

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

LAKE COUNTY, OHIO

FINANCIAL STATEMENT

JUNE 30, 2003



**Auditor of State
Betty Montgomery**

Board of Directors
Lake County Schools Insurance Consortium
6451 Center Street
Mentor, Ohio 44060

We have reviewed the Independent Auditor's Report of the Lake County Schools Insurance Consortium, Lake County, prepared by S.R. Snodgrass, A.C., for the audit period July 1, 2002 through June 30, 2003. 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 Lake County Schools Insurance Consortium is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State


December 17, 2003

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

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Independent Auditors' Report



To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
6451 Center Street
Mentor, OH 44060

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, 2003. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the financial statements, the Program prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio, as of June 30, 2003, and its cash receipts and disbursements for the year then ended on the basis of accounting described in the notes to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2003 on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and by-laws. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Directors and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

S.R. Snodgrass AC

Mentor, Ohio
October 16, 2003

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH BALANCES
FOR THE YEAR ENDED JUNE 30, 2003**

	2003
CASH RECEIPTS:	
Participants' contributions	\$ 22,473,475
Interest	57,428
Total cash receipts	22,530,903
 CASH DISBURSEMENTS:	
Medical and dental self-funded claims	14,882,276
Prescription drug self-funded claims	3,403,033
HMO insurance premiums	2,375,339
Administration fees	1,016,665
Life insurance premiums	271,555
Consulting fees	152,596
Vision insurance premiums	98,894
Carrier stop loss premiums	33,562
Miscellaneous fees	18,656
Total cash disbursements	22,252,576
Total receipts over disbursements	278,327
 CASH BALANCE, JULY 1, 2002	5,712,179
 CASH BALANCE, JUNE 30, 2003	\$ 5,990,506

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE ENTITY

The following description of the Health Care Benefits Program (the Program) of Lake County Schools Council (the Council) provides only general information of both the Program and the Council. Participants should refer to the Program and Council Agreements for a more complete description of their provisions.

General – The Council was established on December 6, 1994, formed by the Boards of Education of eleven school districts in northeast Ohio, for the purpose of undertaking a joint program for the provision of health care benefits, undertaking other cooperative programs from time to time, and fostering cooperation among those school districts in all areas of educational service. On October 3, 1995, the Council was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. In addition, the Council maintains By-laws and each participating member signs an Agreement.

The original eleven members were Auburn Vocational School District, Fairport Harbor Exempted Village School District, Lake County Educational Service Center, Kirtland Local School District, Madison Local School District, Mentor Exempted Village School District, Painesville City School District, Painesville Township Local School District, Perry Local School District, Wickliffe City School District and Willoughby-Eastlake City 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 elects at its annual meeting a five member Board of Directors and the officers who consist of Chairman, Vice-Chairman and Recording Secretary, all of which serve until the next annual meeting. The board of education of each Member appoints its Superintendent or such Superintendent's designee, to be its representative on the Council's Assembly. All of the authority of the Council is exercised by or under the direction of the Board of Directors, the governing body. The Assembly sets and approves all benefit programs to be offered by or through the Program, and all policies and other contracts are accepted or entered into by the Board of Directors. The Board of Directors sets all premiums and other amounts to be paid by the Members, and the Board of Directors has the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

The Board of Directors has the full powers to manage and conduct affairs of the Program between meetings of the Assembly. The Board of Directors is specifically authorized and directed to review and decide all appeals and challenges by employees, their eligible dependents and designated beneficiaries of adverse determinations by the Plan Administrator or care or coverage under benefit programs offered by the Program. The Assembly may ratify any action authorized or taken by the Board or may rescind and overrule any such action.

Fiscal Agent – The Fiscal Agent is responsible for administering the financial transactions of the Program. The Mentor Exempted Village School District serves as the fiscal agent. The Fiscal Agent carries out the responsibilities of the Program Fund, enters into contracts on behalf of the Program as authorized by the Directors and carries out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. The Treasurer of the Fiscal Agent is the Treasurer of the Program. The Fiscal Agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board of Directors.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DESCRIPTION OF THE ENTITY (CONTINUED)

Benefits – Member contributions are used to provide and/or purchase health, dental, life and/or other insurance benefits as provided for in the Program Agreement and as established by law. The Assembly determines the insurance benefits to be provided by or through the Program. Benefit selections may vary among the Program Members for any type of benefit program. The Board of Directors determines, at their discretion, which insurance carriers and policies to utilize to provide benefits pursuant to the Program Agreement.

Enrollment by Members – Each Member decides which benefit program(s) offered by or through the Program shall be extended to its employees. Upon joining the Council, each member can participate in the Health Care Benefit Program. Organizations that are not Members of the Council can contract with the Council to participate in the Program.

Program Fund – The Program Fund consists of all payments made to the Fiscal Agent in accordance with the Program Agreement, policy dividends or rate refunds (whether received by the Program or left with the insurance carriers to accumulate with interest), investments made by the Fiscal Agent and income therefrom, and any other money or property which shall come into the hands of the Program in connection with the administration of the Program.

The Fiscal Agent may use the Program Fund for purposes such as but not limited to:

1. Paying all expenses which the Directors consider necessary in establishing and administering the Program;
2. Paying premiums of the Program's policies;
3. Making investments in accordance with the Agreement;
4. Making refunds to Program Members; and
5. Providing and/or purchase health insurance, life insurance, dental insurance and/or other insurance benefits.

Investments – The Treasurer of the Fiscal Agent, custodian of the Council, makes such investments as it may determine in its discretion, provided that such investments conform with investment policies and guidelines established by the Board of Directors and limited to investments permitted under Chapter 135 of the Ohio Revised Code for the public monies of school districts.

Termination/Withdrawal of a Council Member – It is the express intention of the Council Members that the Council Agreement and the Council shall continue for an indefinite term, but may be terminated as provided in the Council Agreement. Any Council Member wishing to withdraw from participation in the Council or the Program shall notify the Board of Directors on or before October 15 preceding the first day of the fiscal year the Member will withdraw. Specifics governing the withdrawal of a Program Member and the run out of all claims for such Program Member are addressed in Section 11 of the Program Agreement.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DESCRIPTION OF THE ENTITY (CONTINUED)

Contributions – Each Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such Member, and such contributions are included in the payments from such Member to the Fiscal Agent for the benefit program. Contributions are to be submitted by each Member, to the Fiscal Agent, required under the terms of the Program Agreement and any benefit program in which such Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such Member is enrolled. All general administrative costs incurred by the Program that are not covered by the premium payments shall be shared by the Program Members as approved by the Directors.

BASIS OF ACCOUNTING

This financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

CASH AND INVESTMENTS

The Mentor Exempted Village School District (MEVSD), the Program's fiscal agent, maintains the Program financial activity on the MEVSD books under a specific fund designated for Program activity. The balances in this fund are presented as Cash Balances on the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances for the Year Ended June 30, 2003.

EQUITY IN CASH AND INVESTMENTS

The Treasurer of the Council, who also serves as Treasurer of the Fiscal Agent (MEVSD), pools all available cash of the Program with that of the School District for investment purposes. The interest earnings are then distributed to the Program based on the proportion of its fund balance to the entire MEVSD balance. As a result, there are no separately identified investments for the Program. During 2003, investments of the School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements and non-negotiable certificates of deposit. The investment in STAR Ohio is valued at amounts reported by the State Treasurer and is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. Non-participating investment contracts such as repurchase agreements are reported at cost and are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the School District's name. Certificate of deposits are valued at costs.

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

RISK MANAGEMENT

The Council is a jointly governed organization, which acts as a government risk pool for health insurance for its 11 members.

The Council employs the services of an outside consultant (Burns Consulting Associates, Inc.) to assist them in administering the Program. The Council also uses Medical Mutual of Ohio and Caremark, Inc. as their third party administrators.

No employer, employee, or person claiming benefit by or through an employee shall have any claim against the Council or any property of the Council. The rights and interest of employees and persons claiming by or through employees shall be limited to benefits offered by or through the Council in accordance with the Program Agreement. The Council purchases or otherwise provides for the benefit of itself, the Directors and/or the Fiscal Agent such liability insurance with such limits of coverage deemed necessary and as approved by the Board of Directors. The aggregate claims liability of the Council shall not exceed one hundred twenty-five percent (125%) of expected claims.

Any Program Member who withdraws from the Council pursuant to the Program Agreement has no claim to the Council's assets.

It is not necessary for each member district of the Council to prepare a Governmental Accounting Standards Board (GASB) report. The Council holds all reserves including Incurred But Not Reported (IBNR), Shock, Stabilization and Fluctuation reserves. However, these reserves are allocated to members on a capitated basis for accounting purposes.

The Health Care Benefits Program of Lake County Schools Council is self insured for member district employee health insurance claims but maintains aggregate stop loss insurance with Medical Mutual of Ohio. The Self Insurance Fund pays covered claims to service providers and recovers these costs from premium charges to member districts based on calculations provided by the Council's consultant (Burns Consulting Associates, Inc.). An estimate June 30, 2003 loss reserves estimated by the Council's actuary are as follows:

	<u>Reserve</u>
IBNR Reserve	\$ 2,405,000
Fluctuation Reserve	<u>3,080,300</u>
Total	<u>\$ 5,485,300</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Health Care Benefits Program of
Lake County Schools Council
6451 Center Street
Mentor, OH 44060

We have audited the accompanying financial statements of Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio (the Program) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 16, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and by-laws, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Program in a separate letter dated October 16, 2003.

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

S. R. Snodgrass A.C.

Mentor, Ohio
October 16, 2003



**Auditor of State
Betty Montgomery**

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LAKE COUNTY SCHOOL INSURANCE CONSORTIUM

LAKE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 8, 2004**