

**Allen County Schools Health Benefit Plan
Allen County**

Audited Financial Statements

For the Fiscal Year Ended June 30, 2011

Allen County Schools Health Benefit Plan
Allen County
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January 30, 2012

To the Board of Trustees
Allen County Schools Health Benefit Plan
Lima, Ohio 45801

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Allen County Schools Health Benefit Plan (the "Plan"), as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Plan'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.

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Plan as of June 30, 2011, and the respective changes in the modified cash financial position, for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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.

Management Discussion and Analysis on pages 3 through 5 and the required supplementary information on page 14 are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

The following report reflects on the financial condition of the Allen County Schools Health Benefit Plan (the "Plan") for the fiscal year ended June 30, 2011. Within the limitations of the Plan's modified cash basis of accounting, this information is provided to enhance the information in the financial statements and the corresponding notes and should be reviewed in concert with the report.

Financial Highlights, Fiscal Year Ending June 30, 2011

- Total operating receipts were \$18.4 million, representing contributions from 12 plan members during the period from July 1, 2010 through June 30, 2011.
- Total non-operating receipts were \$0.6 million for the fiscal year.
- Total disbursements were \$20.6 million, with claims payments representing \$19.2 million, or 93.0%, insurance premium coverage represented \$0.9 million, or 4.4% and the remaining administrative and professional disbursements represented 2.6%.
- Projected liabilities were \$3.69 million at June 30, 2011.

Using these Modified Cash Basis Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Plan's modified cash basis of accounting. This annual report consists of financial statements and notes to those statements. These statements are organized so the reader can understand the Plan's activities. The *Statement of Net Assets – Modified Cash Basis* and the *Statement of Cash Receipts, Disbursements, and Changes in Net Assets – Modified Cash Basis* provide information about the activities of the Plan.

Reporting the Plan's Financial Activities

Statement of Net Assets – Modified Cash Basis and Statement of Cash Receipts, Disbursements, and Changes in Net Assets – Modified Cash Basis

These statements look at all financial transactions and ask the question, "How did we do financially during fiscal year 2011?" The Statement of Net Assets – Modified Cash Basis and the Statement of Cash Receipts, Disbursements, and Changes in Net Assets - Modified Cash Basis answer these questions.

These statements include only net assets using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the cash actually received or paid within the current fiscal year. These two statements report the Plan's net assets and changes in those assets on a modified cash basis. This change in net cash assets is important because it tells the reader that, for the Plan as a whole, the modified cash basis financial position of the Plan has improved or diminished.

As a result of the use of the modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and liabilities and their related disbursements (such as claims payable) are not recorded in these modified cash basis financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

The table below provides a summary of the Plan's net assets at June 30, 2011 and 2010.

(Table 1)
Financial Analysis
Net Assets – Modified Cash Basis

	2011	2010
Assets		
Equity in pooled cash & cash equivalents	\$ 1,996,773	\$ 4,243,943
Investments	605,100	0
Total assets	\$ 2,601,873	\$ 4,243,943
Net Cash Assets		
Unrestricted	\$ 2,601,873	\$ 4,243,943
Total net cash assets	\$ 2,601,873	\$ 4,243,943

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Plan's net cash assets totaled \$2,601,873.

The table below shows the changes in net cash assets for the fiscal years ending June 30, 2011 as compared to June 30, 2010. This will enable the reader to draw further conclusions about the Plan's financial status and possibly project future problems.

(Table 2)
Change in Net Cash Assets

	2011	2010
Total operating receipts	\$ 18,392,823	\$ 19,248,899
Total operating disbursements	20,630,880	21,496,165
Operating loss	(2,238,057)	(2,247,266)
Total non-operating receipts	595,987	723,787
Decrease in net cash assets	\$ (1,642,070)	\$ (1,523,479)

From fiscal year 2010 to 2011 net cash assets decreased \$1,642,070 primarily as a result of member contributions not covering total claims paid. Reduced interest earnings and rising healthcare costs also contributed to the net asset decrease. The Board is currently reviewing this trend and developing a plan to improve the Plan's performance.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Current Financial Related Activities

The Plan is a not-for-profit insurance group owned and operated by twelve school districts in Allen County, Ohio. The Plan's main source of receipts is premiums paid by the member school districts.

The Plan is committed to providing its member districts with the advantages of a larger buying cooperative, while maintaining control at the local district leadership. Providing coverage for all County schools is a priority for the Plan and it is committed to managing the pool to protect the long-term financial interests of its members.

The Plan requires its members to participate in the medical/prescription insurance program with individual district choice as to participation in the vision/dental program. The Board of Trustees and its plan manager, Grossman Consulting and Associates, continually discuss program enhancements, long-term viability and management risks inherent in these benefit programs.

Like all employer-sponsored health insurance programs, the Plan's most significant challenge is the current trend of double-digit increases in health care costs. As costs escalate, the Board is faced with the challenge of balancing the financial constraints facing Ohio's public school districts with offering a quality benefit program for its member's employees. This is further complicated by the fact that each school district in the Plan must collectively bargain benefit levels with the respective employee unions. Even with these challenges, a collective approach to managing health care within the Plan provides many advantages over individual management by school district.

Contacting the Plan's Financial Management

This financial report is designed to provide our member districts and citizens with a general overview of the Plan's finances and to show the Plan's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Brian K. Rockhold, Superintendent, Allen County ESC, 1920 Slabtown Road, Lima, Ohio 45801-3309.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

Allen County, Ohio

*Statement of Net Assets - Modified Cash Basis
June 30, 2011*

Assets:	
Equity in pooled cash and cash equivalents	\$ 1,996,773
Investments	<u>605,100</u>
Total assets	<u>2,601,873</u>
Net Assets:	
Unrestricted	<u>2,601,873</u>
Total net cash assets	<u><u>\$ 2,601,873</u></u>

See accompanying notes to the basic financial statements.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Statement of Cash Receipts, Disbursements, and Changes in Net Assets
- Modified Cash Basis
For the Fiscal Year Ended June 30, 2011

Operating cash receipts:	
Contributions from Members	<u>\$ 18,392,823</u>
Total operating cash receipts	<u>18,392,823</u>
Operating cash disbursements:	
Professional Fees	153,019
Administrative Fees	392,983
Insurance Premium for Coverages	905,801
Claims	<u>19,179,077</u>
Total operating cash disbursements	<u>20,630,880</u>
Operating loss	<u>(2,238,057)</u>
Non-operating cash receipts:	
Interest Income	3,946
Refund of Prior Year Disbursements	<u>592,041</u>
Total non-operating cash receipts	<u>595,987</u>
Change in cash net assets	(1,642,070)
Net assets at beginning of year	<u>4,243,943</u>
Net assets at end of year	<u><u>\$ 2,601,873</u></u>

See accompanying notes to the basic financial statements.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

The Allen County Schools Health Benefit Plan, Allen County, (the “Plan”) is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10 and amended by GASB Statement No. 30 created to enable its twelve members (political subdivisions) to obtain insurance coverage, provide methods of paying claims and provide a formalized jointly administered self-insurance pool. Specifically, this pool provides health and dental benefits, to employees of its members. In addition to the health benefits provided to participants, the Plan offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option.

The governing body of the Plan is the Board of Trustees composed of the representatives of members who have been appointed by the respective governing bodies of the members. All representatives shall serve without compensation. As of June 30, 2011, there were 12 participating member school districts of the Plan providing services to approximately 5,100 participants, respectively. The Board of Trustees and the treasurer of the fiscal agent (a non-voting, ex-officio member of the Board) shall function as the advisory body to the Plan. It shall consist of one superintendent representative of each member.

The Plan’s management believes these modified cash basis financial statements present all activities for which the Plan is financially accountable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) Pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in the financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Basis of Accounting

The Plan’s financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the Plan’s financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The Plan uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

Operating receipts are those receipts that are generated directly from the primary activity of the Plan. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the Plan. All receipts and disbursements not meeting this definition are reported as non-operating.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

For the fiscal year ended June 30, 2011, the Allen County Schools Health Benefit Plan has elected to present the financial statements in the GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*” format.

The Plan’s financial statements consist of a statement of net assets and statement of cash receipts, cash disbursements and changes in net cash assets – modified cash basis. The Statement of Net Assets presents the financial condition of the Plan at year-end. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in a preceding paragraph.

C. Cash, Cash Equivalents and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. Money market funds and federal agency securities are valued at cost.

D. Budgetary Process

The Plan is not required to follow the budgetary process by law, but incorporated in the bylaws that a budget should be prepared along with the other budgets prepared by the fiscal agent Allen County Educational Service Center.

E. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Plan or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Plan had no restricted net assets at fiscal year end.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2011, Allen County Schools Health Benefit Plan has implemented Governmental Accounting Standards Board (GASB) Statement No. 59, “*Financial Instruments Omnibus*.”

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

Implementation of this GASB statement did not affect the presentation of the financial statements of the Plan.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4 – DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Plan 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.

Protection of the Plan'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.

The Plan primarily funds to meet the basic monetary demands of its claims and administration payments and has not had any Inactive or Interim deposits to invest.

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Plan, 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 securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the Plan's cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At June 30, 2011, the carrying amount of the Plan's deposits was \$1,996,773 and the bank balance was \$2,741,710. Of the bank balance, \$1,011,605 was covered by Federal Depository Insurance and \$1,730,105 was uninsured and collateralized.

Although the pooled securities serving as collateral were held by the pledging financial institution's trust department in the Plan's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Plan to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at cost. As of June 30, 2011, the Plan's investments were as follows:

	<u>Cost</u>	Maturities (at Cost)	
		<u>< 1 yr</u>	<u>1-5 yrs</u>
Federal National Mortgage Corporation	\$ 201,822	\$ 0	\$ 201,822
Federal Home Loan Bank	196,721	0	196,721
Federal Farm Credit Bank	200,066	0	200,066
Money Market	2,310	2,310	0
STAROhio	4,181	4,181	0
Total	<u>\$ 605,100</u>	<u>\$ 6,481</u>	<u>\$ 598,609</u>

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Plan's investment policy addresses interest rate risk by requiring that the Plan's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments 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 custodian by the treasurer, governing board, or qualified trustee."

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy does not specifically address credit risk beyond requiring the Plan to only invest in securities authorized by State statute.

STAROhio has a credit rating of AAAM with Standard and Poor's and is held by the investment's counterparty and not in the name of the Plan. Federal National Mortgage Corporation, Federal Home Loan Bank and Federal Farm Credit Bank are rated AAA by Standard and Poor's. The money market investment has no rating.

Concentration Risk

The Plan places no limit on the amount that may be invested in any one issuer. During fiscal year 2011, more than five percent of the Plan's investments are in Federal National Mortgage Corporation, Federal Farm Credit Bank and Federal Home Loan Bank. These investments are 33.35%, 33.06% and 32.50%, respectively, of the Plan's total investments for the amounts listed above.

NOTE 5 – RISK MANAGEMENT

A. Medical and Vision/Dental Benefits

The Plan contracts with a third party administrator, Allied Benefit Systems, Inc., to process and pay health claims and dental claims incurred by its members. Members pay monthly premiums to the Plan, which are placed in a local bank account. The third party administrator then writes claim checks directly from this account and sends the Fiscal Officer a weekly check report of the claims processed that week.

B. Stop-Loss Coverage

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 – RISK MANAGEMENT (continued)

C. Actuarial Valuation

An actuarial valuation of the health care plan is prepared annually under guidelines set forth in Actuarial Standard of Practice No. 5, *Incurred Health Claims Liabilities* (ASB 5) of the Actuarial Standards Board of the American Academy of Actuaries. The purpose of the valuation is to compare this liability to funds reserved. The method and assumptions utilized for measuring an actuarial liability are critical to the determination as to whether funds are adequate.

A comparison of the Plan’s cash and investments to the actuarially-measured liability as of June 30 follows:

	June 30, 2011	June 30, 2010
Cash and Investments	\$ 2,601,873	\$ 4,243,943
Actuarial liabilities	3,526,000	2,127,206

NOTE 6 – CONTRACTED SERVICES

The Plan contracts with Grossman Consulting and Associates, to provide services and advice for insurance plans that include medical, prescription drugs and dental. Contracts also exist with Express Scripts and National Vision Administrators for prescription and vision administration, respectively.

NOTE 7 – RESERVE FOR CLAIMS LOSSES

Allen County Schools Health Benefit Plan, under its terms of membership, shall establish adequate reserves for claims and unallocated loss adjustment expenses. In fiscal year 2011, the Loss Reserve increased \$1,398,794 to \$3,526,000. The estimated expenses that have been incurred but not recorded represent 20.2% of the incurred and paid claims for fiscal year 2011. Total expenses for the year ended June 30, 2011 were approximately \$20.6 million.

The Plan also has a fluctuation reserve in excess of current liabilities established to neutralize the impact of claim level fluctuations not covered by insurance. The fluctuation reserve for fiscal years ended June 30, 2011 and June 30, 2010 are \$165,000 and \$384,375, respectively.

The total reserve for claim loss for fiscal years ended June 30, 2011 and June 30, 2010, including the loss reserve and fluctuation reserve is \$3,691,000 and \$2,511,581, respectively.

Changes in the Plan’s reserve for claims losses amount for the two previous fiscal years are as follows:

Fiscal Year	Beginning Balance	Claims	Payments	Ending Balance
2010	\$ 1,909,703	20,237,138	20,019,635	\$ 2,127,206
2011	\$ 2,127,206	20,577,871	19,179,077	\$ 3,526,000

NOTE 8 – SUBSEQUENT EVENT

Effective July 1, 2011, the Plan now contracts with Medical Mutual for third party administrative services.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

REQUIRED SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION

	Plan Year				
	<u>7/1/2006 - 6/30/2007</u>	<u>7/1/2007 - 6/30/2008</u>	<u>7/1/2008 - 6/30/2009</u>	<u>7/1/2009 - 6/30/2010</u>	<u>7/1/2010 - 6/30/2011</u>
Premiums and Investment revenue:					
Earned	\$ 15,340,412	\$ 15,729,081	\$ 15,590,255	\$ 17,233,429	\$ 17,834,303
Ceded	(450,174)	(715,240)	(796,326)	(593,611)	(413,468)
Net Earned	<u>14,890,238</u>	<u>15,013,841</u>	<u>14,793,929</u>	<u>16,639,818</u>	<u>17,420,835</u>
Unallocated Expenses	1,023,006	1,038,924	1,349,679	1,038,533	869,440
Estimated losses and Expenses, end of accident year:					
Incurred	13,131,133	12,604,525	14,588,601	17,325,666	16,500,643
Ceded	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net incurred	<u>13,131,133</u>	<u>12,604,525</u>	<u>14,588,601</u>	<u>17,325,666</u>	<u>16,500,643</u>
Net Paid Cumulative as of:					
End of accident year	11,646,632	12,607,552	13,335,870	15,633,621	15,011,754
One year later	1,483,499	1,227,005	1,695,374	1,485,656	
Two years later	25,726	(3,329)	3,233		
Three years later	0	-			
Four years later	0				
Re-estimated ceded losses and expenses	0	0	0	0	0
Re-estimated net incurred losses and expenses:					
End of accident year	11,646,632	12,607,552	13,335,870	15,633,621	15,011,754
One year later	1,483,499	1,227,005	1,695,374	1,485,656	
Two years later	25,726	(3,329)	3,233		

January 30, 2012

To the Board of Trustees
Allen County Schools Health Benefit Plan
Lima, Ohio 45801

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

We have audited the financial statements of Allen County Schools Health Benefit Plan, Allen County, Ohio, (the "Plan") as of and for the year ended June 30, 2011, and have issued our report thereon dated January 30, 2012, wherein we noted the Plan uses a comprehensive accounting basis other than generally accepted accounting principles. 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

Management of the Plan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan'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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Allen County Schools Health Benefit Plan
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

January 30, 2012

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We noted certain matters that we reported to management of the Plan in a separate letter dated January 30, 2012.

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

Rea & Associates, Inc.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Schedule of Findings
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS
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Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None noted.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Schedule of Prior Audit Findings
For Fiscal Year Ended June 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2010-01	Financial Statements – Significant audit adjustments	Yes	Corrected