

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

***LAKE COUNTY, OHIO***

**Audit Report**

**For the Year Ended June 30, 2017**







# Dave Yost • Auditor of State

Board of Directors  
Health Care Benefits Program of Lake County Schools  
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, Lake County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. 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 is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

February 12, 2018

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**HEALTH CARE BENEFITS PROGRAM OF  
LAKE COUNTY SCHOOLS COUNCIL  
AUDIT REPORT  
For the Year Ended June 30, 2017**

**Table of Contents**

<u>Title</u>	<u>Page Number</u>
Independent Auditor's Report	1 - 2
Management's Unaudited Discussion and Analysis	3 - 7
Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11 – 19
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 <i>Government Auditing Standards</i>	20

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

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## **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, 2017, 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 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 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 opinion.

### **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, 2017, 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 3–7 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 October 25, 2017, 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 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 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.**  
October 25, 2017



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

### **Lake County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*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, 2017. 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, added another one in 2015 and lost 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 \$7,016,541 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, 2017 and 2016 totaled \$6,490,079 and \$6,662,467, respectively. This represents a decrease of \$172,388 or 3% from 2016 to 2017. The decrease in net position results from an operating loss of \$203,536.

Total participants' contributions increased 17% or \$5,330,750 to \$36,685,544 in 2017 from \$31,354,794 in 2016. There was an increase in total revenue in 2017 of \$5,551,006 to \$36,979,841 in 2017 or 18% from 2016.

## Health Care Benefits Program of Lake County Schools Council

### Lake County

#### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2017

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 \$9,481,550 and \$8,898,276 for the years ended June 30, 2017 and 2016, respectively.

Administrative expenses decreased 2% or \$33,550 to \$2,008,895 in 2017 from \$2,042,445 in 2016 due mainly to decreased expenses relating to the Affordable Care Act.

### Financial Overview

In 2017 and 2016, approximately 98% of all assets consisted of cash, cash equivalents and investments. Approximately 73% and 98% of all liabilities consisted of reserves for claims in 2017 and 2016, respectively.

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

**Table 1**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,533,462	\$ 3,145,600
Investments	6,948,088	5,752,676
Accrued interest	23,341	-
Prepaid expenses	<u>142,862</u>	<u>133,005</u>
Total current assets	<u>9,647,753</u>	<u>9,031,281</u>
Total assets	<u><u>9,647,753</u></u>	<u><u>9,031,281</u></u>
<b>Liabilities</b>		
Current liabilities:		
Benefit obligation	3,127,736	2,315,000
Accounts payable	<u>29,938</u>	<u>53,814</u>
Total current liabilities	<u>3,157,674</u>	<u>2,368,814</u>
Total liabilities	3,157,674	2,368,814
<b>Net Position</b>		
Unrestricted	<u>6,490,079</u>	<u>6,662,467</u>
Total net position	6,490,079	6,662,467
Total liabilities and net position	<u><u>\$ 9,647,753</u></u>	<u><u>\$ 9,031,281</u></u>

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

### **Lake County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

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.

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, 2017*  
*Unaudited*

**Table 2**

	Governmental Activities	
	2017	2016
<b>Net Position</b>		
Total assets	\$ 9,647,753	\$ 9,031,281
Total liabilities	3,157,674	2,368,814
Total Net Position	6,490,079	6,662,467
<b>Changes in Net Position</b>		
Payments in:		
Member premiums	36,685,544	31,354,794
Miscellaneous	185,257	-
Non-operating revenues/expenses	31,148	74,041
Total payments in	36,901,949	31,428,835
Payments out:		
Claims and premiums	34,315,184	29,058,651
Life insurance	329,906	326,060
Administrative fees	1,643,904	1,581,002
Consulting/legal/misc fees	211,470	168,860
Wellness and employee benefits	420,352	364,087
Affordable Care Act expenses	153,521	292,583
Total payments out	37,074,337	31,791,243
Change in Net Position	\$ (172,388)	\$ (362,408)

**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, 2017*

*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, 2017*

<b>Assets</b>	
Cash and cash equivalents	\$ 2,533,462
Investments	6,948,088
Accrued Interest	23,341
Prepaid expenses	142,862
Total current assets	<u>9,647,753</u>
Total assets	<u><u>9,647,753</u></u>
<b>Liabilities</b>	
Benefit obligations	3,127,736
Accounts payable	<u>29,938</u>
Total liabilities	3,157,674
<b>Net Position</b>	
Unrestricted	<u>6,490,079</u>
Total net position	<u>6,490,079</u>
Total liabilities and net position	<u><u>\$ 9,647,753</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, 2017*

<b>Operating revenues:</b>	
Participants' contributions	\$ 36,685,544
Miscellaneous	<u>185,257</u>
 Total operating revenues	 36,870,801
<b>Operating expenses:</b>	
Benefits paid for participants:	
Medical and dental self-funded claims	25,677,953
Prescription drug self-funded claims	8,494,793
Wellness program	358,151
Employee Benefits	62,201
Life insurance premiums	329,906
Vision insurance premiums	<u>142,438</u>
 Total benefits paid for participants	 35,065,442
Administrative expenses:	
Third party administration fees	1,420,569
Consulting fees	126,481
Program administration fees	209,442
Cobraserve fees	13,893
Miscellaneous fees	84,989
Affordable Care Act expense	<u>153,521</u>
 Total operating expenses	 <u>37,074,337</u>
 Operating income/ (loss)	 (203,536)
<b>Non-operating revenues/(expenses):</b>	
Investment income	108,790
Unrealized gain/ (loss) on investments	(77,892)
Other income	<u>250</u>
 Total non-operating revenues	 <u>31,148</u>
 <b>Change in net position</b>	 <b>(172,388)</b>
 <b>Net position, beginning of year</b>	 <u>6,662,467</u>
 <b>Net position, end of year</b>	 <u><u>\$ 6,490,079</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, 2017*

<b>Cash flows from operating activities:</b>	
Cash received from participants' contributions	\$ 36,870,801
Cash paid for participants' benefits	(34,851,442)
Cash paid for administrative expenses	<u>(1,443,892)</u>
Net cash provided by/(used in) in operating activities	<u>575,467</u>
<b>Cash flows from investing activities:</b>	
Proceeds from maturity of investments	5,729,335
Purchase of investments	(6,948,088)
Investment income received, net	<u>31,148</u>
Net cash provided by/(used in) investing activities	<u>(1,187,605)</u>
<b>Net decrease in cash</b>	(612,138)
<b>Cash and cash equivalents, beginning of year</b>	<u>3,145,600</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 2,533,462</u></u>
<b>Reconciliation of operating income to net cash used in operating activities:</b>	
Operating income	<u>\$ (203,536)</u>
<b>Adjustments to reconcile operating income to net cash provided by/(used in) operating activities:</b>	
Changes in operating assets and liabilities:	
(Increase) in prepaid expense	(9,857)
Increase in benefit obligations	812,736
Decrease in accounts payable	<u>(23,876)</u>
Total adjustments	<u>779,003</u>
<b>Net cash provided by/(used in) operating activities</b>	<u><u>\$ 575,467</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, 2017*

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**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, 2017*

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**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, 2017*

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**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, 2017*

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**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 2016 (latest information available), 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 \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 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, 2017*

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**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, 2017*

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**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);
8. Commercial paper and bankers acceptances if training requirements have been met.

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, 2017, the carrying amount of the Program’s deposits was \$2,533,462 and the bank balance was \$2,534,971. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, 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, 2017

**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	\$ 501,085	Average 51.6 days	AAAm	7.21%
Fair Value:				
Negotiable Certificates of Deposit (CDARS)	1,690,025	Less than one year	n/a	24.32%
Negotiable Certificates of Deposit (CDARS)	3,826,340	1 - 3 years	n/a	55.07%
Negotiable Certificates of Deposit (CDARS)	544,466	3 - 5 years	n/a	7.84%
Federal Farm Credit Bank Notes	123,871	1 - 3 years	AA+	1.78%
Federal National Mortgage Association Notes	49,885	Less than one year	AA+	0.72%
Federal Home Loan Bank Bonds	29,923	1 - 3 years	AA+	0.43%
Municipal Securities	182,493	1 - 3 years	AA	2.63%
Total	<u>\$ 6,948,088</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, 2017. 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, 2017*

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**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, 2017 totaling \$3,127,736, 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:

	2017	2016
Balance, July 1	\$ 2,315,000	\$ 2,921,600
Current year claims	35,065,442	29,748,798
Claims paid	<u>(34,252,706)</u>	<u>(30,355,398)</u>
Balance, June 30	<u>\$ 3,127,736</u>	<u>\$ 2,315,000</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, Caremark, Inc. and Express Scripts, Inc. as their third party administrators.

No employer, employee or person claiming benefit by or through an employee shall have any claim against the Council or any property of the Council. The rights and interest of employees and persons claiming by or through employees shall be limited to benefits offered by or through the Council in accordance with the Program Agreement. The Council purchases or otherwise provides for the benefit of itself, the Directors and 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, 2017*

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**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, 2017, loss reserves estimated by the Council’s actuary are as follows:

IBNR Reserve	\$ 3,127,736
Fluctuation Reserve	<u>6,353,814</u>
Total Reserve Funds	<u><u>\$ 9,481,550</u></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*

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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, 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated October 25, 2017.

***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 opinion 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.***  
October 25, 2017



# 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  
FEBRUARY 22, 2018