

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL**

LAKE COUNTY, OHIO

FINANCIAL STATEMENT

JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Directors
Health Care Benefits Program of Lake County Schools Council
30 South Park Place #320
Painesville, Ohio 44077

We have reviewed the *Independent Auditor's Report* of the Health Care Benefits Program of Lake County Schools Council, prepared by S.R. Snodgrass, A.C., for the audit period July 1, 2003 through June 30, 2004. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Health Care Benefits Program of Lake County Schools Council is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 31, 2005

This Page is Intentionally Left Blank.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
FINANCIAL STATEMENT**

	<u>Page Number</u>
Independent Auditors' Report	3
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Balance for the Year Ended June 30, 2004	4
Notes to Financial Statement	5 - 8
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>	9



Independent Auditors' Report

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
30 South Park Place #320
Painesville, OH 44077

We have audited the accompanying financial statements of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio (the Program) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Program'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 reasonably assure 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 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.

As described more fully in the notes to the financial statements, the Program has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Program as of June 30, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio as of June 30, 2004 and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in the notes to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2005 on our consideration of the Program'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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or compliance. 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.

S.R. Snodgrass A.C.

Mentor, Ohio
May 18, 2005

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	2004
CASH RECEIPTS:	
Participants' contributions	\$ 24,682,164
Interest	26,624
Total cash receipts	24,708,788
 CASH DISBURSEMENTS:	
Medical and dental self-funded claims	15,780,067
Prescription drug self-funded claims	3,865,662
HMO insurance premiums	2,236,206
Administration fees	1,498,254
Life insurance premiums	276,264
Consulting fees	184,678
Vision insurance premiums	130,087
Carrier stop loss premiums	39,692
Miscellaneous fees	51,847
Total cash disbursements	24,062,757
Total receipts over disbursements	646,031
 CASH BALANCE, JULY 1, 2003	5,990,506
 CASH BALANCE, JUNE 30, 2004	\$ 6,636,537

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

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE ENTITY

The following description of the Health Care Benefits Program (the Program) of Lake County Schools Council (the Council) provides only general information of both the Program and the Council. Participants should refer to the Program and Council Agreements for a more complete description of their provisions.

General – The Council was established on December 6, 1994, formed by the Boards of Education of eleven school districts in northeast Ohio, for the purpose of undertaking a joint program for the provision of health care benefits, undertaking other cooperative programs from time to time, and fostering cooperation among those school districts in all areas of educational service. On October 3, 1995, the Council was formed and operates as a legally separate entity as provided under Ohio Revised Code Chapter 167. In addition, the Council maintains By-laws and each participating member signs an Agreement.

The original eleven members were Auburn Vocational School District, Fairport Harbor Exempted Village School District, Lake County Educational Service Center, Kirtland Local School District, Madison Local School District, Mentor Exempted Village School District, Painesville City School District, Painesville Township Local School District, Perry Local School District, Wickliffe City School District and Willoughby-Eastlake City School District.

The Health Care Benefits Program is currently the only program offered by the Council to its members. Organizations that are not members of the Council can contract with the Council to participate in the Program.

Board of Directors – The Assembly is the legislative body of the Council. The Assembly elects at its annual meeting a five member Board of Directors and the officers who consist of Chairman, Vice-Chairman and Recording Secretary, all of which serve until the next annual meeting. The board of education of each Member appoints its Superintendent or such Superintendent's designee, to be its representative on the Council's Assembly. All of the authority of the Council is exercised by or under the direction of the Board of Directors, the governing body. The Assembly sets and approves all benefit programs to be offered by or through the Program, and all policies and other contracts are accepted or entered into by the Board of Directors. The Board of Directors sets all premiums and other amounts to be paid by the Members, and the Board of Directors has the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

The Board of Directors has the full powers to manage and conduct affairs of the Program between meetings of the Assembly. The Board of Directors is specifically authorized and directed to review and decide all appeals and challenges by employees, their eligible dependents and designated beneficiaries of adverse determinations by the Plan Administrator or care or coverage under benefit programs offered by the Program. The Assembly may ratify any action authorized or taken by the Board or may rescind and overrule any such action.

Fiscal Agent – The Fiscal Agent is responsible for administering the financial transactions of the Program. The Mentor Exempted Village School District served as the Fiscal Agent until March, 2004. The Lake County Educational Service Center assumed the Fiscal Agent duties as of March, 2004. The Fiscal Agent carries out the responsibilities of the Program Fund, enters into contracts on behalf of the Program as authorized by the Directors and carries out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. The Treasurer of the Fiscal Agent is the Treasurer of the Program. The Fiscal Agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board of Directors.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DESCRIPTION OF THE ENTITY (CONTINUED)

Benefits – Member contributions are used to provide and/or purchase health, dental, life and/or other insurance benefits as provided for in the Program Agreement and as established by law. The Assembly determines the insurance benefits to be provided by or through the Program. Benefit selections may vary among the Program Members for any type of benefit program. The Board of Directors determines, at their discretion, which insurance carriers and policies to utilize to provide benefits pursuant to the Program Agreement.

Enrollment by Members – Each Member decides which benefit program(s) offered by or through the Program shall be extended to its employees. Upon joining the Council, each member can participate in the Health Care Benefit Program. Organizations that are not Members of the Council can contract with the Council to participate in the Program.

Program Fund – The Program Fund consists of all payments made to the Fiscal Agent in accordance with the Program Agreement, policy dividends or rate refunds (whether received by the Program or left with the insurance carriers to accumulate with interest), investments made by the Fiscal Agent and income therefrom, and any other money or property which shall come into the hands of the Program in connection with the administration of the Program.

The Fiscal Agent may use the Program Fund for purposes such as but not limited to:

1. Paying all expenses which the Directors consider necessary in establishing and administering the Program;
2. Paying premiums of the Program's policies;
3. Making investments in accordance with the Agreement;
4. Making refunds to Program Members; and
5. Providing and/or purchase health insurance, life insurance, dental insurance and/or other insurance benefits.

Investments – The Treasurer of the Fiscal Agent, on behalf of the Council, makes such investments as it may determine in its discretion, provided that such investments conform with investment policies and guidelines established by the Board of Directors and limited to investments permitted under Chapter 135 of the Ohio Revised Code for the public monies of school districts.

Termination/Withdrawal of a Council Member – It is the express intention of the Council Members that the Council Agreement and the Council shall continue for an indefinite term, but may be terminated as provided in the Council Agreement. Any Council Member wishing to withdraw from participation in the Council or the Program shall notify the Board of Directors on or before October 15 preceding the first day of the fiscal year the Member will withdraw. Specifics governing the withdrawal of a Program Member and the run out of all claims for such Program Member are addressed in Section 11 of the Program Agreement.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DESCRIPTION OF THE ENTITY (CONTINUED)

Contributions – Each Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such Member, and such contributions are included in the payments from such Member to the Fiscal Agent for the benefit program. Contributions are to be submitted by each Member, to the Fiscal Agent, required under the terms of the Program Agreement and any benefit program in which such Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such Member is enrolled. All general administrative costs incurred by the Program that are not covered by the premium payments shall be shared by the Program Members as approved by the Directors.

BASIS OF ACCOUNTING

This financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

CASH AND INVESTMENTS

The Mentor Exempted Village School District (MEVSD), the Program's fiscal agent, maintained the Program financial activity on the MEVSD books under a specific fund designated for Program activity until March, 2004. As of March, 2004, the Lake County Educational Service Center (LCESC) maintains the Program financial activity under the Council's books of account and the Council's checking account. The balances are presented as Cash Balances on the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances for the Year Ended June 30, 2004.

EQUITY IN CASH AND INVESTMENTS

Prior to March, 2004, the Treasurer of the Council, who also served as Treasurer of the Fiscal Agent (MEVSD), pooled all available cash of the Program with that of the School District for investment purposes. The interest earnings were then distributed to the Program based on the proportion of its fund balance to the entire MEVSD balance. As a result, there were no separately identified investments for the Program. During 2004, investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements and non-negotiable certificates of deposit. Since the transfer of funds in March, 2004, to the LCESC, the funds have resided in a Program checking account that is valued at cost.

The carrying amount of cash and investments at June 30, 2004 was as follows:

Deposits: Demand Deposits	\$ 6,636,537
---------------------------	--------------

Deposits are either (1) insured by the Federal Deposit Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

RISK MANAGEMENT

The Council is a jointly governed organization, which acts as a government risk pool for health insurance for its 11 members.

The Council employs the services of an outside consultant (Burns Consulting Associates, Inc. and Robie Consulting Services) to assist them in administering the Program. The Council also uses Medical Mutual of Ohio, Caremark, Inc. and Express Scripts, Inc. as their third party administrators.

No employer, employee, or person claiming benefit by or through an employee shall have any claim against the Council or any property of the Council. The rights and interest of employees and persons claiming by or through employees shall be limited to benefits offered by or through the Council in accordance with the Program Agreement. The Council purchases or otherwise provides for the benefit of itself, the Directors and/or the Fiscal Agent such liability insurance with such limits of coverage deemed necessary and as approved by the Board of Directors. The aggregate claims liability of the Council shall not exceed one hundred twenty-five percent (125%) of expected claims.

Any Program Member who withdraws from the Council pursuant to the Program Agreement has no claim to the Council's assets.

It is not necessary for each member district of the Council to prepare a Governmental Accounting Standards Board (GASB) report. The Council holds all reserves including Incurred But Not Reported (IBNR), Shock, Stabilization and Fluctuation reserves. However, these reserves are allocated to members on a capitated basis for accounting purposes.

The Health Care Benefits Program of Lake County Schools Council is self insured for member district employee health insurance claims but maintains aggregate stop loss insurance with Medical Mutual of Ohio. The Self Insurance Fund pays covered claims to service providers and recovers these costs from premium charges to member districts based on calculations provided by the Council's consultant (Burns Consulting Associates, Inc.). An estimate June 30, 2004 loss reserves estimated by the Council's actuary are as follows:

	<u>Reserve</u>
IBNR Reserve	\$ 2,874,558
Fluctuation Reserve	<u>3,435,729</u>
Total	<u>\$ 6,310,287</u>

SUBSEQUENT EVENTS

The largest participant in the Program, Mentor Exempted Village School District, has opted to withdraw from the Program as of May 31, 2005. The financial effects of this withdrawal have not been determined.



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

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
30 South Park Place #320
Painesville, OH 44077

We have audited the financial statements of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio (the Program) as of and for the year ended June 30, 2004, and have issued our report thereon dated May 18, 2005, wherein we noted the Program followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 Health Care Benefits Program of Lake County Schools Council'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 opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Program in a separate letter dated May 18, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Care Benefits Program of Lake County Schools Council'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 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 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 management and the Board of Directors, and is not intended to be and should not be used by anyone other than those specified parties.

S. R. Snodgrass A. C.

Mentor, Ohio
May 18, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOL COUNCIL**

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 13, 2005**