveness of Health TP'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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of reasonably assuring whether Health TP'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, providing an opinion 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*.

Purpose of this Report

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

Varney, Fink & Associates

Varney, Fink & Associates, Inc.
Certified Public Accountants
Wadsworth, Ohio

June 29, 2017

This page intentionally left blank.



Dave Yost • Auditor of State

HEALTH TRANSIT POOL OF OHIO

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
OCTOBER 3, 2017