

Allen County Schools Health Benefit Plan
Allen County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Board of Trustees
Allen County Schools Health Benefit Plan
1920 Slabtown Road
Lima, Ohio 45801

We have reviewed the *Independent Auditors' Report* of the Allen County Schools Health Benefit Plan, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Allen County Schools Health Benefit Plan 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 4, 2017

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**ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
ALLEN COUNTY, OHIO**

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September 20, 2016

To the Board of Trustees
Allen County Schools Health Benefit Plan
Allen County, Ohio
1920 Slabtown Road
Lima, Ohio 45801

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Allen County Schools Health Benefit Plan, Allen County, Ohio (the Plan), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Plan's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of Allen County Schools Health Benefit Plan, Allen County, Ohio, as of June 30, 2016, and the respective change in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Loss Development Information presents additional analysis as required by the *Governmental Accounting Standards Board* and is also not a required part of the financial statements.

The Loss Development Information is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the Loss Development Information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Loss Development Information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Loss Development Information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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 Plan's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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Allen County Schools Health Benefit Plan
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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, 2016. Within the limitations of the Plan's 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

Key financial highlights for fiscal year 2016 are as follows:

- Total operating receipts were \$19.4 million, representing contributions from 12 plan members during the period from July 1, 2015 through June 30, 2016.
- Total non-operating receipts were \$133,009 for the fiscal year.
- Total disbursements were \$20.1 million, with claims payments representing \$17.9 million, or 89.1%, insurance premium coverage represented \$779,409, or 3.9% and administrative and professional disbursements represented 7.0%.

Using these Annual Reports

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 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 Position – Cash Basis* and the *Statement of Cash Receipts, Disbursements, and Changes in Net Position – Cash Basis* provide information about the activities of the Plan.

Reporting the Plan's Financial Activities

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

These statements look at all financial transactions and ask the question, "How did we do financially during fiscal year 2016?" The *Statement of Net Position – Cash Basis* and the *Statement of Cash Receipts, Disbursements, and Changes in Net Position - Cash Basis* answer these questions.

These statements include only net position using the 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 year. These two statements report the Plan's net position and changes in that position on a cash basis. This change in net cash position is important because it tells the reader that, for the Plan as a whole, the cash basis financial position of the Plan has improved or diminished.

As a result of the use of the cash basis of accounting, certain assets, deferred outflows and their related receipts (such as accounts receivable) and liabilities, deferred inflows and their related disbursements (such as claims payable) are not recorded in these 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 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, 2016
(Unaudited)

The table below provides a summary of the Plan's net position at June 30, 2016 and 2015.

(Table 1)
Financial Analysis

Net Position – Cash Basis

	<u>2016</u>	<u>2015</u>
Assets		
Equity in pooled cash & investments	\$ 12,896,836	\$ 13,475,856
Total assets	<u>\$ 12,896,836</u>	<u>\$ 13,475,856</u>
Net Cash Position		
Unrestricted	\$ 12,896,836	\$ 13,475,856
Total net cash position	<u>\$ 12,896,836</u>	<u>\$ 13,475,856</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Plan's net position totaled \$12,896,836.

The table below shows the changes in net position for the years ending June 30, 2016 as compared to June 30, 2015. This will enable the reader to draw further conclusions about the Plan's financial status and possibly project future trends.

(Table 2)
Change in Net Cash Position – Cash Basis

	<u>2016</u>	<u>2015</u>
Total operating receipts	\$ 19,425,486	\$ 18,275,080
Total operating disbursements	<u>20,137,515</u>	<u>17,977,206</u>
Operating income (loss)	(712,029)	297,874
Total non-operating receipts	<u>133,009</u>	<u>40,212</u>
Change in net position	<u>\$ (579,020)</u>	<u>\$ 338,086</u>

From fiscal year 2015 to 2016 net position decreased \$579,020. Receipts increased \$1,150,406 due to a two percent premium increase effective January 1, 2016 and due to the timing of when the premiums were received. Disbursements increased \$2,160,309 from 2015 to fiscal year 2016 due to rate increases for the stop loss premium as well as increases in medical, dental, and prescription claims.

Allen County Schools Health Benefit Plan
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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, Gallagher Benefit Services, Inc., 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 districts.

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 Dr. Dean Wittwer, Superintendent, Allen County ESC, 1920 Slabtown Road, Lima, Ohio 45801-3309.

Allen County Schools Health Benefit Plan
Allen County, Ohio
Statement of Net Position - Cash Basis
June 30, 2016

Assets	
Equity in Pooled Cash and Investments	<u>\$ 12,896,836</u>
<i>Total Assets</i>	<u><u>\$ 12,896,836</u></u>
Net Position	
Unrestricted	<u>12,896,836</u>
<i>Total Net Position</i>	<u><u>\$ 12,896,836</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 Position
- Cash Basis
For the Fiscal Year Ended June 30, 2016

Operating Receipts	
Contributions from Members	\$ 19,425,486
	<hr/>
<i>Total Operating Receipts</i>	<u>19,425,486</u>
Operating Disbursements	
Professional Fees	219,875
Administrative Fees	1,192,116
Insurance Premium for Coverages	779,409
Claims	17,946,115
	<hr/>
<i>Total Operating Disbursements</i>	<u>20,137,515</u>
<i>Operating Loss</i>	<u>(712,029)</u>
Non-Operating Receipts (Disbursements)	
Miscellaneous	61,734
Interest	71,275
	<hr/>
<i>Total Non-Operating Receipts</i>	<u>133,009</u>
<i>Change in Net Position</i>	(579,020)
<i>Net Position Beginning of Year</i>	<u>13,475,856</u>
<i>Net Position End of Year</i>	<u><u>\$ 12,896,836</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, 2016

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 to all eligible employees as an option. The Plan is organized under Ohio Revised Code Chapter 167.

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, 2016, there were 12 participating member school districts of the Plan providing services to 3,492 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 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 cash basis of accounting. This 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 cash basis of accounting. In cases where these 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 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 cash basis of accounting, certain assets, deferred outflows and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities, deferred inflows 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, 2016
(Continued)

B. Basis of Presentation

For the fiscal year ended June 30, 2016, 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 position and statement of cash receipts, cash disbursements and changes in net cash position – cash basis. The Statement of Net Position 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 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.

During fiscal year 2016, the Plan’s investments consisted of STAR Ohio, STAR Plus, Federal National Mortgage Association notes, Federal Home Loan Bank notes and money markets. 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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2016.

The Plan also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance with no term commitment on deposits.

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 Allen County Educational Service Center.

E. Net Position

Net position is reported as restricted when there are limitations imposed on the 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 position at fiscal year end.

Allen County Schools Health Benefit Plan
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

F. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2016, the Plan has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Plan.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Plan.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Plan.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Plan.

NOTE 3 – 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

Allen County Schools Health Benefit Plan
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

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 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 (STAR Ohio and STAR Plus);
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 forty 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.

Allen County Schools Health Benefit Plan
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

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 fiscal year-end, the carrying amount of the Plan's deposits was \$10,756,541. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$1,076,130 of the Plan's bank balance of \$10,756,541 was exposed to custodial risk as discussed below, while \$9,680,411 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$4,202,454 held in a STAR Plus account.

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, 2016, the Plan's investments were as follows:

	Cost	Maturities (at Cost)			Percentage of Total
		<1 yr	1-3 yrs	>3 yrs	
Federal National Mortgage Association notes	\$ 150,000	\$ 150,000	\$ 0	\$ 0	7.01%
Federal Home Loan Bank notes	600,000	100,000	0	500,000	28.03%
Money markets	48,705	48,705	0	0	2.28%
STAR Ohio	1,341,590	1,341,590	0	0	62.68%
Total	<u>\$ 2,140,295</u>	<u>\$ 1,640,295</u>	<u>\$ 0</u>	<u>\$ 500,000</u>	<u>100.00%</u>

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.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a rating of AAAM by S&P Global Ratings.

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."

Allen County Schools Health Benefit Plan
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

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.

The Federal National Mortgage Association notes and Federal Home Loan Bank notes carry a rating of AA+ by S&P Global Ratings. The money market accounts held with Charles Schwab and Huntington National Bank and STAR Ohio have credit ratings of AAAM with S&P Global Ratings and are held by the investment's counterparty and not in the name of the Plan.

Concentration Risk

The Plan places no limit on the amount the Plan may be invest in any one issuer, however, State statute limits investments in commercial paper and bankers' acceptances to forty percent of the interim monies available for investment at any one time. The above table includes the percentage to total of each investment type held by the Plan at June 30, 2016.

NOTE 4 – RISK MANAGEMENT

A. Medical and Dental Benefits

The Plan contracts with a third party administrator, Medical Mutual, 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 emails weekly invoices to the fiscal officer who then wires the money to Medical Mutual to pay the claims.

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.

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, 2016	June 30, 2015
Cash and Investments	\$ 12,896,836	\$ 13,475,856
Actuarial liabilities	1,481,000	1,334,000

Allen County Schools Health Benefit Plan
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
(Continued)

NOTE 5 – CONTRACTED SERVICES

The Plan contracts with Arthur J. Gallagher & Co. to provide health plan administrative services and advice for insurance plans that include medical, dental and prescription drugs. Contracts also exist with Medical Mutual of Ohio, National Vision Administrators, and Eyemed for prescription and vision administration, respectively. Contracts also exist with Verve, PlanSource and Next Generation to provide wellness coordination, online capabilities and dependent audits.

NOTE 6 – 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 2016, the Loss Reserve increased \$147,000 to \$1,481,000. The estimated expenses that have been incurred but not recorded represent 8.3% of the incurred and paid claims for fiscal year 2016. Total expenses for the year ended June 30, 2016 were approximately \$20.1 million.

The Plan also has a 10% safe harbor reserve in excess of current liabilities established to neutralize the impact of claim level fluctuations not covered by insurance. The safe harbor reserve for fiscal years ended June 30, 2016 and June 30, 2015 are \$148,000 and \$135,000, respectively.

The total reserve for claim loss for fiscal years ended June 30, 2016 and June 30, 2015, including the loss reserve and fluctuation reserve is \$1,629,000 and \$1,468,000, respectively.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Ending Balance</u>
2015	\$ 1,134,000	\$ 16,192,280	\$ 15,992,280	\$ 1,334,000
2016	\$ 1,334,000	\$ 18,093,115	\$ 17,946,115	\$ 1,481,000

NOTE 7 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the Consortium to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code, Section 117.35, the Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Plan does not intend to report in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.

**ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
ALLEN COUNTY, OHIO
SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION**

	Plan Year								
	7/1/2007 - 6/30/2008	7/1/2008 - 6/30/2009	7/1/2009 - 6/30/2010	7/1/2010 - 6/30/2011	7/1/2011 - 6/30/2012	7/1/2012 - 6/30/2013	7/1/2013 - 6/30/2014	7/1/2014 - 6/30/2015	7/1/2015 - 6/30/2016
Premiums and Investment revenue:									
Earned	15,729,081	15,590,255	17,233,429	17,834,303	19,037,197	18,600,136	19,192,743	18,305,434	19,555,453
Ceded	(715,240)	(796,326)	(593,611)	(413,468)	(390,897)	(346,639)	(478,894)	(591,633)	(779,409)
Net Earned	<u>15,013,841</u>	<u>14,793,929</u>	<u>16,639,818</u>	<u>17,420,835</u>	<u>18,646,300</u>	<u>18,253,497</u>	<u>18,713,848</u>	<u>17,713,801</u>	<u>18,776,044</u>
Unallocated Expenses	1,038,924	1,349,679	1,038,533	869,440	683,373	882,502	1,171,199	1,393,293	1,411,991
Estimated losses and Expenses, end of accident year:									
Incurred	12,604,525	14,588,601	17,325,666	16,500,643	15,640,000	15,196,038	17,064,806	21,824,520	20,995,312
Ceded	0	0	0	0	0	(102,784)	(740,232)	(602,737)	(984,230)
Net incurred	<u>12,604,525</u>	<u>14,588,601</u>	<u>17,325,666</u>	<u>16,500,643</u>	<u>15,640,000</u>	<u>15,093,254</u>	<u>16,324,574</u>	<u>21,221,784</u>	<u>20,011,082</u>
Net Paid Cumulative as of:									
End of accident year	12,607,552	13,335,870	15,633,621	15,011,754	13,337,582	12,993,575	14,380,516	16,439,248	18,994,411
One year later	13,834,557	15,031,244	17,119,277	17,545,924	14,388,480	14,170,709	14,380,515	15,331,271	
Two years later	13,831,228	15,034,477	17,119,277	17,545,924	14,388,480	14,170,709	14,380,515		
Three years later	13,831,228	15,034,477	17,119,277	17,545,924	14,388,480	14,170,709			
Four years later	13,831,228	15,034,477	17,119,277	17,545,924	14,388,480				
13,831,228	15,034,477								
Re-estimated ceded losses and expenses	-	-	-	-	-	-	-	-	-
Re-estimated net incurred losses and expenses:									
End of accident year	12,604,525	14,588,601	17,325,666	16,500,643	15,640,000	15,196,038	16,324,574	21,221,784	20,011,082
One year later	13,834,557	15,031,244	17,119,277	17,634,094	14,600,000	14,273,493	13,640,283	14,728,534	
Two years later	13,831,228	15,034,477	17,119,277	17,634,094	14,600,000	14,273,493	13,640,283		
Three years later	13,831,228	15,034,477	17,119,277	17,634,094	14,600,000	14,273,493			
Four years later	13,831,228	15,034,477	17,119,277	17,634,094	14,600,000				

Note: Schedule accumulates up to 10 years

September 20, 2016

To the Board of Trustees
Allen County Schools Health Benefit Plan
Allen County, Ohio
1920 Slabtown Road
Lima, Ohio 45801

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Allen County Schools Health Benefit Plan, Allen County, Ohio (the Plan), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated September 20, 2016, wherein we noted the Plan uses a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Plan's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Plan's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Plan'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 directly and materially affect the determination of financial statement amounts. However, opining 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

Plan's Response to the Finding

The Plan's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Plan's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

Allen County Schools Health Benefit Plan
Allen County, Ohio
Schedule of Findings
June 30, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number: 2016-001 – Material Noncompliance

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report to the form utilized by the public office. Ohio Administrative Code Section 117-2-03(B) further clarifies the requirements of Ohio Rev. Code 117.38. This law was revised in 2015 to include insurance plans starting with fiscal year 2016.

Condition: The Plan did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B).

Cause: For fiscal year 2016, the Plan prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities. The Plan was required to prepare its annual report in accordance with generally accepted accounting principles (GAAP). The accompanying financial statements and notes omit assets, deferred outflows, liabilities, deferred inflows, fund equities, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the Plan may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the Plan review the revised standards. We also recommend the Plan prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: The Plan does not intend develop a Correct Action Plan that will report the financial statements in accordance with generally accepted accounting principles (GAAP). Management believes the cost savings far outweighs reporting on GAAP.



Dave Yost • Auditor of State

ALLEN COUNTY SCHOOL HEALTH BENEFITS PLAN

ALLEN 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 17, 2017