

Health Transit Pool of Ohio
Medina County, Ohio

Audited Financial Statements

For the Years Ended
December 31, 2017 and 2016



Dave Yost • Auditor of State

Board of Directors
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 Rea & Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

August 27, 2018

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**HEALTH TRANSIT POOL OF OHIO
MEDINA COUNTY, OHIO**

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

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June 26, 2018

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Health Transit Pool of Ohio, Medina County, Ohio, (the Health TP) as of and for the year ended December 31, 2017, 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 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 audit. We conducted our audit 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Health Transit Pool of Ohio, Medina County, Ohio, as of December 31, 2017, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 14, the Health TP restated the net position balance to account for a correction in accounts payable. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the Health TP, as of and for the year ended December 31, 2016, were audited by other auditors whose report dated June 29, 2017, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Claims Development Information, the Schedule of Claims Information for All Lines of Coverage and the Statement of Reconciliation of Net Reserves for Claims and Claims Adjustment for Expenses by Type of Contract on pages 3-6, 16, 17 and 18, respectively, 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the 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 June 26, 2018 on our consideration of the Health TP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Health TP's 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.

Kea & Associates, Inc.

Medina, Ohio

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, 2017 and 2016. Please read it in conjunction with Health TP’s financial statements, which immediately follow this section.

Introduction

In 2013, the 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 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:

Statements of Net Position - This Statement of Net Position represents Health TP’s position as of the periods ending December 31, 2017 and 2016. 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.

Statements of Revenue, Expenses, and Changes in Net Position - This statement reflects the operating and nonoperating revenue and expenses for the periods ending December 31, 2017 and 2016. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being IBNR and claims/loss expense.

Statements 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 periods ended December 31, 2017 and 2016.

Condensed Financial Information

The following tables present the summarized financial position for Health TP on December 31, 2017 and 2016. 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, 2017	Restated December 31, 2016	December 31, 2015
Assets			
Cash	\$1,005,574	\$546,307	\$428,207
Account Receivable	2,234,490	673,630	628,894
Prepays	23,671	11,362	0
Totals Assets	<u>3,263,736</u>	<u>1,231,299</u>	<u>1,057,101</u>
 Total Liabilities	 <u>3,593,005</u>	 <u>1,702,200</u>	 <u>1,285,477</u>
 Net Position	 <u>(\$329,270)</u>	 <u>(\$470,901)</u>	 <u>(\$228,376)</u>

Currently Health TP holds no investments other than cash. Other assets include accounts receivable of \$2,234,490; an increase of \$1,560,860 from 2016 largely due to a members’ outstanding balance owed for claims. The Health TP’s total assets were \$3,263,736 as of December 31, 2017, an increase of \$2,032,436 over 2016.

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.

The Health TP's total liabilities were \$3,593,005 as of December 31, 2017, an increase of \$1,890,805 over 2016. This was due to the pooled layered claims owed to the members not being issued to them before the end of the year.

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, 2017 for IBNR is \$90,799.

REVENUES, EXPENSES AND CHANGES IN NET POSITON

	December 31, 2017	Restated December 31, 2016	December 31, 2015
Operating Revenues:			
Membership Contributions	\$17,342,042	\$14,772,310	\$11,419,698
Member Claims Expense	(14,380,142)	(12,005,646)	(9,548,027)
Reinsurance/Stop-Loss Insurance Premiums	(1,442,518)	(1,503,454)	(1,116,884)
Total Net Operating Revenues	<u>1,519,382</u>	<u>1,263,210</u>	<u>754,787</u>
Operating Expenses:			
IBNR and Claims/Loss Expense	1,171,911	1,330,840	666,046
Corporate Legal Fees	1,914	4,430	4,676
Actuarial Fees	23,000	19,500	22,219
Commissions/Consulting	67,980	62,763	54,651
All Other Administrative Expenses	112,947	88,202	68,838
Total Operating Expenses	<u>1,377,751</u>	<u>1,505,735</u>	<u>816,430</u>
Operating (Loss)	141,631	(242,525)	(61,643)
Net Position at Beginning of Year	<u>(470,901)</u>	<u>(228,376)</u>	<u>(166,733)</u>
Net Position at End of Year	<u>(\$329,270)</u>	<u>(\$470,901)</u>	<u>(\$228,376)</u>

Contributions (Premiums) earned are recognized during the fiscal year of the coverage period. This amount is reduced by the member's deductible claims cost and the reinsurance and stop-loss purchased from the commercial insurance market to reduce the risk of large losses. During 2017, 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 year ended December 31, 2017 were \$17,342,042, an increase of \$2,569,732 over 2016 which was mostly due to an increase in medical claims incurred by the pool and members of the pool. Member claims expense was \$14,380,142, an increase of \$2,374,496 over 2016.

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 TP 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 Center Drive, #300, Wadsworth, OH 44281.

Health Transit Pool of Ohio
Statements of Net Position
December 31, 2017

	December 31, 2017	Restated December 31, 2016
	<u> </u>	<u> </u>
Assets		
Cash	\$1,005,574	\$546,307
Account Receivable	2,234,490	673,630
Prepays	23,671	11,362
	<u> </u>	<u> </u>
Totals Assets	<u>3,263,735</u>	<u>1,231,299</u>
Liabilities		
Accounts Payable	0	12,393
Unearned Premium	9,570	34,800
Reserves for Unpaid Claims	90,799	325,000
Members Payable - Claims	1,172,017	0
Members Funds Held on Behalf	2,320,619	1,330,007
	<u> </u>	<u> </u>
Total Liabilities	3,593,005	1,702,200
Net Position		
Net Position - Unrestricted	<u>(329,270)</u>	<u>(470,901)</u>
Total Net Position	<u><u>(\$329,270)</u></u>	<u><u>(\$470,901)</u></u>

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

Health Transit Pool of Ohio
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

	December 31, 2017	Restated December 31, 2016
Operating Revenues:		
Membership Contributions	\$17,342,042	\$14,772,310
Member Claims Expense	(14,380,142)	(12,005,646)
Reinsurance/Stop-Loss Insurance Premiums	(1,442,518)	(1,503,454)
	<u>1,519,382</u>	<u>1,263,210</u>
Operating Expenses:		
IBNR and Claims/Loss Expense	1,171,911	1,330,840
Corporate Legal Fees	1,914	4,430
Actuarial Fees	23,000	19,500
Commissions/Consulting	67,980	62,763
All Other Administrative Expenses	112,946	88,202
	<u>1,377,751</u>	<u>1,505,735</u>
Operating Income (Loss)	141,631	(242,525)
Net Position at Beginning of Year	<u>(470,901)</u>	<u>(228,376)</u>
Net Position at End of Year	<u><u>(\$329,270)</u></u>	<u><u>(\$470,901)</u></u>

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

Health Transit Pool of Ohio
Statements of Cash Flow
For the Year Ended December 31, 2017

	2017	Restated 2016
Cash Flow From Operating Activities		
Cash Received From Members	\$16,527,339	\$14,736,988
Cash Paid for Pooled Claims	(1,406,112)	(1,205,893)
Cash Paid for Members Claims	(13,183,928)	(11,730,731)
Cash Paid for Commercial Premiums & Claims Admin	(1,214,857)	(1,503,454)
Cash Paid for Administrative and General Expenses	(263,175)	(178,810)
Net Cash Flows Provided By (Used For) Operating Activities	<u>459,267</u>	<u>118,100</u>
Net Increase (Decrease) in Cash	459,267	118,100
Cash - Beginning of Year	<u>546,307</u>	<u>428,207</u>
Cash - End of Year	<u><u>\$1,005,574</u></u>	<u><u>\$546,307</u></u>
Reconciliation of Operating Income (Loss) to Net Cash provided by/(used for) Operating Activity		
Operating Income (Loss)	\$141,631	(\$242,525)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by/(used for) Operating Activities		
Decrease (increase) in Assets:		
Accounts Receivable	(1,560,860)	(44,736)
Prepays	(12,309)	(11,362)
Increase (Decrease) in Liabilities:		
Accounts Payable	(12,393)	10,446
Members Payable - Claims	1,172,017	0
Reserve for Unpaid Claims	(234,201)	124,947
Members Funds Held on Behalf	990,612	557,353
Unearned Member Contributions	(25,230)	(276,023)
Net Cash Flows Provided by (Used For) Operating Activities	<u><u>\$459,267</u></u>	<u><u>\$118,100</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 an 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). During 2016 Health TP accepted two additional members into the pool; Portage Area Transportation Authority (Kent) and Western Reserve Transit Authority (Youngstown).

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 2017, medical and optical (Medical), Medical Mutual was the third-party administrator. For prescription benefits, RxBenefits 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 Infinisource.

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 Member Funds Held on Behalf

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 Member Funds Held on Behalf. These funds are held by Health TP for the participating member to be used in a future period.

For the year ended December 31, 2017, Health TP held a members payable claims liability for funds due back to the members for claims paid in excess of \$75,000, up to the stop-loss threshold of \$175,000.

- 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.

There has been no significant reduction in coverage from the prior year and claims have not exceeded coverage for any of the prior three years.

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 member's 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.

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 \$1,005,574 and \$546,307 at December 31, 2017 and 2016.

As of December 31, 2017, \$755,574 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.

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 year-end.

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, 2017 and 2016 is as follows:

	2017	2016
Cash	\$ 1,005,574	\$ 546,307
Actuarial Reserve	\$ 90,799	\$ 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 Health TP for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
1) Reserve for unpaid claims, beginning of period	\$ 325,000	\$ 200,053
2) Incurred losses and loss adjustment expense	1,171,911	1,330,840
3) Payment of claims	(1,406,112)	(1,205,893)
4) Reserve for unpaid claims, end of period	\$ 90,799	\$ 325,000

10. SELF-INSURED RETENTION

During 2017, 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 the 2017 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. 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, 2017 and 2016, Health TP held \$2,320,619 and \$1,330,007 in pre-payments.

14. RESTATEMENT AND COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. The prior year statements for FY2016 did not include Accounts Payable of \$12,393.

As a result, the accounts payable line item has been amended in the statement of Net Position and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation.

15. CONTINGENCY

Due to potential claim liabilities for Loss Year (4) 2017, 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 2017 but paid in 2018.

16. SUBSEQUENT EVENTS

Starting in January 2018 Laketrans, the Regional Transit Authority for Lake County, joined the Health Transit Pool as a full member.

REQUIRED SUPPLEMENTAL INFORMATION

CLAIMS DEVELOPMENT INFORMATION

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.

HEALTH TRANSIT POOL OF OHIO - MEDINA COUNTY

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Claims Information for All lines of Coverage

	2014	2015	2016	2017
(1) Required Premiums Revenue:				
Earned	\$ 9,543,982	\$ 11,419,698	\$ 14,574,397	\$ 17,342,042
Ceded	913,113	1,116,884	1,503,454	1,442,518
Net earned	8,630,869	10,302,814	13,070,943	15,899,524
(2) Unallocated Pool Expenses	130,859	150,384	162,502	205,840
(3) Estimated Total Claims - End of policy year:				
Incurred	8,675,135	10,579,674	13,929,285	14,906,855
Ceded	8,392	218,647	562,337	1,023,141
Net incurred	8,666,743	10,361,027	13,366,948	13,883,714
(4) Net Paid Claims (Cumulative) as of				
End of policy year	8,666,743	10,361,027	13,366,948	13,883,714
One year later	8,519,789	10,330,565	15,035,290	-
Two years later	8,519,789	10,330,565	-	-
Three years later	8,519,789	-	-	-
Four years later	-	-	-	-
Five years later	-	-	-	-
Six years later	-	-	-	-
Seven years later	-	-	-	-
Eight years later	-	-	-	-
Nine years later	-	-	-	-
(5) Re-estimated Ceded Claims	8,392	218,647	562,337	1,023,141
(6) Re-estimated Net Incurred Claims:				
End of policy year	8,666,743	10,361,027	13,366,948	13,883,714
One year later	8,519,789	10,330,565	15,035,290	-
Two years later	8,519,789	10,330,565	-	-
Three years later	8,519,789	-	-	-
Four years later	-	-	-	-
Five years later	-	-	-	-
Six years later	-	-	-	-
Seven years later	-	-	-	-
Eight years later	-	-	-	-
Nine years later	-	-	-	-
(7) Change in Estimated Incurred Claims and Expenses From End of Policy Year	146,954	30,462	(1,668,342)	-

HEALTH TRANSIT POOL OF OHIO - MEDINA COUNTY
REQUIRED SUPPLEMENTAL INFORMATION

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

	Fiscal and Policy Years Ended December 31								
	2017			2016			2015		
	Medical	Pharmacy	Total	Medical	Pharmacy	Total	Medical	Pharmacy	Total
Reserves for claims and claims adjustment expenses - Beginning of fiscal year	\$ 264,760	\$ 60,240	\$ 325,000	\$ 191,835	\$ 8,218	\$ 200,053	\$ 222,227	\$ 48,000	\$ 270,227
Incurred claims and claims adjustment expenses:									
Provision for insured events of the current fiscal year	1,213,445	226,556	1,440,001	728,000	182,000	910,000	480,000	120,000	600,000
Change in provision for insured events of prior fiscal years	<u>(207,850)</u>	<u>(60,240)</u>	<u>(268,090)</u>	<u>429,058</u>	<u>(8,218)</u>	<u>420,840</u>	<u>114,046</u>	<u>(48,000)</u>	<u>66,046</u>
Total incurred claims and claims adjustment expenses	1,005,595	166,316	1,171,911	1,157,058	173,782	1,330,840	594,046	72,000	666,046
Payments:									
Claims and claims adjustment expenses attributable to insured events of the current year	999,401	172,616	1,172,017	931,666	104,636	1,036,302	501,165	111,782	612,947
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	<u>197,264</u>	<u>36,831</u>	<u>234,095</u>	<u>152,467</u>	<u>17,124</u>	<u>169,591</u>	<u>123,273</u>	<u>-</u>	<u>123,273</u>
Total payments	<u>1,196,665</u>	<u>209,447</u>	<u>1,406,112</u>	<u>1,084,133</u>	<u>121,760</u>	<u>1,205,893</u>	<u>624,438</u>	<u>111,782</u>	<u>736,220</u>
Reserve for claims and claims adjustment expenses - End of year	<u>\$ 73,690</u>	<u>\$ 17,109</u>	<u>\$ 90,799</u>	<u>\$ 264,760</u>	<u>\$ 60,240</u>	<u>\$ 325,000</u>	<u>\$ 191,835</u>	<u>\$ 8,218</u>	<u>\$ 200,053</u>

June 26, 2018

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

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 *Government Auditing Standards*

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 the Health Transit Pool of Ohio, Medina County, Ohio (the Health TP) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Health TP's basic financial statements, and have issued our report thereon dated June 26, 2018, wherein the Health TP restated net position to account for an error in accounts payable.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Health TP's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 obtaining reasonable assurance about whether the Health TP'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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio



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
SEPTEMBER 11, 2018