

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

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

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2017***

TODD CARPENTER, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 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 Portage Area Schools Consortium Health & Welfare Pool is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 8, 2018

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

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

To the Members of the Assembly:

Report on the Financial Statements

We have audited the accompanying financial statements of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Portage Area Schools Consortium Health & Welfare Pool's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, Ohio, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

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

As discussed further in Note 8 to the financial statements, during the fiscal year ended June 30, 2017, the Portage Area Schools Consortium Health & Welfare Pool changed the presentation of its annual financial report from the cash-basis of accounting to presenting its basic financial statements in accordance with accounting principles generally accepted in the United States of America. We did not modify our opinion regarding this matter.

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* and Three-Year Loss Development Information, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the Portage Area Schools Consortium Health & Welfare Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Portage Area Schools Consortium Health & Welfare Pool's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 11, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The management's discussion and analysis of the Portage Area Schools Consortium Health & Welfare Pool's (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Consortium's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The Consortium has prepared, for the first time, financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The restatement to net cash position as previously reported at June 30, 2016 is described in Note 8.
- In total, net position was a deficit balance of \$1,761,960 at June 30, 2017. This represents an increase of \$583,788, or 24.89%, from June 30, 2016 (as restated – see Note 8).
- The Consortium had operating revenues of \$55,317,061 and operating expenses of \$54,740,186 for fiscal year 2017. The Consortium also had \$6,913 in interest revenue. Operating income and the increase in net position for the fiscal year was \$576,875 and \$583,788, respectively.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Consortium's financial activities. The *statement of net position* and *statement of revenues, expenses, and changes in net position* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about cash provided by or used in various activities of the Consortium.

Reporting the Consortium Financial Activities

Statement of net position, statement of revenues, expenses, and changes in net position and the statement of cash flows

These documents look at all financial transactions and ask the question, "How did we do financially during fiscal year 2017?" The statement of net position and the statement of revenues, expenses, and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and the statement of revenues, expenses and changes in net position report the Consortium's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Consortium as a whole, the *financial position* of the Consortium has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Consortium's statement of net position and statement of revenues, expenses, and changes in net position can be found on pages 9-10 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The statement of cash flows provides information about how the Consortium finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-20 of this report.

Required Supplementary Information

Three years of loss development information can be found on pages 22-23 of this report.

Net Position and Changes in Net Position

The table below provides a summary of the Consortium's net position for 2017. This is the Consortium's first year for using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

Net Position	
	2017
<u>Assets</u>	
Cash and cash equivalents with fiscal agent	\$ 3,156,350
Receivables (net of allowance for uncollectibles):	
Accounts	166,539
Accrued interest	1,545
Total assets	3,324,434
<u>Liabilities:</u>	
Accounts payable	2,174
Claims payable	5,084,220
Total liabilities	5,086,394
<u>Net Position:</u>	
Unrestricted (deficit)	\$ (1,761,960)
Total net position (deficit)	\$ (1,761,960)

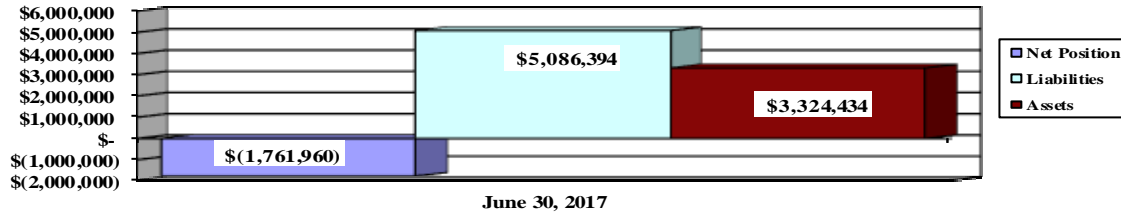
The assets of the Consortium are comprised mainly of cash and cash equivalents held by the Consortium's fiscal agent, the Waterloo Local School District. The Consortium established premiums at a level to build reserves should claims payments fluctuate in a given year. The Consortium will continue to monitor and assess premiums for their sufficiency to cover claims expenses and continue to support reserve levels.

The liability for claims payable is calculated by the Consortium's independent actuary and estimates the claims incurred and due at June 30, 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The chart below shows a breakdown of the Consortium's assets, liabilities and net position at June 30, 2017.



The table below shows the changes in net position for fiscal year 2017. This is the Consortium's first year for using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

Change in Net Position

	<u>2017</u>
<u>Operating Revenues:</u>	
Participant contributions	\$ 52,788,589
Prescription drug rebates	121,198
Stop-loss reimbursements	2,357,414
Subrogation and other revenues	<u>49,860</u>
Total operating revenues	55,317,061
<u>Operating Expenses:</u>	
Claims	51,026,432
Life insurance premiums	130,953
Stop-loss insurance premiums	1,040,899
Administrative fees	2,198,791
Miscellaneous	<u>343,111</u>
Total operating expenses	54,740,186
Operating income	576,875
<u>Nonoperating revenues:</u>	
Interest	<u>6,913</u>
Change in net position	583,788
Net position (deficit), July 1 (restated)	<u>(2,345,748)</u>
Net position (deficit), June 30	<u>\$ (1,761,960)</u>

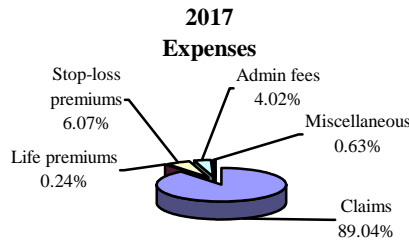
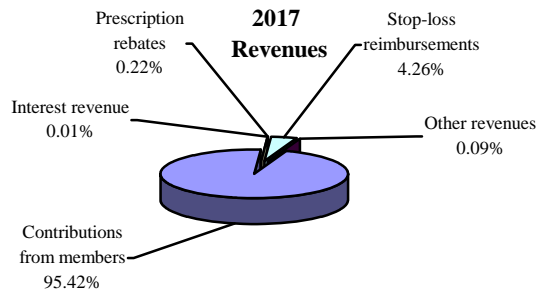
Participant contributions revenue did not exceed operating expenses in fiscal year 2017. Sufficient participant contributions are required to ensure that the Consortium meets increasing claims expenses. The Consortium added Martins Ferry Local Schools as a new member in fiscal year 2017.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Claims expense represents 89.04% of all expenses. The Consortium aims to maintain premium revenues at a level sufficient to exceed current year claims expense. Claims expense was 88.11% of total fiscal year 2017 operating revenues. The Consortium uses Mutual Health Services (MHS), United Medical Resources (UMR), Guardian Dental and CVS Caremark as their third-party administrators.

The charts below reflect the percentage of the revenues and expenses in fiscal year 2017.



Current Financial Related Activities

The Consortium is committed to providing its member school districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. The Consortium will continue to look at potential members who meet the established criteria. 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 had one new members in fiscal year 2017.

The Consortium allows its member school districts to participate in the medical, prescription, dental, and vision insurance programs. The Consortium Board of Directors and its administrative agent, NFP, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for member school districts. Establishing premiums that satisfy all claims, administration fees, and other expenses of the Consortium, in addition to enhancing the net position is important for the short-term and long-term interests of the Consortium.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The most significant challenge facing the Consortium's Board of Directors is the current trend of skyrocketing health care costs, primarily medical and prescription drug. These two programs were the impetus that brought the member school districts together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 2,700 covered employees, in lieu of each individual district independently entering the insurance marketplace. As the claims costs for medical and prescription drug continue to escalate, the Board of Directors is faced with the unenviable 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 businesses today, and is complicated by the fact that each member school district in the Consortium must collectively bargain benefit levels with the respective employee unions. The challenge is set before the Consortium and its Board of Directors, and the future looks better from the collective, as opposed to individual, view of the member school districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our member school districts, potential member school districts and investors and creditors with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Todd Carpenter, Treasurer, Waterloo Local School District, 1464 Industry Road, Atwater, Ohio 44201.

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PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL
PORTAGE COUNTY, OHIO
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS:

Current assets:

Cash and cash equivalents with fiscal agent.	\$	3,156,350
Receivables:		
Accounts.		166,539
Accrued interest		<u>1,545</u>
Total assets		<u>3,324,434</u>

LIABILITIES:

Current liabilities:

Accounts payable		2,174
Claims payable		<u>5,084,220</u>
Total liabilities		<u>5,086,394</u>

NET POSITION:

Unrestricted (deficit).		<u>(1,761,960)</u>
Total net position (deficit)	\$	<u><u>(1,761,960)</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL
PORTAGE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Participant contributions	\$ 52,788,589
Prescription drug rebates	121,198
Stop-loss reimbursements.	2,357,414
Suborgation and other revenues.	<u>49,860</u>
Total operating revenues	<u>55,317,061</u>
Operating expenses:	
Claims	51,026,432
Life insurance premiums.	130,953
Stop-loss insurance premiums.	1,040,899
Administrative fees	2,198,791
Miscellaneous	<u>343,111</u>
Total operating expenses	<u>54,740,186</u>
Operating income	576,875
Nonoperating revenues:	
Interest.	<u>6,913</u>
Change in net position.	583,788
Net position (deficit), July 1 (restated)	<u>(2,345,748)</u>
Net position (deficit), June 30	<u><u>\$ (1,761,960)</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

PORTAGE AREA SCHOOLS CONSORTIUM HEALTH & WELFARE POOL
PORTAGE COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:

Cash received from participants	\$	52,846,623
Cash received from prescription drug rebates		357,103
Cash received from stop-loss reimbursements		2,380,411
Cash received from subrogation and other operations		92,277
Cash payments for claims		(51,200,890)
Cash payments for life insurance premiums		(130,953)
Cash payments for stop-loss insurance premiums		(1,040,899)
Cash payments for administrative fees		(2,219,737)
Cash payments for miscellaneous expenses		(343,111)
		740,824
Net cash provided by operating activities		740,824

Cash flows from investing activities:

Interest received		6,911
		6,911
Net cash provided by investing activities		6,911

Net increase in cash and cash equivalents with fiscal agent. 747,735

Cash and cash equivalents with fiscal agent, July 1 **2,408,615**

Cash and cash equivalents with fiscal agent, June 30 **\$ 3,156,350**

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$	576,875
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Decrease in accounts receivable.		301,319
Decrease in intergovernmental receivables		58,034
(Decrease) in accounts payable.		(20,946)
(Decrease) in claims payable		(174,458)
		740,824
Net cash provided by operating activities.	\$	740,824

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE ENTITY

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, 2017, there are 25 participating members: Aurora City Schools, Belmont-Harrison JVS, Belpre City Schools, Columbiana Exempted Village Schools, Crestwood Local Schools, East Palestine City Schools, ESC of Cuyahoga County, Field Local Schools, Frontier Local Schools, James A. Garfield Local Schools, Green Local Schools, Indian Valley Schools, Leetonia Exempted Village Schools, Lisbon Exempted Village Schools, Maplewood Career Center, Martins Ferry Local Schools, New Philadelphia City Schools, Portage County Board of DD, Rootstown Local Schools, Sebring Local Schools, Streetsboro City Schools, United Local, Waterloo Local Schools, Wellsville Local, and Windham Exempted Village Schools. It should also be noted the Martins Ferry Local Schools joined the Consortium in fiscal year 2017.

The governing body of the Consortium is an Assembly composed of Superintendents (Trustees) of the members and any other representative (Alternate Trustees) of members who have been appointed by the respective governing bodies of the members. All representatives shall serve without compensation. As of June 30, 2016, there were twenty-four participating members of the Consortium. The Operations Committee shall function as an advisory board to the Trustees. It shall consist of Superintendents and Treasurers of the participating member districts of the Consortium. The chairperson of the Consortium shall be a Superintendent of a participating member district of the Consortium. The Chairperson is elected by the Trustees each year on a rotating basis. For fiscal year 2017, the Waterloo Local School District (the "School District") served as the Consortium's Fiscal Agent and the Treasurer of the School District acted as the Treasurer of Consortium. The Fiscal Agent is 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 financial statements present all activities for which the Consortium is financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Consortium have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Consortium's significant accounting policies are described below.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Consortium are not misleading. On this basis, no governmental organizations other than the Consortium itself are included in the financial reporting entity.

B. Fund Accounting

The Consortium maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. 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.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Consortium utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

The Consortium's activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the Consortium's operations are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The Consortium distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from participants contributions for insurance coverage. Operating expenses for the Consortium include the payment of claims, stop-loss insurance premiums, administrative fees and miscellaneous expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Cash and Investments with Fiscal Agent

The Consortium's Fiscal Agent maintains the Consortium financial activity under a specific fund designated for Consortium activity. The Fiscal Agent is responsible for administering the financial transactions of the Consortium. For fiscal year 2017, the Waterloo Local School District (the "School District") served as Fiscal Agent for the Consortium.

The Treasurer of the School District, who also serves as Fiscal Agent of the Consortium has established a separate depository account for Consortium activities and purchases specific investments for the Consortium. The interest earnings on these Consortium accounts are distributed to the Consortium.

During fiscal year 2017, investments purchased by the Fiscal Agent for the Consortium were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Consortium measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

For purposes of the statement of net position and the statement of cash flows, investments purchased by the Fiscal Agent for the Consortium with original maturities of three months or less at the time they are purchased are considered to be "cash equivalents". Investments purchased by the Fiscal Agent for the Consortium with original maturities of more than three months at the time they are purchased are considered to be "investments". An analysis of the Consortiums cash and investments with its Fiscal Agent at fiscal year-end is provided in Note 3.

E. 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.

F. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT

The Treasurer of the School District, who also serves as Fiscal Agent of the Consortium, maintains a specific depository account and purchases specific investments for the Consortium. The deposit and investment of Consortium monies follows the investment policy of the School District. The following disclosures are required by GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

State statutes allow the School District as Fiscal Agent for the Consortium to deposit or invest the Consortium's monies 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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (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 at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the Consortium's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose 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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As Fiscal Agent, the School District maintains a separate depository account and a separate investment account for monies specific to the Consortium. The amounts held in the depository account and the investment account at fiscal year year-end are described below.

A. Deposits with Fiscal Agent held in Financial Institutions

At June 30, 2017, the carrying amount of all Consortium deposits was \$2,311,895. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$1,957,254 of the Consortium’s bank balance of \$2,207,254 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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. The Consortium has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Consortium to a successful claim by the FDIC.

B. Investments with Fiscal Agent

At June 30, 2017, the Consortium had the following investments purchased by the Fiscal Agent:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturities 6 months or less</u>
Amortized Cost:		
STAR Ohio	\$ 844,455	\$ 844,455

The Consortium’s weighted average maturity for investments in STAR Ohio is one day.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT - (Continued)

Disclosures regarding investments of the Consortium are as follows:

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 School District's investment policy (which the Consortium follows) limits investment portfolio maturities to five years or less.

Credit Risk: The Consortium's investments in STAR Ohio were rated AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District's investment policy (which the Consortium follows) does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District, as Fiscal Agent for the Consortium, will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The School District's investment policy (which the Consortium follows) does not deal with investment custodial credit risk beyond the requirements in State statute that prohibits payment for investments prior to delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The School District's investment policy (which the Consortium follows) 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, 2017:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
Amortized Cost:		
STAR Ohio	\$ 844,455	100.00

C. Reconciliation of Cash and Investments with Fiscal Agent to the Statement of Net Position

The following is a reconciliation of cash and investments with Fiscal Agent as reported in the note above to cash and investments with Fiscal Agent reported on the statement of net position as of June 30, 2017:

<u>Cash and investments with Fiscal Agent per note</u>	
Carrying amount of deposits with Fiscal Agent	\$ 2,311,895
Investments with Fiscal Agent	<u>844,455</u>
Total	<u>\$ 3,156,350</u>
<u>Cash and investments with Fiscal Agent per financial statements</u>	
Cash and cash equivalents with Fiscal Agent	<u>\$ 3,156,250</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - RISK MANAGEMENT

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

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

The claims liability of \$5,084,220 reported at June 30, 2017 is based on an actuarial estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the fiscal years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Claims payable at beginning of fiscal year	\$ 5,258,678	\$ 5,111,174
<u>Claims expenses:</u>		
Claims expenses for insured events of the current period	51,763,218	43,894,061
(Decrease) in claims expenses for insured events of the prior years	(736,786)	(181,787)
Total claims expenses	51,026,432	43,712,274
<u>Payments:</u>		
Claims expenses paid attributable to insured events of the current year	46,678,998	38,635,383
Claims expenses paid attributable to insured events of prior years	4,521,892	4,929,387
Total claims payments	51,200,890	43,564,770
Claims payable at end of fiscal year	\$ 5,084,220	\$ 5,258,678

NOTE 5 – CONTRACTED SERVICES

The Consortium also uses the third-party administrator (TPA) services of MHS and UMR. Aside from paying claims, the TPA’s also helps the Consortium and its members with maintaining the current plan of benefits including design, claim adjudication, customer services, billing and compliance issues. In addition, they review alternative plan design and determine that claims are paid in accordance to specification of the plan.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - LITIGATION

The Consortium is not party to legal proceedings which, in the opinion of Consortium management, would have a material effect, if any, on the financial condition of the Consortium.

NOTE 7 - RECEIVABLES

All receivables are shown net of an allowance for uncollectible amounts, as applicable, and are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At June 30, 2017, the Consortium reported \$166,539 in accounts receivable and \$1,545 in accrued interest receivable. All receivables are expected to be collected within one year.

NOTE 8 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For the fiscal year ended June 30, 2017, the Consortium has presented for the first time its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In conjunction with this presentation, the Consortium has converted its enterprise fund to the accrual basis of accounting.

Accrual Basis Adjustments – the conversion of the activities from the cash-basis of accounting to the accrual basis of accounting required certain adjustments to be recorded at June 30, 2016 to the net cash position as previously reported to reflect the prior year’s effect of adopting these new accounting principles.

The restatement to the June 30, 2016 net cash position for the Consortium follows:

Net cash position, June 30, 2016	\$	2,408,615
Accrual basis adjustments:		
Accounts receivable		467,858
Due from other governments		58,034
Accrued interest receivable		1,543
Accounts payable		(23,120)
Claims payable		(5,258,678)
		<u>(5,258,678)</u>
Restated net position, July 1, 2016	\$	<u>(2,345,748)</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

**REQUIRED SUPPLEMENTARY INFORMATION
THREE-YEAR LOSS DEVELOPMENT INFORMATION**

The following table illustrates how the Consortium's earned revenue and investment income compares to related costs of loss and other expenses assumed by the Consortium as of the end of the year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premiums and reported investment income.
- (2) This line shows each fiscal year's other operating costs of the Consortium including overhead and loss adjustment expenses not allocable to individual claims.
- (3) This line shows the Consortium's gross incurred losses and allocated loss adjustment expense as originally reported at the end of the year in which the event that triggered coverage occurred (called *accident year*).
- (4) This section shows the cumulative net amounts paid as of the end of the accident year.
- (5) This section shows how each accident year's net incurred losses increased or decreased as of the end of the year. (This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses and emergence of new losses not previously known).
- (6) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought.

As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature accident years. The columns of the table show data for successive accident years. Loss development information prior to fiscal year 2015 is not available.

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

**REQUIRED SUPPLEMENTARY INFORMATION
THREE-YEAR LOSS DEVELOPMENT INFORMATION ⁽¹⁾ (CONTINUED)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
1. Premiums and investment income ⁽²⁾	\$ 41,281,607	\$ 45,545,739	\$ 52,795,502
2. Unallocated expenses ⁽²⁾	3,153,032	3,352,496	3,713,754
3. Estimated losses incurred and expense, end of year	39,965,429	43,894,061	51,763,218
4. Paid, cumulative as of:			
End of accident year	34,854,255	38,635,393	46,678,998
One year later	39,783,642	43,157,275	-
Two years later	39,783,642	-	-
5. Re-estimated incurred losses and expense:			
End of accident year	39,965,429	43,894,061	51,763,218
One year later	39,783,642	43,157,275	-
Two years later	39,783,642	-	-
6. Decrease in estimated incurred losses and expenses from end of accident year	(181,787)	(736,786)	-

Notes:

⁽¹⁾ Information prior to fiscal year 2015 is not available. This schedule is intended to show information for ten years. Additional information will be displayed as it becomes available.

⁽²⁾ Information for 2015 and 2016 presented on the cash-basis of accounting.

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Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

To the Members of the Assembly:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Portage Area Schools Consortium Health & Welfare Pool, Portage County, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Portage Area Schools Consortium Health & Welfare Pool's basic financial statements and have issued our report thereon dated December 11, 2017, wherein we noted, as described in Note 8 to the basic financial statements, the Portage Area Schools Consortium Health & Welfare Pool changed the presentation of its annual financial report from the cash-basis of accounting to presenting its basic financial statements in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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

Compliance and Other Matters

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

Portage Area Schools Consortium Health & Welfare Pool's Response to Finding

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

Purpose of this Report

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



Julian & Grube, Inc.
December 11, 2017

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2017-001

Material Weakness – Dental Insurance Claims Processing Service Organization Controls

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

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

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

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

Official’s Response:

The Portage Area Schools Consortium Health & Welfare Pool switched dental third-party administrators for fiscal 2018. The new third-party administrator obtains the required report.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	2016	<u>Material Weakness</u> - Dental Insurance Claims Processing Service Organization Controls.	No	Repeated as finding 2017-001



Dave Yost • Auditor of State

PORTAGE AREA SCHOOL CONSORTIUM HEALTH AND WELFARE INSURANCE POOL

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 20, 2018**