

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

LAKE COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2018





Dave Yost • Auditor of State

Board of Directors
Health Care Benefits Program of Lake County Schools Council
1956 Red Bird 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 Charles E. Harris & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

December 19, 2018

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**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
AUDIT REPORT
For the Year Ended June 30, 2018**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Health Care Benefits Program of
Lake County Schools Council
1956 Red Bird Road
Madison, OH 44057

To the Board of Directors:

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–8 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 do 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.

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 requires 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 was not modified due to this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018, on our consideration of the Health Care Benefit Program of Lake County Schools Council, Lake County, Ohio'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 solely 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 effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
December 5, 2018

Health Care Benefits Program of Lake County Schools Council

Lake County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)*

The following "Discussion & Analysis" of the Health Care Benefits Program of Lake County Schools Council's (the Program) fiscal performance provides a general background and review of the Program's related financial activities for the fiscal year ending June 30, 2018. 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 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-administered program. The consortium had 10 charter members in 1995, added one in 2002 and 2010, lost one in 2005, lost another one in 2015 and added one again in 2016. The Program remains fiscally solvent and responsive to the needs of its members. A significant balance of cash and investments of unused reserves validates this fiscal health. The consortium maintains a simplistic approach regarding fiscal matters with only three 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, STAR Ohio and an investment account of \$6,572,331 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 Position, the Statement of Revenues, Expenses and Changes in Net Position, 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 Position presents the Program's financial position and reports the resources owned (assets), obligations owed (liabilities), and net position (the difference between assets and liabilities). The Statement of Revenues, Expenses and Changes in Net Position presents a summary of how the Program's net position 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 position as of June 30, 2018 and 2017 totaled \$9,932,554 and \$6,490,079, respectively. This represents an increase of \$3,442,475 or 53% from 2017 to 2018.

Total participants' contributions increased 3% or \$974,863 to \$37,660,407 in 2018 from \$36,685,544 in 2017. There was an increase in total operating revenue in 2018 of \$1,858,838 to \$38,729,639 or 5% from 2017.

Health Care Benefits Program of Lake County Schools Council

Lake County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)*

Participants' contributions 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 5 to the basic financial statements, provide contributions for the establishment of reserve funds totaling \$11,943,785 and \$9,481,550 for the years ended June 30, 2018 and 2017, respectively.

Administrative expenses decreased 4% or \$88,258 to \$1,920,637 in 2018 from \$2,008,895 in 2017 due mainly to decreased expenses relating to the Affordable Care Act.

Financial Overview

In 2018 and 2017, respectively, approximately 91% and 98% of all assets consisted of cash, cash equivalents and investments. Approximately 97% of all liabilities consisted of reserves for claims in both 2017 and 2018. In prior years, claims and rebates were presented as a net total amount. During 2018, the Program changed its accounting treatment of rebates to show the total claims paid and the total rebates received as separate items on the financial statements. Rebates earned but not received before June 30 are recorded as rebates receivable.

Health Care Benefits Program of Lake County Schools Council
Lake County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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

Table 1

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,866,595	\$ 2,533,462
Investments	7,051,411	6,948,088
Accrued interest	25,778	23,341
Accounts receivable	4,111	-
Rebate receivable	1,016,951	-
Prepaid expenses	151,129	142,862
Total current assets	13,115,975	9,647,753
Total assets	13,115,975	9,647,753
 Liabilities		
Current liabilities:		
Benefit obligation	3,079,778	3,127,736
Accounts payable	103,643	29,938
Total current liabilities	3,183,421	3,157,674
Total liabilities	3,183,421	3,157,674
 Net Position		
Unrestricted	9,932,554	6,490,079
Total net position	9,932,554	6,490,079
Total liabilities and net position	\$ 13,115,975	\$ 9,647,753

The basic financial statements, in addition to Management's Discussion and Analysis, are comprised of the Statement of Net Position, the Statements of Revenue, Expenses and Changes in Net Position, the Statement of Cash Flows and the related 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 Position 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 position.

The Statement of Revenues, Expenses and Changes in Net Position presents information on the change in net position (revenues minus expenses) during the fiscal year. Whereas the Statement of Net Position is a snapshot of the financial position of the Program on June 30, the Statement of Revenues, Expenses and Changes in Net Position presents the activities of the Program for the entire fiscal year. Since presented on an accrual basis, the changes in net position 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.

Health Care Benefits Program of Lake County Schools Council
Lake County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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 the 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 factors that are considered to be appropriate modifiers of past experience. Adjustment to claim obligations are charged to expense in the periods in which they are made.

Health Care Benefits Program of Lake County Schools Council
Lake County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 2

	Governmental Activities	
	2018	2017
Net Position		
Total assets	\$ 13,115,975	\$ 9,647,753
Total liabilities	3,183,421	3,157,674
Total Net Position	9,932,554	6,490,079
Changes in Net Position		
Payments in:		
Member premiums	37,660,407	36,685,544
Rebate revenue	1,016,951	-
Miscellaneous	52,281	185,257
Non-operating revenues/expenses	40,863	31,148
Total payments in	38,770,502	36,901,949
Payments out:		
Claims and premiums	32,608,758	34,315,184
Life insurance	354,343	329,906
Administrative fees	1,699,268	1,643,904
Consulting/legal/misc fees	187,029	211,470
Wellness and employee benefits	444,289	420,352
Affordable Care Act expenses	34,340	153,521
Total payments out	35,328,027	37,074,337
Change in Net Position	\$ 3,442,475	\$ (172,388)

Current Financial Related Activities

The Program is financially strong and has a high level of member support and loyalty. In 2015, one member left the program because it was merged with another school district. 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.

The other major risk to the Program is the possibility of extraordinary or unexpected claims. 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.

Health Care Benefits Program of Lake County Schools Council
Lake County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Contacting the District'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 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, 1956 Red Bird Road, Madison, Ohio 44057.

**Health Care Benefits Program of
Lake County Schools Council**
Statement of Net Position
June 30, 2018

Assets	
Cash and cash equivalents	\$ 4,866,595
Investments	7,051,411
Accrued interest	25,778
Accounts receivable	4,111
Rebate receivable	1,016,951
Prepaid expenses	151,129
Total current assets	<u>13,115,975</u>
Total assets	<u><u>13,115,975</u></u>
Liabilities	
Benefit obligations	3,079,778
Accounts payable	<u>103,643</u>
Total liabilities	3,183,421
Net Position	
Unrestricted	<u>9,932,554</u>
Total net position	<u>9,932,554</u>
Total liabilities and net position	<u><u>\$ 13,115,975</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 Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2018*

Operating revenues:	
Participants' contributions	\$ 37,660,407
Rebate revenue	1,016,951
Miscellaneous	<u>52,281</u>
Total operating revenues	38,729,639
Operating expenses:	
Benefits paid for participants:	
Medical and dental self-funded claims	23,696,615
Prescription drug self-funded claims	8,410,888
Wellness program	444,289
Employee Benefits	71,030
Life insurance premiums	354,343
Vision insurance premiums	<u>430,225</u>
Total benefits paid for participants	33,407,390
Administrative expenses:	
Third party administration fees	1,527,302
Consulting fees	60,751
Program administration fees	171,966
Cobraserve fees	11,497
Miscellaneous fees	114,781
Affordable Care Act expense	<u>34,340</u>
Total operating expenses	<u>35,328,027</u>
Operating income/ (loss)	3,401,612
Non-operating revenues/(expenses):	
Investment income	123,043
Unrealized gain/ (loss) on investments	<u>(82,180)</u>
Total non-operating revenues	<u>40,863</u>
Change in net position	3,442,475
Net position, beginning of year	<u>6,490,079</u>
Net position, end of year	<u><u>\$ 9,932,554</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, 2018**

Cash flows from operating activities:	
Cash received from participants' contributions	\$ 37,708,577
Cash paid for participants' benefits	(33,406,870)
Cash paid for administrative expenses	<u>(1,903,677)</u>
Net cash provided by/(used in) in operating activities	<u>2,398,030</u>
Cash flows from investing activities:	
Proceeds from maturity of investments	1,739,910
Purchase of investments	(1,927,850)
Investment income received	<u>123,043</u>
Net cash provided by/(used in) investing activities	<u>(64,897)</u>
Net decrease in cash	2,333,133
Cash and cash equivalents, beginning of year	<u>2,533,462</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,866,595</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	<u>\$ 3,401,612</u>
Adjustments to reconcile operating income to net cash provided by/(used in) operating activities:	
Changes in operating assets and liabilities:	
(Increase) in rebate receivable	(1,016,951)
(Increase) in accounts receivable	(4,111)
(Increase) in prepaid expense	(8,267)
(Decrease) in benefit obligations	(47,958)
Increase in accounts payable	<u>73,705</u>
Total adjustments	<u>(1,003,582)</u>
Net cash provided by/(used in) operating activities	<u><u>\$ 2,398,030</u></u>

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

***Health Care Benefits Program of Lake County Schools Council
Lake County***

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

Note 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 purposes of undertaking a joint program for the provision of health care benefits and 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 twelve 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, Richmond Heights School District and Newbury Local 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 (the Board) 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 consisting of the 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. The Assembly sets and approves all benefits programs to be offered by or through the Program and all policies and other contracts are accepted or entered into by the Board. The Board sets all premiums and other amounts to be paid by the members and the Board has the authority to waive premiums and other payments. All members of the Board serve without compensation.

The Board has the full powers to manage and conduct affairs of the Program between meetings of the Assembly. The Board 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.

Health Care Benefits Program of Lake County Schools Council
Lake County

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 – Description of the Entity (continued)

Fiscal Agent

The Treasurer serves as the Fiscal Agent of the Program fund and is responsible for administering the financial transactions of the Program. The Fiscal Agent carries out the responsibilities of the Program, enters into contracts on behalf of the Program as authorized by the Board and carries out such other responsibilities as approved by the Board and agreed to by the Fiscal Agent. The Madison Local School District provides fiscal agent and treasury services and the Madison Local School District's Treasurer serves as the Program Treasurer.

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 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 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 interest), investments made by the Fiscal Agent and income there from, and any other cash 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 Board considers 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 purchasing health, life, dental 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 investment conform with the 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.

Health Care Benefits Program of Lake County Schools Council
Lake County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 – Description of the Entity (continued)

Termination/Withdrawal of a Council Member

It is the express intention of the Council members that the Program Agreement and the Council shall continue for an indefinite term, but may be terminated as provided for in the Program Agreement. Any Council member wishing to withdraw from participation in the Council or the Program shall notify the Board on or before October 15 preceding the first day of the fiscal year in which 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.

Contributions

Each member enrolled in a benefit program may require contributions from its employees towards 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 Board.

Note 2 – Summary of Significant Accounting Policies

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Program are not misleading.

Primary Government

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.

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 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-balancing set of accounts.

Enterprise fund reporting focuses on the determination of operating income, changes in 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 and services.

Health Care Benefits Program of Lake County Schools Council
Lake County

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 – Summary of Significant 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 statements of net position. The statement of revenues, expenses and changes in net position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The statement of cash flows provides information about how the Program meets 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 are 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 are reported at fair value or at amortized cost, which approximates fair value. Investment income includes interest and dividends received and realized and unrealized gains and losses.

The Program's investment in the State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. Star Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the Program. The Program measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$50 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the 100 million limit. All accounts of the participant will be combined for these purposes.

Net Position

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Program had no restricted net position at fiscal year end.

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.

Health Care Benefits Program of Lake County Schools Council
Lake County

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Note 3 – Deposits and Investments

State statutes classify monies held by the Program into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the Program treasury. Such monies must be maintained either as cash in the Program treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Health Care Benefits Program of Lake County Schools Council
Lake County

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 3 – Deposits and Investments (continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer’s investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Program, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that, in the event of bank failure, the Program’s deposits may not be returned. According to State law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government.

These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The Program’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2018, the carrying amount of the Program’s deposits was \$4,866,595 and the bank balance was \$4,866,595. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2018, none of the Program’s bank balance was exposed to custodial credit risk as described above.

Health Care Benefits Program of Lake County Schools Council
Lake County

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 3 – Deposits and Investments (continued)

Investments

As of June 30, the Program had the following investments:

	Fair Value	Maturity	Standard & Poor's Rating	Percentage of Total Investments
Net Asset Value Per Share:				
STAR Ohio	\$ 508,413	Average 51.6 days	AAAm	7.21%
Fair Value:				
Negotiable Certificates of Deposit (CDARS)	1,997,990	Less than one year	n/a	28.33%
Negotiable Certificates of Deposit (CDARS)	3,968,537	1 - 3 years	n/a	56.28%
Negotiable Certificates of Deposit (CDARS)	48,687	3 - 5 years	n/a	0.69%
Federal Farm Credit Bank Notes	220,659	1 - 3 years	AA+	3.13%
Federal Home Loan Mortgage Corporation Notes	98,692	1 - 3 years	AA+	1.40%
Federal Home Loan Bank Bonds	29,888	Less than one year	AA+	0.42%
Municipal Securities	74,082	Less than one year	AA	1.05%
Municipal Securities	104,463	1 - 3 years	AA	1.48%
Total	<u>\$ 7,051,411</u>			

The Program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The table above identifies the Program's recurring fair value measurement as of June 30, 2018. As previously discussed, STAR Ohio is reported at its net asset value (NAV) per share. All other investments of the Program are valued using Level 2 inputs.

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Program's investment policy addresses interest rate risk by requiring 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, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. STAR Ohio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Program has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

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 Program has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investment to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Health Care Benefits Program of Lake County Schools Council
Lake County

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 3 – Deposits and Investments (continued)

The Program places no limit on the amount it may invest in any one issuer.

Note 4 – Benefit Obligations

Governmental Accounting Standards Board (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 require that actuarial techniques be utilized to estimate any claims liabilities, including those for claims incurred but not reported. The Program recorded benefit obligations as of June 30, 2018 totaling \$3,079,778, which includes reported claims not yet paid, claims incurred but not yet 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 obligation amount were as follows:

	2018	2017
Balance, July 1	\$ 3,127,736	\$ 2,315,000
Current year claims	32,107,503	35,065,442
Claims paid	(32,155,461)	(34,252,706)
Balance, June 30	<u>\$ 3,079,778</u>	<u>\$ 3,127,736</u>

Note 5 – Risk Management

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

The Council employs the services of an outside consultant to assist them in administering the Program. The Council also uses Medical Mutual of Ohio and Caremark, 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 the Fiscal Agent such liability insurance with such limits of coverage deemed necessary and as approved by the Board. 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 (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.

Health Care Benefits Program of Lake County Schools Council
Lake County

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 5 – Risk Management (continued)

The Program 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 (Arthur J. Gallagher & Co.). At June 30, 2018, loss reserves estimated by the Council’s actuary are as follows:

IBNR Reserve	\$ 3,079,778
Fluctuation Reserve	8,864,006
Total Reserve Funds	<u>\$ 11,943,784</u>

Note 6 – Contingent Liabilities

Litigation

The Program is of the opinion that any current or future claims will either result in a favorable outcome or be covered by current policies, so as not to materially affect the financial position of the Program.

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Charles E. Harris & Associates, Inc.

Certified Public Accountants

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

Health Care Benefits Program of
Lake County Schools Council
1956 Red Bird Road
Madison, OH 44057

To the Board of Directors:

We have audited, in accordance with the 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

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 a 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 on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Charles E. Harris & Associates, Inc.
December 5, 2018



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
DECEMBER 27, 2018