

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

**FINANCIAL STATEMENTS
JUNE 30, 2011**



Dave Yost • Auditor of State

Board of Directors
Health Care Benefits Program of Lake County Schools Council
6741 North Ridge Road
Madison, Ohio 44057

We have reviewed the *Independent Auditor's Report* of the Health Care Benefits Program of Lake County Schools Council, Lake County, prepared by Neece, Malec, Seifert, & Vitaz, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 12, 2012

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

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Certified Public Accountants

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Independent Auditor's Report

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
6741 North Ridge Road
Madison, OH 44057

We have audited the accompanying statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows 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, 2011, as listed in the table of contents. 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2011, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
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The Program has not presented the revenue and claims development information that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement although not required to be part of the basic financial statements. Management has omitted the supplementary claim information that the GASB require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Wesley Melec Seifert WTS

Mentor, Ohio
December 2, 2011

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2011**

The following "Discussion & Analysis" of the Health Care Benefits Program of Lake County Schools Council (the Program) fiscal performance provides a general background and review of the Program's related financial activities for the fiscal year ending June 30, 2011. This "Discussion & Analysis" is required with an intended purpose of providing readers a better understanding of the Program's financial performance and fiscal soundness.

Background Related to Fiscal Activities:

The Program is committed to providing its member districts with the advantages of the "consortium" concept. Advantages of membership include a large member buying pool cooperative for health care and prolonged risk.

The Program is an Administrative Service Contract (ASC) program that collects premiums from members and pays all its claims for medical, dental, vision, prescription and life insurance benefits. Simply stated, we are a self-funded but not totally self-administrated program. The consortium had 10 charter members in 1995, added one in 2002 and 2010 and lost one in 2005. The Program remains fiscally solvent and responsive to the needs of its members. A significant \$ 5,000,000 of cash and investments of unused reserves validates this fiscal health. The consortium maintains a simplistic approach regarding fiscal matters with only two cash accounts. The cash accounts include a checking/wire account for the receipt of member premiums or payout of claims and related health care expenses and an investment account of \$ 1,000,000 of unallocated reserves invested according to the Investment Policy by the Program's fiscal agent.

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements, which include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the accompanying notes to the financial statements. These statements report information about the Program as a whole and about its activities. The Program is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets presents the Program's financial position and reports the resources owned (assets), obligations owed (liabilities), and net assets (the difference between assets and liabilities). The Statement of Revenues, Expenses, and Changes in Net Assets present a summary of how the Program's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The Statement of Cash Flows provides information about the Program's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities. The notes to the financial statements provide information that is essential for a full understanding of the financial statements.

Financial Highlights:

The Program's net assets as of June 30, 2011 and 2010 total \$ 4,867,768 and \$ 5,156,319, respectively. This represents a decrease of \$ 288,551 or 5.6 percent, from 2010 to 2011. The decrease in net assets results from an operating loss of \$ 336,191 and non-operating income, primarily investment income and class action lawsuit income of \$ 47,640.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2011**

Financial Highlights (continued):

Total participants' contributions - operating increased 7.8 percent, or \$ 2,002,871 to \$ 27,825,051 in 2011 from \$ 25,822,180 in 2010. There was an increase in total revenue in 2011 of \$ 1,970,994, or 7.6 percent, to \$ 27,872,691 in 2011 from \$ 25,901,697 in 2010. This was due primarily to an increase in claims revenue of \$ 2,002,871 from \$ 25,822,180 in 2010 to \$27,825,051 in 2011. This increase in claims revenue was offset by a decrease in investment earnings.

Participants' contributions - operating are derived from member contributions for risk-sharing protection, and are estimated and recognized using a variety of actuarial and statistical techniques. These contributions reflect the amount to be contributed by members for payment of incurred claims, claim adjustment expenses, and related administrative expenses for each policy year. In addition, participants, as further detailed in Note 6 to the basic financial statements, provide contributions for the establishment of reserve funds totaling \$ 7,697,518 and \$ 7,753,857 for the years ended June 30, 2011 and 2010, respectively.

Capital assets were eliminated in 2011 for they related to a computer purchased previously and were fully depreciated in 2011.

Administrative expenses increased 49.6 percent or \$ 548,778, to \$ 1,654,916 in 2011 from \$ 1,106,138 in 2010, due to an increase in third party administration fees.

Financial Overview:

Approximately 99 percent in 2011, and in 2010, of the assets consist of cash, cash equivalents, and investments. Approximately 95 percent in 2011, 99 percent in 2010, of total liabilities consist of reserves for claims.

The analysis below presents a comparison of the Program's current year financial position to the prior year:

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 6,696,816	\$ 2,737,644
Investments – other	1,001,405	5,005,747
Interest receivable	1,423	7,849
Prepaid expense	106,229	117,793
Total assets	<u>\$ 7,805,873</u>	<u>\$ 7,869,033</u>
Liabilities		
Benefit obligations	\$ 2,778,530	\$ 2,688,000
Accounts payable	159,575	24,714
Total liabilities	<u>2,938,105</u>	<u>2,712,714</u>
Net Assets - Unrestricted		
Operating	<u>4,867,768</u>	<u>5,156,319</u>
Total net assets	<u>4,867,768</u>	<u>5,156,319</u>
Total liabilities and net assets	<u>\$ 7,805,873</u>	<u>\$ 7,869,033</u>

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2011**

Overview of the Financial Statements:

The basic financial statements, in addition to Management's Discussion and Analysis, are comprised of the Statement of Net Assets; the Statement of Revenues; Expenses and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles.

The Statement of Net Assets presents the Program's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as Net Assets.

The Statement of Revenues, Expenses, and Changes in Net Assets present information on the change in net assets (revenues minus expenses) during the fiscal year. Whereas the Statement of Net Assets is a snapshot of the financial position of the Program on June 30, the Statement of Revenues, Expenses, and Changes in Net Assets presents the activities of the Program for the entire fiscal year. Since presented on an accrual basis, the changes in net assets shown do not necessarily coincide with the cash flows. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when the actual cash is received or paid.

The Statement of Cash Flows presents cash provided and used by the Program categorized by operating activities and investing activities. It reconciles the beginning and end-of-year cash balances.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Details are given regarding the Program's organization, accounting policies, cash and investments, commitments and related parties.

The Program is not legally required to adopt a budget. However, management does maintain an administrative budget in order to monitor administrative revenues and expenses. Budget comparisons are not required for the Program and therefore are not presented as required supplementary information in this report.

IBNR obligations represent an estimate of the ultimate cost of claims, including claims that have been reported but not settled and of claims that have been incurred but not reported. Claim payments and obligations can change significantly from period to period because the ultimate amount paid for claims is dependent on the frequency and amount of the claims. The obligations are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim obligations are charged to expense in the periods in which they are made.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2011**

Overview of the Financial Statements (continued):

The Program's Net Assets

	<u>2011</u>	<u>2010</u>
Total Assets	\$ 7,805,873	\$ 7,869,033
Total Liabilities	<u>2,938,105</u>	<u>2,712,714</u>
The Program's Net Assets	<u>\$ 4,867,768</u>	<u>\$ 5,156,319</u>

Changes in Net Assets

Payments In		
Member Premiums	\$ 27,825,051	\$ 25,822,180
Non-Operating Revenues	<u>47,640</u>	<u>79,517</u>
Totals In	\$ 27,872,691	\$ 25,901,697
Payments Out		
Claims and Premiums	\$ 26,156,531	\$ 25,243,207
Life Insurance	349,795	347,586
Administrative Fees	1,440,913	800,257
Consulting/Legal Fees	186,652	253,224
Wellness Program	27,351	52,540
Depreciation	<u>0</u>	<u>117</u>
Totals Out	\$ 28,161,242	\$ 26,696,931
Changes in Net Resources	<u>\$ (288,551)</u>	<u>\$ (795,234)</u>

Current and Future Trends:

The Program is financially strong, and has a high level of member support and loyalty. In its 12 year history, only one member has left the Program. Membership is loyal due to the Program's track record of providing broad coverage and comprehensive risk management services at stable and competitive costs.

The risks to the Program are primarily external in nature, and are due to the reinsurance market, and the economic and legal climates in Ohio. With the Program's \$ 5,000,000 self-insured retention, Program members are less vulnerable to the pricing cycles of the commercial insurance market.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR
FISCAL YEAR 2011**

Current and Future Trends (continued):

The other major risk to the Program is the possibility of extraordinary or unexpected claims. In recent years, the Program has experienced unprecedented adverse claims development. Fortunately, the financial strength of the Program makes it possible for the Program to sustain such circumstances. The Program's Management has been aware of and prepared for claims contingencies by remaining conservative in investment and other financial decisions during better times.

Contacting the Program's Financial Management

This financial report is designed to provide our citizen taxpayers and participants with a general overview of the Program's finances and to show the Program's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Michael J. Vaccariello, Treasurer for the Health Care Benefits Program of Lake County Schools Council, Madison Local Schools, 6741 N. Ridge Road, Madison, Ohio 44057.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF NET ASSETS
JUNE 30, 2011**

ASSETS

Current assets:

Cash and cash equivalents	\$ 6,696,816
Investments - other	1,001,405
Interest receivable - investments	1,423
Prepaid expenses	106,229
Total current assets	7,805,873

Total assets	\$ 7,805,873
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LIABILITIES AND NET ASSETS

Current liabilities:

Benefit obligations	\$ 2,778,530
Accounts payable	159,575

Total current liabilities	2,938,105
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Net assets:

Unrestricted	
Operating	4,867,768

Total net assets	4,867,768
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Total liabilities and net assets	\$ 7,805,873
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The accompanying notes are an integral part of the basic financial statements.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Operating revenues:	
Participants' contributions	<u>\$ 27,825,051</u>
Operating expenses:	
Benefits paid for participants:	
Medical and dental self-funded claims	20,593,069
Prescription drug self-funded claims	5,343,900
HMO insurance premiums	29,378
Life insurance premiums	349,795
Vision insurance premiums	174,342
Carrier stop loss premiums	<u>15,842</u>
Total benefits paid for participants	26,506,326
Administrative expenses:	
Third party administration fees	1,280,982
Consulting fees	165,270
Program administration fees	143,790
Cobraserve fees	16,141
Miscellaneous fees	21,382
Wellness program	<u>27,351</u>
Total operating expenses	<u>28,161,242</u>
Operating loss	(336,191)
Non-operating revenues:	
Investment income	36,494
Unrealized gain on investments	703
Realized gain on investments	184
Investment fees	(16,257)
Other income	<u>26,516</u>
Total non-operating revenues	<u>47,640</u>
Change in net assets	(288,551)
Net assets, beginning of year	<u>5,156,319</u>
Net assets, end of year	<u><u>\$ 4,867,768</u></u>

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

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

Cash flows from operating activities:	
Cash received from participants' contributions	\$ 27,825,051
Cash paid for participants' benefits	(26,415,796)
Cash paid for administrative expenses	(1,508,491)
Cash received from other sources	<u>26,516</u>
Net cash used in operating activities	<u>(72,720)</u>
Cash flows from investing activities:	
Proceeds from maturity of investments	6,553,924
Purchase of investments	(2,548,696)
Investment income received	42,920
Investment expense	<u>(16,256)</u>
Net cash provided by investing activities	<u>4,031,892</u>
Net increase in cash	3,959,172
Cash and cash equivalents, beginning of year	<u>2,737,644</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,696,816</u></u>

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

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

Reconciliation of operating income to net cash used in operating activities:	
Operating loss	<u>\$ (336,191)</u>
Adjustments to reconcile operating income to net cash used in operating activities:	
Other income	26,516
Changes in operating assets and liabilities:	
Prepaid expense	11,564
Benefits obligations	90,530
Accounts payable	<u>134,861</u>
Total adjustments	<u>263,471</u>
Net cash used in operating activities	<u><u>\$ (72,720)</u></u>

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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 current eleven members are Auburn Vocational School District, Fairport Harbor Exempted Village School District, Lake County Educational Service Center, Kirtland Local School District, Madison Local School District, Painesville City School District, Riverside Local School District, Perry Local School District, Wickliffe City School District, Lakeland Community College, and Richmond Heights 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 and the Board of Directors are one and the same body so that the Assembly is both the legislative and governing body of the Council. The Assembly elects at its annual meeting 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 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 Treasurer serves as the Fiscal Agent of the Program and is responsible for administering the financial transactions of the Program. 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 Riverside Schools, Painesville, Ohio provides fiscal agent and treasury services and the Madison Schools Treasurer serves as the Council Treasurer.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. 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 there from, 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 Investment Committee, on behalf of the Council, makes such investments as it may determine in its discretion, provided that such investments conform with investment policy adopted by the Program 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)

1. 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.

2. SUMMARY OF ACCOUNTING POLICIES

Reporting Entity – A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the basic financial statements of the Program are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Program. For the Health Care Benefits Program of Lake County Schools Council, this consists of a single enterprise fund.

Component units are legally separate organizations for which the Program is financially accountable. The Program is financially accountable for an organization if the organization appoints a voting majority of the organization's governing board and (1) the Program is able to significantly influence the programs or services performed or provided by the organization; or (2) the Program is legally entitled to or can otherwise access the organization's resources; the Program is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Program is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Program in that the Program approves the budget, the issuance of debt or the levying of taxes. The Program has no component units.

Basis of Presentation – The financial statements of the Program have been prepared in conformity with generally accepted accounting principles (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 principles. The Program also applies Financial Accounting Standards Board (FASB) Statements and Interpretations unless those pronouncements conflict with or contradict GASB pronouncements.

The Program uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balance set of accounts.

Enterprise fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Capital Assets - Capital assets are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Capital assets consist of a computer system and are being depreciated over five years. Depreciation expense for the current year was \$ -0-

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

2. SUMMARY OF ACCOUNTING POLICIES (Continued)

Measurement Focus – The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Program are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increase (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Program meets the cash flow needs of its enterprise activity.

Basis of Accounting – The Program's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses recognized when incurred. Specifically, contributions from participants are recognized as income when due from Program members, and benefits paid for participants are recognized when incurred.

Cash Equivalents and Investments – The Program's policy is to treat its investments with maturities of 90 days or less as cash equivalents.

Investments were limited to federal agency obligations and certificates of deposit. Investments are reported at fair value or at amortized cost, which approximates fair value. Investment income includes interest and dividends and realized and unrealized gains and losses.

Net Assets – Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Program or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Association had no restricted net assets in 2011.

Operating Revenues and Expenses – Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Program, these revenues are participants' contributions. Operating expenses are necessary costs that have been incurred in order to provide the goods or services that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

Estimates – The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. While actual results could differ from those estimated, management does not expect those differences to be significant to the financial statements.

Extraordinary and Special Items – Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Program's Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

Subsequent Events - The program assessed events occurring subsequent to June 30, 2011 through December 2, 2011 for potential recognition and disclosure in the consolidated financial statements. No events were identified that would require adjustment to or disclosure in the financial statements.

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

3. DEPOSITS AND INVESTMENTS

Deposits – Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The Program’s practice is to place deposits with commercial banks within its service area. At June 30, 2011, the carrying amount of the Program’s deposits including money market funds was \$ 6,696,816 which \$ 250,000 was covered by Federal depository insurance.

Protection of the remainder of the Program’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.

Investments – The Program has adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures. This statement amends GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks.

Investments are reported at fair value. As of June 30, 2011, the Program had the following investments:

	Maturity			Fair Value
	<1	1-2	3-5	
Federal Home Loan Bank Notes	\$ -	\$ 250,810	\$ -	\$ 250,810
Federal National Mortgage Association	-	500,595	-	500,595
Certificates of Deposit	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
Total	<u>\$ 250,000</u>	<u>\$ 751,405</u>	<u>\$ -</u>	<u>\$ 1,001,405</u>

Fair Value of Financial Instruments - Major classes of assets and liabilities that are measured at fair value are categorized to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
Federal Home Loan Bank Notes	\$ 250,810	\$ -	\$ -	\$ 250,810
Federal National Mortgage Association	500,595	-	-	500,595
Certificates of Deposit	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
Total Assets	<u>\$ 1,001,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,001,405</u>

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

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk - As a means of limiting its exposure to fair value losses caused by rising interest rates, the Program's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the Program's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

The Program's investment policy requires that investments made must mature within five years, unless they are matched to a separate obligation or debt of the Program. The purpose of the investments is to maximize the returns on the Program's excess cash balances consistent with safety of these monies and with the desired liquidity of the investments.

Credit Risk - The Federal Home Loan Bank Bonds and the Federal National Mortgage Association Bonds both carry a rating of AAA by Moody's and Standard and Poor's and Fitch. The Program's investment policy limits investments to those authorized by State statute.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Program's name. The Program 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.

4. BENEFIT OBLIGATIONS

GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, and GASB Statement No. 30, Risk Financing Omnibus – an amendment of GASB Statement No. 10, establish accounting and financial reporting standards for insurance related activities of state and local governmental entities, and requires that actuarial techniques be utilized to estimate any claims liabilities, including those for claims incurred but not reported. The Program has recorded benefit obligations as of June 30, 2011 totaling \$ 2,778,530, which includes reported claims not yet paid, claims incurred but not reported and an allowance for claim settlement expenses on these estimated unpaid claims. This amount is actuarially determined using historical trends in the lag between the date a claim is incurred and paid.

Changes in the Program's benefit obligations amount was as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of the fiscal year	\$ 2,688,000	\$ 2,728,000
Current year claims	26,174,905	25,150,968
Claims paid	<u>(26,084,375)</u>	<u>(25,190,968)</u>
Balance at end of the fiscal year	<u>\$ 2,778,530</u>	<u>\$ 2,688,000</u>

5. CONTINGENCY

The Council is involved in various claims whose effects are determined as immaterial.

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

6. 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 (Findley Davies) 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. A specific stop loss coverage of \$ 500,000 is in effect.

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 (Findley Davies). An estimate June 30, 2011 loss reserves estimated by the Council's actuary are as follows:

IBNR Reserve	\$ 2,778,530
Fluctuation Reserve	<u>4,918,988</u>
Total Reserve Funds	<u>\$ 7,697,518</u>

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Computers	\$ 9,250	\$ -	\$ 9,250	\$ -
Depreciation	<u>(9,250)</u>	-	<u>(9,250)</u>	-
Computers - Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



Certified Public Accountants

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
6741 North Ridge Road
Madison, OH 44057

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, 2011, which collectively comprise the Program's basic financial statements and have issued our report thereon dated December 2, 2011. Supplemental information and disclosure of revenue and claims development information was omitted. 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 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 Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected in a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

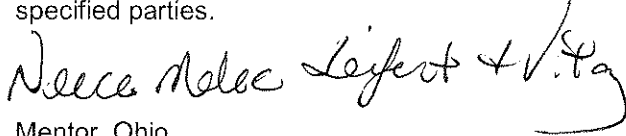
Compliance and Other Matters

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*.

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
Page 2

We noted certain matters that we reported to management of Health Care Benefits Program of Lake County Schools Council in a separate letter dated December 2, 2011.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and the Auditor of State, Dave Yost, and is not intended to be and should not be used by anyone other than those specified parties.



Mentor, Ohio
December 2, 2011



Dave Yost • Auditor of State

HEALTH CARE BENEFITS PROGRAM OF LAKE COUNTY SCHOOLS 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
JANUARY 26, 2012**