



Dave Yost • Auditor of State

**COUNCIL OF ALLEN COUNTY SCHOOLS HEALTH BENEFITS CONSORTIUM
ALLEN COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Council of Allen County Schools Health Benefits Consortium
Allen County
1920 Slabtown Road
Lima, Ohio 45801

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the Council of Allen County Schools Health Benefits Consortium, Allen County, Ohio (the Consortium), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Consortium'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 Consortium's internal control. Accordingly, we express no such 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash financial position of the Council of Allen County Schools Health Benefits Consortium, Allen County, Ohio, as of June 30, 2017, and the changes in modified cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Other Information

We applied no procedures to management's discussion & analysis and to the loss development information as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018, on our consideration of the Consortium'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 Consortium's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 25, 2018

Council of Allen County Schools Health Benefits Consortium
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The following report reflects on the financial condition of the Council of Allen County Schools Health Benefits Consortium (the "Consortium") for the fiscal year ended June 30, 2017. Within the limitations of the Consortium's modified cash basis of accounting, this information is provided to enhance the information in the financial statements and the corresponding notes and should be reviewed in concert with the report.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Total operating receipts were \$20.3 million, representing contributions from 12 plan members during the period from July 1, 2016 through June 30, 2017.
- Total non-operating receipts were \$115,345 for the fiscal year.
- Total disbursements were \$20.7 million, with claims payments representing \$18.2 million, or 88.1%, insurance premium coverage represented \$988,469, or 4.8% and administrative and professional disbursements represented 7.1%.

Using these Annual Reports

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

Reporting the Consortium's Financial Activities

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

These statements look at all financial transactions and ask the question, "How did we do financially during fiscal year 2017?" The *Statement of Net Position – Modified Cash Basis* and the *Statement of Cash Receipts, Disbursements, and Changes in Net Position – Modified Cash Basis* answer these questions.

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

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

Council of Allen County Schools Health Benefits Consortium
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The table below provides a summary of the Consortium's net position at June 30, 2017 and 2016.

(Table 1)
Financial Analysis

Net Position – Modified Cash Basis

	2017	2016
Assets		
Cash and Cash Equivalents	\$ 7,375,573	\$ 12,896,836
Investments	5,227,218	0
Total assets	\$ 12,602,791	\$ 12,896,836
Net Cash Position		
Unrestricted	\$ 12,602,791	\$ 12,896,836
Total net cash position	\$ 12,602,791	\$ 12,896,836

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Consortium's net position totaled \$12,602,791.

The table below shows the changes in net position for the years ending June 30, 2017 as compared to June 30, 2016. This will enable the reader to draw further conclusions about the Consortium's financial status and possibly project future trends.

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

	2017	2016
Total operating receipts	\$ 20,253,913	\$ 19,425,486
Total operating disbursements	20,663,303	20,137,515
Operating income (loss)	(409,390)	(712,029)
Total non-operating receipts	115,345	133,009
Change in net position	\$ (294,045)	\$ (579,020)

From fiscal year 2016 to 2017 net position decreased \$294,045. Revenue increased \$828,427 due to a 3.25 percent premium increase effective January 1, 2017. Disbursements increased \$525,788 from 2016 to fiscal year 2017 due to rate increases for the stop loss premium as well as increases in medical, dental, and prescription claims.

Council of Allen County Schools Health Benefits Consortium
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Current Financial Related Activities

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

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

The Consortium requires its members to participate in the medical/prescription insurance program with individual district choice as to participation in the vision/dental program. The Board of Trustees and its consortium manager, Gallagher Benefit Services, Inc., continually discuss program enhancements, long-term viability and management risks inherent in these benefit programs.

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

Contacting the Consortium's Financial Management

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

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Council of Allen County Schools Health Benefits Consortium
Allen County, Ohio
Statement of Net Position - Modified Cash Basis
June 30, 2017

Assets	
Cash and Cash Equivalents	\$ 7,375,573
Investments	<u>5,227,218</u>
<i>Total Assets</i>	<u><u>\$ 12,602,791</u></u>
 Net Position	
Unrestricted	<u>12,602,791</u>
<i>Total Net Position</i>	<u><u>\$ 12,602,791</u></u>

See accompanying notes to the basic financial statements.

Council of Allen County Schools Health Benefits Consortium
Allen County, Ohio
Statement of Cash Receipts, Disbursements, and Changes in Net Position
- Modified Cash Basis
For the Fiscal Year Ended June 30, 2017

Operating Receipts	
Contributions from Members	\$ 20,253,913
<i>Total Operating Receipts</i>	<u>20,253,913</u>
Operating Disbursements	
Professional Fees	227,784
Administrative Fees	1,249,028
Insurance Premium for Coverages	988,469
Claims	<u>18,198,022</u>
<i>Total Operating Disbursements</i>	<u>20,663,303</u>
<i>Operating Loss</i>	<u>(409,390)</u>
Non-Operating Receipts	
Miscellaneous	13,279
Interest	<u>102,066</u>
<i>Total Non-Operating Receipts</i>	<u>115,345</u>
<i>Change in Net Position</i>	(294,045)
<i>Net Position Beginning of Year</i>	<u>12,896,836</u>
<i>Net Position End of Year</i>	<u><u>\$ 12,602,791</u></u>

See accompanying notes to the basic financial statements.

Council of Allen County Schools Health Benefits Consortium

Allen County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

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

The governing body of the Consortium is the Board of Directors composed of the representatives of members who have been appointed by the respective governing bodies of the members. All representatives shall serve without compensation. As of June 30, 2017, there were 12 participating member school districts of the Consortium providing services to 1,441 employees. The Board of Trustees and the treasurer of the fiscal agent (a non-voting, ex-officio member of the Board) shall function as the advisory body to the Consortium. It shall consist of one superintendent representative of each member.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

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

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

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

Operating receipts are those receipts that are generated directly from the primary activity of the Consortium. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the Consortium. All receipts and disbursements not meeting this definition are

Council of Allen County Schools Health Benefits Consortium

Allen County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

(Continued)

reported as non-operating.

B. Basis of Presentation

For the fiscal year ended June 30, 2017, the Council of Allen County Schools Health Benefits Consortium has elected to present the financial statements in the GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* format.

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

C. Cash and Investments

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

During fiscal year 2017, the Consortium’s investments consisted of STAR Ohio, STAR Plus, Federal Home Loan Bank notes, money markets and negotiable certificates of deposit.

During fiscal year 2017, the Consortium invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Consortium 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 an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations 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.

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

Council of Allen County Schools Health Benefits Consortium

Allen County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

(Continued)

D. Budgetary Process

The Consortium is not required to follow the budgetary process by law, but a budget is prepared along with the other budgets prepared by the Allen County Educational Service Center.

E. Net Position

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

F. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2017, the Consortium has (to the extent it applies to the modified cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Consortium.

GASB Statement No. 82 improves consistency in the application of pension accounting. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Consortium.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that the Consortium 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,

Council of Allen County Schools Health Benefits Consortium
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Protection of the Consortium's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The Consortium primarily funds to meet the basic monetary demands of its claims and administration payments and has not had any Inactive or Interim deposits to invest. Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed forty percent of the interim moneys available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Consortium, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Council of Allen County Schools Health Benefits Consortium

Allen County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

(Continued)

Deposits

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

At fiscal year-end, the carrying amount of the Consortium's deposits was \$5,840,676. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2017, \$4,755,959 of the Consortium's bank balance of \$6,221,921 was exposed to custodial risk as discussed below, while \$1,465,962, was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$1,215,962 held in a STAR Plus account.

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

Investments

Investments are reported at cost. As of June 30, 2017, the Consortium's investments were as follows:

	Cost	Maturities (at Cost)		Percentage of Total
		<1 yr	1-5 yrs	
Federal Home Loan Mortgage Corporation Notes	\$ 500,000	\$ 0	\$ 500,000	7.39%
Negotiable certificates of deposit	4,727,218	3,227,218	1,500,000	69.91%
Money markets	609,426	609,426	0	9.01%
STAR Ohio	925,471	925,471	0	13.69%
Total	<u>\$ 6,762,115</u>	<u>\$ 4,762,115</u>	<u>\$ 2,000,000</u>	<u>100.00%</u>

Interest Rate Risk

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

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days. The negotiable Certificate of Deposits are covered by the FDIC insurance.

Custodial Credit Risk

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

Council of Allen County Schools Health Benefits Consortium

Allen County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

(Continued)

Credit Risk

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

The Federal Home Loan Mortgage Corporation Notes carry a rating of AA+ by S&P Global Ratings. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. All investments are held by the investment's counterparty and not in the name of the Service Center.

Concentration Risk

The Consortium places no limit on the amount the Consortium may be invest in any one issuer. The above table includes the percentage to total of each investment type held by the Consortium at June 30, 2017.

NOTE 4 – RISK MANAGEMENT

A. Medical and Dental Benefits

The Consortium contracts with a third party administrator, Medical Mutual, to process and pay health claims and dental claims incurred by its members. Members pay monthly premiums to the Consortium, which are placed in a local bank account. The third party administrator emails weekly invoices to the fiscal officer who then wires the money to Medical Mutual to pay the claims.

B. Stop-Loss Coverage

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

C. Actuarial Valuation

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

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash and Investments	\$ 12,602,791	\$ 12,896,836
Actuarial liabilities	1,541,000	1,481,000

NOTE 5 – CONTRACTED SERVICES

The Consortium contracts with Arthur J. Gallagher & Co. to provide health plan administrative services and advice for insurance plans that include medical, dental and prescription drugs. Contracts also exist with Medical Mutual of Ohio, and Eyemed for vision administration. Contracts also exist with SPECTRUM Health Systems, PlanSource and Teladoc to provide wellness coordination, online capabilities, dependent audits and 24/7 access to a doctor.

Council of Allen County Schools Health Benefits Consortium
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

NOTE 6 – RESERVE FOR CLAIMS LOSSES

Council of Allen County Schools Health Benefits Consortium, under its terms of membership, shall establish adequate reserves for claims and unallocated loss adjustment expenses. In 2017, the Loss Reserve increased \$60,000 to \$1,541,000. The estimated expenses that have been incurred but not recorded represent 8.5% of the incurred and paid claims for fiscal year 2017. Total expenses for the year ended June 30, 2017 were approximately \$20.7 million.

The Consortium also has a 10% safe harbor reserve in excess of current liabilities established to neutralize the impact of claim level fluctuations not covered by insurance. The safe harbor reserve for fiscal years ended June 30, 2017 and June 30, 2016 are \$154,000 and \$148,000, respectively.

The total reserve for claim loss for fiscal years ended June 30, 2017 and June 30, 2016, including the loss reserve and fluctuation reserve is \$1,695,000 and \$1,629,000, respectively.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Ending Balance</u>
2016	\$ 1,334,000	\$ 18,093,115	\$ 17,946,115	\$ 1,481,000
2017	\$ 1,481,000	\$ 18,258,022	\$ 18,198,022	\$ 1,541,000

NOTE 7 – ACCOUNTABILITY AND COMPLIANCE

Ohio Adm. Code Section 117-2-03(B) requires the Consortium to prepare its annual financial reports in accordance with generally accepted accounting principles (GAAP). However, the Consortium prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances and disclosures that, while material, cannot be determined at this time. The Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report.

COUNCIL OF ALLEN COUNTY SCHOOLS HEALTH BENEFITS CONSORTIUM
ALLEN COUNTY, OHIO
SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION

	Plan Year									
	7/1/2007 - 6/30/2008	7/1/2008 - 6/30/2009	7/1/2009 - 6/30/2010	7/1/2010 - 6/30/2011	7/1/2011 - 6/30/2012	7/1/2012 - 6/30/2013	7/1/2013 - 6/30/2014	7/1/2014 - 6/30/2015	7/1/2015 - 6/30/2016	7/1/2016 - 6/30/2017
Premiums and Investment revenue:										
Earned	\$ 15,729,081	\$ 15,590,255	\$ 17,233,429	\$ 17,834,303	\$ 19,037,197	\$ 18,600,136	\$ 19,192,743	\$ 18,305,434	\$ 19,555,453	\$ 20,367,064
Ceded	(715,240)	(796,326)	(593,611)	(413,468)	(390,897)	(346,639)	(478,894)	(591,633)	(779,409)	(988,469)
Net Earned	15,013,841	14,793,929	16,639,818	17,420,835	18,646,300	18,253,497	18,713,848	17,713,801	18,776,044	19,378,595
Unallocated Expenses	1,038,924	1,349,679	1,038,533	869,440	683,373	882,502	1,171,199	1,393,293	1,411,991	1,362,091
Estimated losses and Expenses, and of accident year:										
Incurred	12,604,525	14,588,601	17,325,666	16,500,643	15,640,000	15,196,038	17,064,806	21,824,520	20,995,312	20,058,282
Ceded	0	0	0	0	0	(102,784)	(740,232)	(602,737)	(984,230)	(838,590)
Net incurred	12,604,525	14,588,601	17,325,666	16,500,643	15,640,000	15,093,254	16,324,574	21,221,784	20,011,082	19,219,892
Net Paid Cumulative as of:										
End of accident year	12,607,552	13,335,870	15,633,621	15,011,754	13,337,582	12,993,575	14,380,516	16,439,254	18,994,411	16,694,234
One year later	13,834,557	15,031,244	17,119,277	17,545,924	14,388,480	14,170,709	14,380,515	15,331,271	19,660,101	
Two years later	13,831,228	15,034,477	17,119,277	17,545,924	14,388,480	14,170,709	14,380,515	15,331,271		
Three years later	13,831,228	15,034,477	17,119,277	17,545,924	14,388,480	14,170,709	14,380,515			
Four years later	13,831,228	15,034,477	17,119,277	17,545,924	14,388,480	14,170,709				
Re-estimated ceded losses and expenses										
Re-estimated net incurred losses and expenses:										
End of accident year	12,604,525	14,588,601	17,325,666	16,500,643	15,640,000	15,196,038	16,324,574	21,221,784	20,011,082	19,219,892
One year later	13,834,557	15,031,244	17,119,277	17,634,094	14,600,000	14,273,493	14,684,552	17,789,305	20,642,247	
Two years later	13,831,228	15,034,477	17,119,277	17,634,094	14,600,000	14,273,493	14,684,552	17,789,305		
Three years later	13,831,228	15,034,477	17,119,277	17,634,094	14,600,000	14,273,493	14,684,552			
Four years later	13,831,228	15,034,477	17,119,277	17,634,094	14,600,000	14,273,493				

Note: Schedule accumulates up to 10 years



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

Council of Allen County Schools Health Benefits Consortium
Allen County
1920 Slabtown Road
Lima, Ohio 45801

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 modified cash-basis financial statements of the Council of Allen County Schools Health Benefits Consortium, Allen County, (the Consortium) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements and have issued our report thereon dated September 25, 2018, wherein we noted the Consortium uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Consortium's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Consortium'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 Consortium'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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Consortium's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2017-002.

Consortium's Response to Findings

The Consortium's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Consortium's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State
Columbus, Ohio

September 25, 2018

**COUNCIL OF ALLEN COUNTY SCHOOLS HEALTH BENEFITS CONSORTIUM
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Governmental Accounting Standards Boards (GASB) Statement No. 9 paragraph 9 (GASB Codification 2450.106) states, "...cash equivalents are defined as short-term, highly liquid investments that are both a. Readily convertible to known amounts of cash; and b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates. General, only investments with original maturities of three months or less meet this definition." GASB Statement No. 9 paragraph 10 (GASB Codification 2450.107) states, "Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools...."

Deposits and investments of the Consortium, in the amount of \$12,602,791 were originally classified as equity in pooled cash and cash equivalents on the Statement of Net Position. Included in this amount were negotiable certificates of deposits in the amount of \$4,727,218 and U.S. Agency Securities in the amount of \$500,000, with original maturity dates of greater than three months, which should have been classified as investments.

Classification errors mislead the users understanding of the liquidity of deposits and investments and the financial statements.

The accompanying financial statements have been adjusted to correct this error.

At year-end the deposit and investment balances should be reviewed to verify the accuracy of the financial statements.

OFFICIALS' RESPONSE: The compiler and I have already discussed the finding for Accuracy of Financial Reporting and will avoid this error on the 2018-2019 financial statements. No funds are missing and there is no fraud. The total of invested funds was reported as pooled cash and cash equivalents. Any of the investments longer than three months should have been reported as investments. It was a classification error.

FINDING NUMBER 2017-002

Noncompliance Citation

Ohio Rev. Code § 117.38 provides, in part, that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

**FINDING NUMBER 2017-002
(Continued)**

Ohio Admin. Code § 117-2-03(B) requires all government insurance pools organized pursuant to Ohio Rev. Code § 167.01 to file annual financial reports which are prepared using generally accepted accounting principles. The Consortium prepared its financial statements in accordance with the modified cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the Consortium may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the Consortium should prepare its financial statements according to generally accepted accounting principles.

OFFICIALS' RESPONSE: The Council of Allen County Schools Health Benefits Consortium cannot afford to use the generally accepted accounting principles method for filing the financial statement. Since this organization does not pass tax levies, have debt, own school buses or buildings, the financial statements are prepared in accordance with the cash accounting basis.

COUNCIL OF ALLEN COUNTY SCHOOLS HEALTH BENEFITS CONSORTIUM

Craig Kupferberg, Chairman
Karla K. Wireman, Treasurer

1920 Slabtown Road, Lima, OH 45801 419-222-1836 EXT. 104

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Ohio Rev. Code Sec. 117.28 and Ohio Admin. Code Sec. 117-02-03(B) – Failed to file financial statements prepared using generally accepted accounting principles	Repeated as Finding 2017-002	The Consortium acknowledges this finding but will continue to report on a cash basis.

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COUNCIL OF ALLEN COUNTY SCHOOLS HEALTH BENEFITS CONSORTIUM

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 16, 2018**