

**Hancock County Schools Health Benefit Fund**  
**Hancock County**  
*Audited Financial Statements*

For the Years Ended September 30, 2009 and 2008



**Rea & Associates, Inc.**

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Hancock County Schools Health Benefit Fund  
7746 County Road 140  
Findlay, Ohio 45840

We have reviewed the *Independent Auditor's Report* of the Hancock County Schools Health Benefit Fund, Hancock County, prepared by Rea & Associates, Inc., for the audit period October 1, 2008 through September 30, 2009. 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 Hancock County Schools Health Benefit Fund is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 13, 2010

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**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND  
HANCOCK COUNTY**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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March 19, 2010

Board of Trustees  
Hancock County Schools Health Benefit Fund  
Findlay, Ohio

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of cash receipts, cash disbursements, and changes in fund cash balances of Hancock County Schools Health Benefit Fund (the Fund), Hancock County, Ohio, as of and for the year ended September 30, 2009. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of cash receipts, cash disbursements, and changes in fund cash balances of Hancock County Schools Health Benefit Fund for the fiscal year ended September 30, 2008 were audited by other auditors whose report dated July 21, 2009 expressed an unqualified opinion on those statements.

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 the Comptroller General of the United States' *Government Auditing Standards*. 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the Fund 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 (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, 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 for the year ended September 30, 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Fund as of September 30, 2009, 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 statements of cash receipts, cash disbursements, and changes in fund cash balances of Hancock County Schools Health Benefit Fund, Hancock County, Ohio, as of September 30, 2009 on the accounting basis Note 2 describes.

The Fund has not presented Management's Discussion and Analysis or a Claims Development Information, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2010, on our consideration of the Fund'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. 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.

*Hea & Associates, Inc.*

**Hancock County Schools Health Benefit Fund  
Hancock County , Ohio**

**Statements of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
For the Fiscal Years Ended September 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Cash receipts:</b>		
Contributions from members	\$ 7,883,046	\$ 8,769,047
Insurance reimbursements	404,708	37,609
Investment income	17,860	26,482
<b>Total cash receipts</b>	<b>8,305,614</b>	<b>8,833,138</b>
<b>Cash disbursements:</b>		
Medical, dental and vision claim payments	7,581,100	7,049,794
Administrative fees	463,540	124,329
Insurance Premium for Coverages	400,987	387,835
Professional and consulting fees	58,219	53,984
Investment fees	5,895	1,959
<b>Total cash disbursements</b>	<b>8,509,741</b>	<b>7,617,901</b>
Change in cash net assets	(204,127)	1,215,237
<b>Fund cash balances, beginning of year</b>	<b>1,780,603</b>	<b>565,366</b>
<b>Fund cash balance, end of year</b>	<b>\$ 1,576,476</b>	<b>\$ 1,780,603</b>

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



**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**Note 1 – Financial reporting entity**

The Hancock County Schools Health Benefit Fund (the Fund) was created for the purpose of establishing and administering a cooperative health insurance program for school districts located in Hancock County, Ohio. The Fund is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Currently, the Fund has nine participating members: Hancock County Board of Education, Arcadia Local School District, Arlington Local School District, Blanchard Valley Local School District, Cory-Rawson Local School District, Liberty-Benton School District, McComb School District, Van Buren Local School District, and Vanlue Local School District.

Members pay monthly premiums that are placed in a common Trust Fund from which eligible claims are paid for member employees and their covered dependents. The Trust Fund is held by a Trustee, which holds, invests and reinvests all or part of the Fund.

The Fund's management believes this financial statement presents all activities for which the Fund is financially accountable.

**Note 2 – Summary of significant accounting policies**

**Basis of accounting**

The financial statements follow the basis of accounting prescribed 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 incurred.

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

**Cash and investments**

To improve cash management, all cash received by the Fund is pooled. Monies are maintained in cash deposit accounts and investments. During 2009 and 2008, investments were limited to money market mutual funds and U.S. Government Securities. Investments are stated at cost. See Note 3 for additional disclosures.

**Note 3 – Deposits and Investments**

***Deposits***

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The Fund maintains deposits in a federally insured financial institution. At times these deposits may exceed federally insured limits of \$250,000 as of September 30, 2009 and \$100,000 as of September 30, 2008. However, management monitors the soundness of the financial institution and believes the Fund's risks are negligible.

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**Note 3 – Deposits and Investments (continued)**

At September 30, 2009, the carrying amount of the Fund's deposits and the bank balance was \$237,690 which was covered fully by the Federal Deposit Insurance Corporation (FDIC). At September 30, 2008 the carrying and bank balance of the Fund's deposits was \$1,129,468 of which \$100,000 was covered by FDIC, with the remaining \$1,029,468 uninsured and uncollateralized.

***Investments***

As of September 30, 2009, the Fund had the following investments:

		% - Total	Maturities	
			< one year	1 – 5 years
Federated Mutual Funds	\$ 812,289	61%	\$ 812,289	
Federal Home Loan Bank	226,379	17%	226,379	
Federal National Mortgage	300,118	22%		\$ 300,118
	<u>\$1,338,786</u>	<u>100%</u>	<u>\$1,038,668</u>	<u>\$ 300,118</u>

As of September 30, 2008, the Fund had the following investments:

		% - Total	Maturities	
			< one year	1 -5 years
Federated Prime Obligation				
Money Market Accounts	<u>\$ 651,135</u>	100%		\$651,135

***Interest Rate Risk***

The Fund has no investment policy that addresses interest rate risk. State statute requires that investments mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Fund, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase.

***Credit Risk***

As of September 30, 2009, the Federated Mutual Funds, Federal Home Loan Bank and Federal National Mortgage bonds carry a rating of AAA by Standard and Poor's. The Federated Prime obligations money market accounts were also rated AAA by Standards and Poor's as of September 30, 2009 and 2008.

***Concentration of Credit Risk***

The Fund places no limit on the amount it may invest in any one issuer. At September 30, 2009, the investments in Federated mutual funds account for 61%, the Federal Home Loan Bank Bonds investments account for 17%, and the Federal National Mortgage Bonds investments account for 22% of the Fund's total investments. At September 30, 2008 the Federated Prime obligations money market accounts were 100% of the total investments.

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**Note 3 – Deposits and Investments (continued)**

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee. The Fund places no limit on the amount it may invest in any one issuer.

**Note 4 – Risk management**

The Fund, which is open to any board of education of any school district in Hancock County of Ohio, is governed by a Board of Trustees. The Board of Trustees selects qualified insurance companies to provide the health insurance program with adequate coverage to meet the needs of each member under its benefit plan for its employees. The Board of Trustees also purchases stop loss coverage for claims in excess of a set amount both for individual claims and in the aggregate. At September 30, 2009, the attachment point for individual claims was \$100,000 for each covered individual. The aggregate deductible for the year ended September 30, 2009 was the greater of \$7,198,067 or a computed minimum aggregate deductible per covered unit as defined by the policy terms. The aggregate deductible for the year ended September 30, 2008 was the greater of \$7,687,815 or a computed minimum aggregate deductible per covered unit as defined by policy terms.

Each member of the Fund is obligated to pay a fee based on an estimate of the member's share of the Fund costs for the fiscal year. Included in this estimate are the claims by eligible employees which are payable by each member, the member's share of the health, dental, vision, and stop-loss insurance premiums, and their proportionate share of the administrative cost of the Fund.

Member schools may terminate participation in the Fund upon written notification to the Administrative Committee delivered at least sixty days prior to the annual renewal date of the policy, and may be removed for failure to make the required payments. Upon termination of a member school, such member school shall be responsible for prompt payment of all claims of its eligible employees accruing as a result of such termination.

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009 and 2008**

**Note 5 – Actuarial report**

Actuarial valuations of claim liability and funded status were performed for the years ended September 30, 2009 and 2008. The purpose of the valuations is to estimate claims that have been incurred, whether reported at September 30, 2009 and 2008, or not, under the Fund as of the valuation date, and to compare its liability to funds reserved. Information regarding the financial status as of September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Cash and investments	\$1,576,476	\$1,780,603
Actuarial liability	<u>1,376,414</u>	<u>1,264,920</u>
Net surplus of cash reserves	<u>\$ 200,062</u>	<u>\$ 515,683</u>



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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March 19, 2010

Board of Trustees  
Hancock County Schools Health Benefit Fund  
Findlay, Ohio

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

We have audited the financial statements of the Hancock County Schools Health Benefit Fund (the Fund) as of and for the year ended September 30, 2009, and have issued our report thereon dated March 19, 2010, wherein we noted the Fund follows 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 Hancock County Schools Health Benefit Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hancock County Schools Health Benefit Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hancock County Schools Health Benefit Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Hancock County Schools Health Benefit Fund  
Independent Auditor's Report on Internal Control  
Over Financial Reporting and Compliance and Other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards  
March 19, 2010  
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hancock County Schools Health Benefit Fund'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*.

We noted certain matters that we reported to management of the Hancock County Schools Health Benefit Fund in a separate letter dated March 19, 2010.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than the specified parties.

*Hea & Associates, Inc.*



**Mary Taylor, CPA**  
Auditor of State

**HANCOCK COUNTY SCHOOLS HEALTH BENEFIT FUND**

**HANCOCK 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 6, 2010**