

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

LAKE COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2015





Dave Yost • Auditor of State

Board of Directors
Health Care Benefits Program of Lake County Schools
1956 Red Bird Rd
Madison, OH 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, 2014 through June 30, 2015. 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

December 11, 2015

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**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
AUDIT REPORT
For the Year Ended June 30, 2015**

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

INDEPENDENT AUDITORS' 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, 2015, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Program'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 Program'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 financial position of the Health Care Benefits Program of Lake County Schools Council, Lake County, Ohio as of June 30, 2015, and the respective 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 this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other 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 require 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 September 11, 2015, 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 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 Program's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
September 11, 2015

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR THE YEAR ENDING JUNE 30, 2015**

The following "Discussion & Analysis" of the Health Care Benefits Program of Lake County Schools Council (the Program) fiscal performance provides a general background and review of the Program's related financial activities for the fiscal year ending June 30, 2015. 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 for 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-administrated program. The consortium had 10 charter members in 1995, added one in 2002 and 2010, lost one in 2005 and added another one in 2015. The Program remains fiscally solvent and responsive to the needs of its members. A significant \$9,830,612 of cash and investments of unused reserves validates this fiscal health. The consortium maintains a simplistic approach regarding fiscal matters with only two 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 and an investment account of \$6,316,715 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 present 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, 2015 and 2014 total \$7,024,875 and \$10,446,520, respectively. This represents a decrease of \$3,421,645 or 33 percent, from 2014 to 2015. The decrease in net position results from an operating loss of \$3,485,882 and non-operating income, primarily investment income of \$64,237.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR THE YEAR ENDING JUNE 30, 2015**

Financial Highlights (continued):

Total participants' contributions - operating revenue increased 1 percent or \$151,104 to \$29,494,050 in 2015 from \$29,342,946 in 2014. There was an increase in total revenue in 2015 of \$147,702 to \$29,558,287 or 1 percent from \$29,410,585 2014. There was a decrease of \$232,959, or 1 percent, to \$29,410,585 in 2014 from \$29,643,544 in 2013.

Participants' contributions - operating 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 6 to the basic financial statements, provide contributions for the establishment of reserve funds totaling \$9,830,612 and \$13,294,419 for the years ended June 30, 2015 and 2014, respectively.

Administrative expenses increased 34% or \$500,950 to \$1,957,402 in 2015 from \$1,456,452 in 2014 due mainly to a new expense the Program has to incur to comply with the Affordable Care Act. The administration fee of Medical Mutual also increased due mainly to one additional school for the period. Administrative expenses decreased 2 percent or \$28,493 to \$1,456,452 in 2014 from \$1,484,945 in 2013 due to renegotiation of the administrative contract.

Financial Overview:

Approximately 99 percent in 2015 and in 2014 of the assets consist of cash, cash equivalents, and investments. Approximately 99 percent in 2015 and 2014, of total liabilities, consist of reserves for claims.

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

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,513,897	\$ 6,928,733
Investments - other	6,316,715	6,365,686
Accounts receivable	3,075	3,075
Prepaid expenses	133,072	120,030
Total current assets	<u>9,966,759</u>	<u>13,417,524</u>
 Total assets	 <u>9,966,759</u>	 <u>13,417,524</u>
 LIABILITIES AND NET POSITION		
Current liabilities:		
Benefit obligations	2,921,600	2,951,555
Accounts payable	20,284	19,449
Total current liabilities	<u>2,941,884</u>	<u>2,971,004</u>
 Net Position:		
Unrestricted		
Operating	<u>7,024,875</u>	<u>10,446,520</u>
Total net position	<u>7,024,875</u>	<u>10,446,520</u>
 Total liabilities and net position	 <u>\$ 9,966,759</u>	 <u>\$ 13,417,524</u>

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR THE YEAR ENDING JUNE 30, 2015**

Overview of the Financial Statements:

The basic financial statements, in addition to Management's Discussion and Analysis, are comprised of the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; the Statement of Cash Flows; and the 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 present 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 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 economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim obligations are charged to expense in the periods in which they are made.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR THE YEAR ENDING JUNE 30, 2015**

Overview of the Financial Statements (continued):

The Program's Net Position

	<u>2015</u>	<u>2014</u>
Total Assets	\$ 9,966,759	\$ 13,417,524
Total Liabilities	<u>2,941,884</u>	<u>2,971,004</u>
The Program's Net Position	<u>\$ 7,024,875</u>	<u>\$ 10,446,520</u>

Changes in Net Position

Payments In		
Member Premiums	\$ 29,494,050	\$ 29,342,946
Non-Operating Revenues	<u>64,237</u>	<u>67,639</u>
Totals In	\$ 29,558,287	\$ 29,410,585
Payments Out		
Claims and Premiums	\$ 30,354,379	\$ 25,319,883
Life Insurance	316,336	272,022
Administrative Fees	1,524,093	1,332,365
Consulting/Legal /Misc Fees	125,218	124,087
Wellness & Employee Benefits	351,815	267,533
Affordable Care Act Expense	<u>308,091</u>	<u>-</u>
Totals Out	<u>\$ 32,979,932</u>	<u>\$ 27,315,890</u>
Changes in Net Resources	<u>\$(3,421,645)</u>	<u>\$ 2,094,695</u>

Current and Future Trends:

The Program is financially strong, and has a high level of member support and loyalty. In its 20 year history, only one member has left the Program. 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
MANAGEMENT'S UNAUDITED DISCUSSION & ANALYSIS
FOR THE YEAR ENDING JUNE 30, 2015**

Contacting the Program'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 any 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, 2015**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,513,897
Investments - other	6,316,715
Accounts Receivable	3,075
Prepaid expenses	133,072
Total current assets	<u>9,966,759</u>
 Total assets	 <u><u>\$ 9,966,759</u></u>

LIABILITIES AND NET POSITION

Current liabilities:	
Benefit obligations	\$ 2,921,600
Accounts payable	20,284
 Total current liabilities	 <u>2,941,884</u>
 Net position:	
Unrestricted	
Operating	<u>7,024,875</u>
 Total net position	 <u>7,024,875</u>
 Total liabilities and net position	 <u><u>\$ 9,966,759</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 CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

Operating revenues:	
Participants' contributions	<u>\$ 29,494,050</u>
Operating expenses:	
Benefits paid for participants:	
Medical and dental self-funded claims	23,049,364
Prescription drug self-funded claims	7,160,520
Wellness program	261,985
Employee Benefits	89,830
Life insurance premiums	316,336
Vision insurance premiums	<u>144,495</u>
Total benefits paid for participants	31,022,530
Administrative expenses:	
Third party administration fees	1,256,777
Consulting fees	93,978
Program administration fees	251,948
Cobraserve fees	15,368
Miscellaneous fees	31,240
Affordable Care Act expense	<u>308,091</u>
Total operating expenses	<u>32,979,932</u>
Operating income/ (loss)	(3,485,882)
Non-operating revenues/(expenses):	
Investment income	109,678
Unrealized gain/ (loss) on investments	(45,551)
Other income	<u>110</u>
Total non-operating revenues	<u>64,237</u>
Change in net position	(3,421,645)
Net position, beginning of year	<u>10,446,520</u>
Net position, end of year	<u><u>\$ 7,024,875</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, 2015**

Cash flows from operating activities:	
Cash received from participants' contributions	\$ 29,494,050
Cash paid for participants' benefits	(31,038,859)
Cash paid for administrative expenses	<u>(1,983,235)</u>
Net cash used in operating activities	<u>(3,528,044)</u>
Cash flows from investing activities:	
Proceeds from maturity of investments	6,365,686
Purchase of investments	(6,316,715)
Investment income received, net	<u>64,237</u>
Net cash provided by investing activities	<u>113,208</u>
Net increase in cash	(3,414,836)
Cash and cash equivalents, beginning of year	<u>6,928,733</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,513,897</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 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

Reconciliation of operating income to net cash used in operating activities:	
Operating income	<u>\$ (3,485,882)</u>
Adjustments to reconcile operating income to net cash used in operating activities:	
Changes in operating assets and liabilities:	
(Increase) in prepaid expense	(13,042)
(Decrease) in benefit obligations	(29,955)
Increase in accounts payable	<u>835</u>
Total adjustments	<u>(42,162)</u>
Net cash used in operating activities	<u><u>\$ (3,528,044)</u></u>

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

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS
For the year ending June 30, 2015**

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 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 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 Ledgemont Local Schools.

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 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 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 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 Treasurer serves as the Fiscal Agent of the Program and is responsible for administering the financial transactions of the Program. 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 Madison School District, Madison, Ohio provides fiscal agent and treasury services and the Madison Schools Treasurer serves as the Council Treasurer.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ending June 30, 2015**

1. 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 there from, 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 Investment Committee, on behalf of the Council, makes such investments as it may determine in its discretion, provided that such investments conform with 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.

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.

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.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ending June 30, 2015**

2. SUMMARY OF ACCOUNTING POLICIES

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

Component units are legally separate organizations for which the Program is financially accountable. The Program is financially accountable for an organization if the organization appoints a voting majority of the organization's governing board and (1) the Program is able to significantly influence the programs or services performed or provided by the organization; or (2) the Program is legally entitled to or can otherwise access the organization's resources; the Program is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Program is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Program in that the Program approves the budget, the issuance of debt or the levying of taxes. The Program has no component units.

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 balance 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 or services.

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 statement 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 the 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 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 were limited to federal agency obligations and certificates of deposit. Investments are reported at fair value or at amortized cost, which approximates fair value. Investment income includes interest and dividends and realized and unrealized gains and losses.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ending June 30, 2015**

2. SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Position - Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Program or 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.

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.

Extraordinary and Special Items – Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Program's Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

Subsequent Events - The program assessed events occurring subsequent to June 30, 2015 through September 11, 2015 date for potential recognition and disclosure in the consolidated financial statements. No events were identified that would require adjustment to or disclosure in the financial statements.

3. DEPOSITS AND INVESTMENTS

Cash Deposits – The Program's practice is to place deposits with commercial banks within its service area. Custodial credit risk for deposits is the risk that in the event of bank failure, the Program will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2015, the carrying amount of the Program's cash deposits including money market funds was \$3,513,897. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, none of the Program's bank balance was exposed to custodial risk.

Custodial credit risk is the risk that, in the event of bank failure, the Program's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Association. The Program has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Program to a successful claim by the FDIC.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ending June 30, 2015**

3. DEPOSITS AND INVESTMENTS (Continued)

Investments – The Program has adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures. This statement amends GASB Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks.

Investments are reported at fair value. As of June 30, 2015, the Program had the following investments:

	Maturity		Fair value
	1-2 years	3-5 years	
Certificates of Deposit (CDARS)	\$ 2,550,043	\$ 2,233,929	\$ 4,783,972
Municipal Securities	320,755	-	320,755
Government Securities:			
FHLB	-	119,996	119,996
FNMA	213,754	174,549	388,303
FHLMC	-	49,900	49,900
FFCB	-	100,222	100,222
Other government securities	149,827	403,740	553,567
TOTAL	\$ 3,234,379	\$ 3,082,336	\$ 6,316,715

Fair Value of Financial Instruments - Major classes of assets and liabilities that are measured at fair value are categorized to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1: inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2: inputs are derived from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3: inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 are as follows:

	Level 1	Level 2	Level 3	Total
Certificate of Deposit	\$ 4,783,972	-	-	\$ 4,783,972
Municipal Securities	320,755	-	-	320,755
Government Securities:				
FHLP	119,996	-	-	119,996
FNMA	388,303	-	-	388,303
FHLMC	49,900	-	-	49,900
FFCB	100,222	-	-	100,222
Other government securities	553,567	-	-	553,567
TOTAL	\$ 6,316,715	\$ -	\$ -	\$ 6,316,715

Interest Rate Risk - As a means of limiting its exposure to fair value losses caused by rising interest rates, the Program's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and 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. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ending June 30, 2015**

3. DEPOSITS AND INVESTMENTS (Continued)

The Program's investment policy requires that investments made must mature within five years, unless they are matched to a separate obligation or debt of the Program. The purpose of the investments is to maximize the returns on the Program's excess cash balances consistent with safety of these monies and with the desired liquidity of the investments.

Credit Risk - The Program's investment policy limits investments to those authorized by State statute. The Program's investments are in certificates of deposits and government and municipal securities in quantities of less than \$250,000 and held in the name of the Program. Moreover the credit quality of bond holdings are Aa/AAA.

Custodial Credit Risk - For an investment, 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.

4. BENEFIT OBLIGATIONS

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 requires that actuarial techniques be utilized to estimate any claims liabilities, including those for claims incurred but not reported. The Program has recorded benefit obligations as of June 30, 2015 totaling \$ 2,921,600, which includes reported claims not yet paid, claims incurred but not 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 obligations amount was as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the fiscal year	\$ 2,951,555	\$ 3,113,737
Current year claims	31,022,530	25,859,438
Claims paid	<u>(31,052,485)</u>	<u>(26,021,620)</u>
Balance at end of the fiscal year	<u>\$ 2,921,600</u>	<u>\$ 2,951,555</u>

5. CONTINGENCIES

The Council is involved in various claims whose effects are determined as immaterial.

**HEALTH CARE BENEFITS PROGRAM OF
LAKE COUNTY SCHOOLS COUNCIL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the year ending June 30, 2015**

6. RISK MANAGEMENT

The Council is a jointly governed organization, which acts as a government risk pool for health insurance for its 12 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/or the Fiscal Agent such liability insurance with such limits of coverage deemed necessary and as approved by the Board of Directors. 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 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 (CBIZ). An estimate June 30, 2015 loss reserves estimated by the Council's actuary are as follows:

IBNR Reserve	\$ 2,921,600
Fluctuation Reserve	<u>6,909,012</u>
Total Reserve Funds	<u>\$ 9,830,612</u>

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY 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 auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Health Care Benefits Program of Lake County Schools Council, Lake County, (the Program) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Program'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 Program'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 Program'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 Program's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Charles E. Harris" followed by "Associates" in a cursive script.

Charles E. Harris & Associates, Inc.
September 11, 2015



Dave Yost • Auditor of State

HEALTH CARE BENEFITS PROGRAM OF LAKE COUNTY SCHOOL COUNCIL

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 24, 2015