

**PORTAGE AREA SCHOOL CONSORTIUM HEALTH & WELFARE INSURANCE POOL  
PORTAGE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
*(Audited)***

*FOR THE FISCAL YEARS ENDED  
JUNE 30, 2005 AND 2004*

**TOM MOREHOUSE, TREASURER**





Mary Taylor, CPA  
Auditor of State

Members of the Assembly  
Portage Area School Consortium Health & Welfare Insurance Pool  
326 E. Main Street  
Ravenna, Ohio 44266

We have reviewed the *Independent Auditor's Report* of the Portage Area School Consortium Health & Welfare Insurance Pool, Portage County, prepared by Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2005. 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 School Consortium Health & Welfare Insurance Pool is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 7, 2008

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**PORTAGE AREA SCHOOL CONSORTIUM HEALTH & WELFARE INSURANCE POOL  
PORTAGE COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis.....	3 - 6
Basic Financial Statements:	
Statement of Net Assets - Cash Basis - June 30, 2005 .....	7
Statement of Net Assets - Cash Basis - June 30, 2004.....	8
Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets - For the Fiscal Year Ended June 30, 2005.....	9
Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets - For the Fiscal Year Ended June 30, 2004.....	10
Notes to the Cash Basis Financial Statements .....	11 - 16
Required Supplementary Information:	
Ten-Year Loss Development Information.....	17
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> .....	18



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

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### Independent Auditor's Report

Members of the Assembly  
Portage Area School Consortium Health & Welfare Insurance Pool  
326 E. Main Street  
Ravenna, OH 44266

We have audited the accompanying financial statements of the Portage Area School Consortium Health & Welfare Insurance Pool, Portage County, Ohio, as of and for the fiscal years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Portage Area School Consortium Health & Welfare Insurance Pool's management. 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Portage Area School Consortium is comprised of two stand alone pools: the Portage Area School Consortium Health & Welfare Insurance Pool and the Portage Area School Consortium Property & Casualty Insurance Pool, which issues a separate report. This report represents only the Health & Welfare Pool.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Portage Area School Consortium Health & Welfare Insurance Pool, Portage County, Ohio, as of June 30, 2005 and 2004, and the respective changes in cash financial position for the fiscal years then ended in conformity with the basis of accounting Note 2 describes.

As disclosed in Note 3, for the years ended June 30, 2005 and 2004, the Portage Area School Consortium Health & Welfare Insurance Pool revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2008, on our consideration of the Portage Area School Consortium Health & Welfare Insurance Pool'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Independent Auditor's Report  
Portage Area School Consortium Health & Welfare Insurance Pool  
Page Two

The management's discussion and analysis and required supplementary information on pages 3 - 6 and 17, respectively, are not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
March 13, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

The management's discussion and analysis of the Portage Area School Consortium Health & Welfare Pool (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the fiscal years 2005 and 2004, 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 years 2005 and 2004 are as follows:

- In total, net cash assets were \$7,052,103 at June 30, 2005, which represents a 49.31% increase from fiscal 2004. Net cash assets at June 30, 2004 were \$4,723,200, which represents an 85.48% increase from fiscal 2003.
- The Consortium had operating cash receipts of \$20,788,608 and \$19,897,560 for fiscal years 2005 and 2004, respectively. The Consortium had operating cash disbursements of \$18,580,589 and \$17,756,875 for fiscal years 2005 and 2004, respectively. The Consortium also received \$120,884 and \$36,078 in interest income non-operating cash receipts during fiscal years 2005 and 2004, respectively. The total change in net cash assets for fiscal years 2005 and 2004 was an increase of \$2,328,903 and \$2,176,763, respectively.

**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 Assets-Cash Basis* and the *Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets* provide information about the activities of the Consortium.

**Reporting the Consortium Financial Activities**

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2005 and 2004?" The Statement of Net Assets - Cash Basis and Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets - answer this question.

These statements include *only net cash assets* 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 assets and changes in those assets on a cash basis. This change in net cash assets 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 SCHOOL CONSORTIUM HEALTH & WELFARE POOL  
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

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 cash assets at June 30, 2005, 2004 and 2003.

	2005	<b>Net Assets</b> 2004	2003
<b><u>Assets</u></b>			
Equity in pooled cash and investments	\$ 7,052,103	\$ 4,723,200	\$ 2,546,437
Total assets	<u>7,052,103</u>	<u>4,723,200</u>	<u>2,546,437</u>
<b><u>Net Cash Assets</u></b>			
Unrestricted	7,052,103	4,723,200	2,546,437
Total net cash assets	<u>\$ 7,052,103</u>	<u>\$ 4,723,200</u>	<u>\$ 2,546,437</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, June 30, 2004 and June 30, 2003, the Consortium's net cash assets totaled \$7,052,103, \$4,723,200 and \$2,546,437, respectively.

This Table below shows the changes in net cash assets for fiscal years 2005, 2004 and 2003.

	2005	2004	2003
<b>Operating cash receipts:</b>			
Contributions from members	\$ 20,550,564	\$ 19,738,142	\$ 17,565,989
Stop loss reimbursement	126,355	74,450	188,181
Rebates	44,215	50,137	15,003
Subrogation reimbursement	55,082	31,261	162,540
Miscellaneous	12,392	3,570	-
Total operating cash receipts	<u>20,788,608</u>	<u>19,897,560</u>	<u>17,931,713</u>
<b>Operating cash disbursements:</b>			
Claims	16,976,857	16,540,337	16,447,580
Administrative fees	1,527,093	1,129,019	1,376,568
Professional fees	76,552	86,469	67,014
Miscellaneous	87	1,050	29,570
Total operating cash disbursements	<u>18,580,589</u>	<u>17,756,875</u>	<u>17,920,732</u>
Excess of operating cash receipts over operating cash disbursements	<u>2,208,019</u>	<u>2,140,685</u>	<u>10,981</u>
<b>Non-operating cash receipts:</b>			
Interest Income	120,884	36,078	42,139
Total non-operating cash receipts	<u>120,884</u>	<u>36,078</u>	<u>42,139</u>
Change in cash net assets	2,328,903	2,176,763	53,120
<b>Net cash assets at beginning of year</b>	<u>4,723,200</u>	<u>2,546,437</u>	<u>2,493,317</u>
<b>Net cash assets at end of year</b>	<u>\$ 7,052,103</u>	<u>\$ 4,723,200</u>	<u>\$ 2,546,437</u>

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

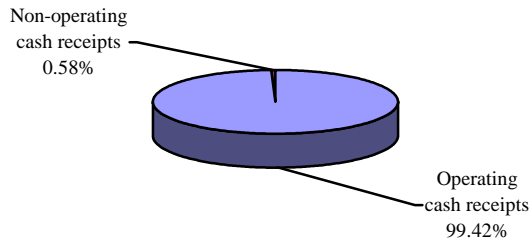
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

For fiscal year 2005, operating cash receipts and operating cash disbursements increased 4.48% and 4.64% respectively, over fiscal year 2004. The operating cash receipts increased due to an increase in premiums for the individual districts. The operating cash disbursements increased due to an increase in claims and administrative fees.

For fiscal year 2004, operating cash receipts increased 10.96% and cash disbursements decreased .91% over fiscal year 2003. The operating cash receipts increased primarily due to an increase in premiums. The operating cash disbursements decreased primarily due to a decrease in administrative fees.

The charts below illustrate the cash receipts and disbursements for the Consortium for fiscal years 2005, 2004 and 2003.

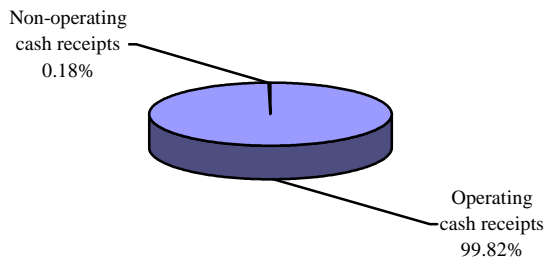
**2005 Cash Receipts**



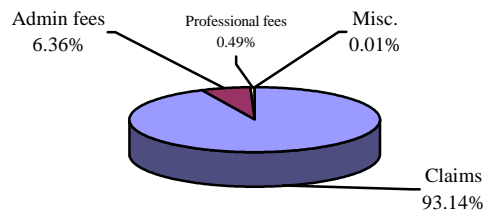
**2005 Operating Cash Disbursements**



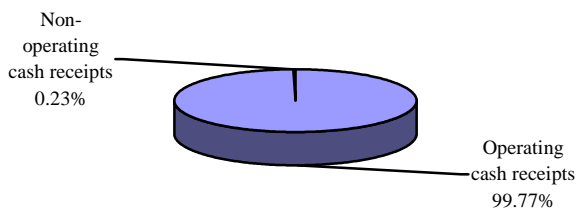
**2004 Cash Receipts**



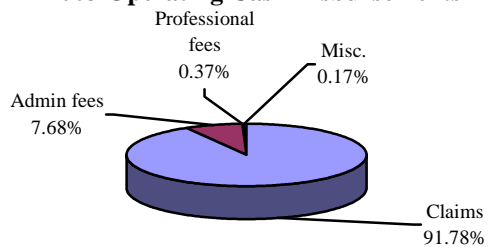
**2004 Operating Cash Disbursements**



**2003 Cash Receipts**



**2003 Operating Cash Disbursements**



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

**Current Financial Related Activities**

The Consortium is owned and operated by 11 school districts in Portage County, Ohio. 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 Administrator, Benefit Services, Inc, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for consortium members. It should be noted that in fiscal year 2006, 1 member school district will be leaving the Consortium, while 4 new member districts will join the Consortium. In fact, the Consortium will be looking to expand beyond the Portage County borders.

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 district together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 1,900 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.

**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. If you have any questions about this report or need additional financial information contact: Mr. Tom Morehouse, Treasurer, Portage Area Schools Consortium, 326 E. Main St., Ravenna, Ohio 44266.

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

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2005**

**Assets:**

Equity in pooled cash and investments.....	<u>\$7,052,103</u>
Total assets.....	<u>7,052,103</u>

**Net Cash Assets:**

Unrestricted.....	<u>7,052,103</u>
Total net cash assets.....	<u>\$7,052,103</u>

See accompanying notes to the cash-basis financial statements.

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

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2004**

<b>Assets:</b>	
Equity in pooled cash and investments.....	<u>\$4,723,200</u>
Total assets.....	<u>4,723,200</u>
<b>Net Cash Assets:</b>	
Unrestricted.....	<u>4,723,200</u>
Total net cash assets.....	<u><u>\$4,723,200</u></u>

See accompanying notes to the cash-basis financial statements.

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN NET CASH ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<b>Operating cash receipts:</b>	
Contributions from members	\$ 20,550,564
Stop loss reimbursement	126,355
Rebates	44,215
Subrogation reimbursement	55,082
Miscellaneous	12,392
Total operating cash receipts	<u>20,788,608</u>
 <b>Operating cash disbursements:</b>	
Claims	16,976,857
Administrative fees	1,527,093
Professional fees	76,552
Miscellaneous	87
Total operating cash disbursements	<u>18,580,589</u>
 Excess of operating cash receipts over operating cash disbursements	 <u>2,208,019</u>
 <b>Non-operating cash receipts:</b>	
Interest Income	120,884
Total non-operating cash receipts	<u>120,884</u>
 Change in cash net assets	 2,328,903
 <b>Net cash assets at beginning of year</b>	 <u>4,723,200</u>
<b>Net cash assets at end of year</b>	<u><u>\$ 7,052,103</u></u>

See accompanying notes to the cash-basis financial statements.

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN NET CASH ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>Operating cash receipts:</b>	
Contributions from members	\$ 19,738,142
Stop loss reimbursement	74,450
Rebates	50,137
Subrogation reimbursement	31,261
Miscellaneous	3,570
Total operating cash receipts	<u>19,897,560</u>
 <b>Operating cash disbursements:</b>	
Claims	16,540,337
Administrative fees	1,129,019
Professional fees	86,469
Miscellaneous	1,050
Total operating cash disbursements	<u>17,756,875</u>
 Excess of operating cash receipts over operating cash disbursements	 <u>2,140,685</u>
 <b>Non-operating cash receipts:</b>	
Interest Income	<u>36,078</u>
Total non-operating cash receipts	<u>36,078</u>
 Change in cash net assets	 2,176,763
 <b>Net cash assets at beginning of year</b>	 <u>2,546,437</u>
<b>Net cash assets at end of year</b>	<u><u>\$ 4,723,200</u></u>

See accompanying notes to the cash-basis financial statements.

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

**NOTES TO THE CASH-BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

**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, 2005, there are 11 participating members: Aurora City Schools, Crestwood Local Schools, Field Local Schools, James A. Garfield Local Schools, Maplewood Career Center, Portage County Board of MRDD, Portage County ESC, Rootstown Local Schools, Streetsboro City Schools, Waterloo Local Schools, and Windham Exempted Village Schools. It should be noted that in fiscal year 2006 one member district (Field Local Schools) will be leaving the Consortium, while four others (Columbiana Exempted Village Schools, Leetonia Exempted Village Schools, Lisbon Exempted Village Schools, and Sebring Local Schools) will be entering the Consortium.

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, 2005, there were eleven 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. The Portage County Educational Service Center serves as the Consortium's fiscal agent and the Treasurer of the Consortium shall be the Treasurer of the Fiscal Agent. The Fiscal Agent is re-elected each year by the Trustees. 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.

**A. Basis of Presentation**

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



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

**NOTES TO THE CASH-BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

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

**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. Money market funds are valued at cost.

The Consortium has invested funds in STAR Ohio during fiscal years 2005 and 2004. 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, 2005 and June 30, 2004, respectively.

**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 Cash Assets**

Net cash assets are 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 cash assets at fiscal year end.

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

**NOTES TO THE CASH-BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal years ended 2005 and 2004, the Consortium has implemented the GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" format. The implementation had no effect on beginning net assets.

For fiscal years 2005 and 2004, the Consortium has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Consortium; however, note disclosures in Note 4 have been revised to reflect this implementation.

**NOTE 4 - 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 that 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;

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

**NOTES TO THE CASH-BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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,

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 exception 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, 2005 and 2004 the Consortium's bank balance was \$330,000 for each year. The Consortium's carrying amount was \$26,720 and \$21,492 for FY 2005 and 2004, respectively.

Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005 and June 30, 2004, \$230,000 and \$230,000, respectively, of the Consortium's bank balance of \$330,000 and \$330,000, respectively, was exposed to custodial credit risk as discussed below, while \$100,000 and \$100,000, respectively, 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, 2005, 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	\$ 2,439,082	\$2,439,082	\$ -	\$ -	\$ -
Key Bank Money Market	4,586,301	4,586,301	-	-	-
	<u>\$ 7,025,383</u>	<u>\$7,025,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTES TO THE CASH-BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

As of June 30, 2004, 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	\$ 1,397,020	\$ 1,397,020	\$ -	\$ -	\$ -
Key Bank Money Market	3,304,688	3,304,688	-	-	-
	<u>\$ 4,701,708</u>	<u>\$ 4,701,708</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.

*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>	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Fair Value</u>	<u>% of Total</u>	<u>Fair Value</u>	<u>% of Total</u>
Star Ohio	\$ 2,439,082	35%	\$ 1,397,020	30%
Key Bank Money Market	4,586,301	65%	3,304,688	70%
	<u>\$ 7,025,383</u>	<u>100%</u>	<u>\$ 4,701,708</u>	<u>100%</u>

**NOTE 5 - RISK MANAGEMENT**

The Consortium contracts with third party administrators, Benefit Services, Inc. to process and pay health, dental, and vision claims, and Pharmacare 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.

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

**NOTES TO THE CASH-BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

**NOTE 5 - RISK MANAGEMENT - (Continued)**

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

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Net Cash and Investments	\$ 7,052,103	\$ 4,723,200	\$ 2,546,437
Actuarial Liabilities	\$ 2,562,002	\$ 2,271,697	\$ 2,576,334

**NOTE 6 - CONTRACTED SERVICES**

The Consortium also uses Benefit Services to assist them with the annual renewals of the health and welfare plan. Benefit Services 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.

# SUPPLEMENTARY INFORMATION

**PORTAGE AREA SCHOOL 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.

The Consortium has not provided loss development information for the years ended 2000, 1999, 1998, 1997 and 1996 due to information not available.

Loss development information for the fiscal years ended June 30, 2005, 2004, 2003, 2002 and 2001 is as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
1. Premiums and investment income	\$13,243,026	\$14,334,321	\$17,973,852	\$19,933,638	\$20,909,492
2. Unallocated cash disbursements	1,168,916	1,315,773	1,472,976	1,216,538	1,603,732
3. Paid, cumulative as of end of accident year	9,660,402	13,225,688	14,429,381	14,806,941	14,759,466
One year later	12,110,843	15,243,887	16,162,777	17,024,332	
Two years later	12,110,843	15,243,887	16,162,777		
Three years later	12,110,843	15,243,887			
Four years later	12,110,843				



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

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**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***

Members of the Assembly  
Portage Area School Consortium Health & Welfare Insurance Pool  
326 E. Main Street  
Ravenna, OH 44266

We have audited the financial statements of the Portage Area School Consortium Health & Welfare Insurance Pool, Portage County, Ohio, as of and for the fiscal years ended June 30, 2005 and 2004, and have issued our report thereon dated March 13, 2008, wherein we noted the Portage Area School Consortium Health & Welfare Insurance Pool prepared its financial statements on the cash basis, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As disclosed in Note 3 to the financial statements, Portage Area School Consortium Health & Welfare Insurance Pool has implemented GASB Statement No. 34. 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 General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Portage Area School Consortium Health & Welfare Insurance Pool's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Portage Area School Consortium Health & Welfare Insurance Pool's financial statements are free of 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*.

This report is intended solely for the information and use of the management, audit committee, and Members of the Assembly of the Portage Area School Consortium Health & Welfare Insurance Pool, and is not intended to be and should not be used by anyone other than these specified parties.

Julian & Grube, Inc.  
March 13, 2008





**Mary Taylor, CPA**  
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  
MAY 20, 2008**