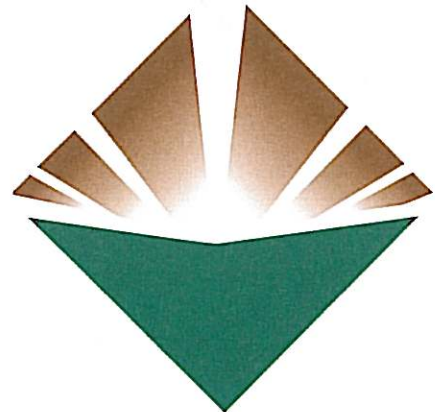


**Allen County Schools Health Benefit Plan
Allen County**

Basic Financial Statements – Cash Basis

For the Fiscal Years Ended June 30, 2008 and 2007



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Allen County Schools Health Benefit Plan, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2006 through July 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Allen County Schools Health Benefit Plan is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 24, 2009

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**ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
ALLEN COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 30, 2009

To the Board of Trustees
Allen County Health Benefit Plan
Lima, Ohio 45801

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the business-type activity of the Allen County Schools Health Benefit Plan (the "Plan") as of and for the years ended June 30, 2008 and June 30, 2007. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on the basic financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activity of the Plan as of the years ended June 30, 2008 and June 30, 2007, and the respective changes in modified cash basis financial position, where applicable thereof and for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 4 and the required supplementary information on page 15 are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2008 and 2007

The following report reflects on the financial condition of the Allen County Schools Health Benefit Plan (the "Plan") for the fiscal years ended June 30, 2008 and June 30, 2007. Within the limitations of the Plan'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, Fiscal Year Ending June 30, 2008

- Total operating receipts were \$15.96 million, representing contributions from 12 plan member school districts, during the period from July 1, 2007 through June 30, 2008.
- Total non-operating receipts were \$614,623 for the year.
- Total disbursements were \$18.07 million, with claims payments representing \$16.35 million, or 90.5%, insurance premium coverage represented \$1.59 million, or 8.8% and administrative and professional disbursements represented 0.7%.
- Projected actuarial liabilities were \$2.01 million at June 30, 2008.

Financial Highlights, Fiscal Year Ending June 30, 2007

- Total operating receipts were \$15.12 million, representing contributions from 12 plan member school districts, during the period from July 1, 2006 through June 30, 2007.
- Total non-operating receipts were \$924,952 for the year.
- Total disbursements were \$17.12 million, with claims payments representing \$15.55 million, or 90.8%, insurance premium coverage represented \$1.39 million, or 8.2% and administrative and professional disbursements represented 1.0%.
- Projected actuarial liabilities were \$1.98 million at June 30, 2007.

Using these Modified Cash Basis Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Plan's 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 Plan's activities. The *Statement of Net Assets – Modified Cash Basis* and the *Statement of Cash Receipts, Disbursements, and Changes in Net Assets – Modified Cash Basis* provide information about the activities of the Plan.

Reporting the Plan's Financial Activities

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

These statements look at all financial transactions and ask the question, "How did we do financially during fiscal years 2008 and 2007?" The Statement of Net Assets – Modified Cash Basis and the Statement of Cash Receipts, Disbursements, and Changes in Net Assets - Modified Cash Basis answer these questions.

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2008 and 2007

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.

The table below provides a summary of the Plan's net assets at June 30, 2008 and 2007.

(Table 1)
Financial Analysis

Net Assets – Modified Cash Basis

	2008	2007
Assets		
Equity in pooled cash & cash equivalents	\$ 3,638,762	\$ 3,688,967
Investments	3,654,843	5,095,799
Total assets	\$ 7,293,605	\$ 8,784,766
Net Cash Assets		
Unrestricted	\$ 7,293,605	\$ 8,784,766
Total net cash assets	\$ 7,293,605	\$ 8,784,766

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008 and June 30, 2007, the Plan's net assets totaled \$7,293,605 and \$8,784,766, respectively. Net assets decreased 17% from fiscal years 2007 to 2008. The Plan monitors this variance closely to facilitate the need to implement participant premium adjustments or changes to the overall plan.

The table below shows the changes in net assets for the years ending June 30, 2008 and 2007.

(Table 2)
Change in Net Cash Assets

	2008	2007
Total Operating Receipts	\$ 15,963,456	\$ 15,124,700
Total Operating Disbursements	18,069,240	17,122,871
Operating Loss	(2,105,784)	(1,998,171)
Total Non-operating receipts	614,623	924,952
Decrease in Net Assets	\$ (1,491,161)	\$ (1,073,219)

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2008 and 2007

Net assets decreased each year primarily as a result of member contributions not covering total claims paid. Reduced interest earnings and rising healthcare costs also contributed to the net asset decrease. The board is currently reviewing this trend and developing a plan to improve the Plan's performance.

Current Financial Related Activities

The Plan is a not-for-profit insurance group owned and operated by twelve school districts in Allen County, Ohio. The Plan's main source of receipts is premiums paid by the member school districts. The Plan also receives buy-in fees from new or returning school districts, interest receipts from investments and refunds of prior year disbursements.

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

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

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

Contacting the Plan's Financial Management

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

Allen County, Ohio

Statement of Net Assets - Modified Cash Basis

June 30, 2008

Assets:

Equity in pooled cash and cash equivalents	\$ 3,638,762
Investments	<u>3,654,843</u>
Total assets	<u><u>\$ 7,293,605</u></u>

Net Assets:

Unrestricted	<u>\$ 7,293,605</u>
Total net assets	<u><u>\$ 7,293,605</u></u>

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

Allen County, Ohio

Statement of Cash Receipts, Disbursements, and Changes in Net Assets

- Modified Cash Basis

For the Fiscal Year Ended June 30, 2008

Operating cash receipts:	
Contributions from Members	\$ 15,765,744
Buy-in Fee	<u>197,712</u>
Total operating cash receipts	<u>15,963,456</u>
Operating cash disbursements:	
Professional Fees	116,483
Administrative Fees	7,084
Insurance Premium for Coverages	1,594,979
Claims	<u>16,350,694</u>
Total operating cash disbursements	<u>18,069,240</u>
Operating loss	<u>(2,105,784)</u>
Non-operating cash receipts (disbursements):	
Interest Income	314,654
Refund of Prior Year Disbursements	<u>299,969</u>
Total non-operating cash receipts	<u>614,623</u>
Change in cash net assets	(1,491,161)
Net assets at beginning of year	<u>8,784,766</u>
Net assets at end of year	<u><u>\$ 7,293,605</u></u>

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

Allen County, Ohio

Statement of Net Assets - Modified Cash Basis

June 30, 2007

Assets:	
Equity in pooled cash and cash equivalents	\$ 3,688,967
Investments	<u>5,095,799</u>
Total assets	<u><u>\$ 8,784,766</u></u>
Net Assets:	
Unrestricted	<u>\$ 8,784,766</u>
Total net assets	<u><u>\$ 8,784,766</u></u>

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

Allen County, Ohio

Statement of Cash Receipts, Disbursements, and Changes in Net Assets

- Modified Cash Basis

For the Fiscal Year Ended June 30, 2007

Operating cash receipts:	
Contributions from Members	\$ 14,926,517
Buy-in Fee	<u>198,183</u>
Total operating cash receipts	<u>15,124,700</u>
Operating cash disbursements:	
Professional Fees	166,313
Administrative Fees	12,002
Insurance Premium for Coverages	1,391,157
Claims	<u>15,553,399</u>
Total operating cash disbursements	<u>17,122,871</u>
Operating loss	<u>(1,998,171)</u>
Non-operating cash receipts:	
Interest Income	619,798
Refund of Prior Year Disbursements	<u>305,154</u>
Total non-operating cash receipts	<u>924,952</u>
Change in cash net assets	(1,073,219)
Net assets at beginning of year	<u>9,857,985</u>
Net assets at end of year	<u><u>\$ 8,784,766</u></u>

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

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

The governing body of the Plan is the Board of Trustees composed of the representatives of members who have been appointed by the respective governing bodies of the members. All representatives shall serve without compensation. As of June 30, 2008 and June 30, 2007, there were twelve participating member school districts of the Plan. The Board of Trustees and the treasurer of the fiscal agent (a non-voting, ex-officio member of the Board) shall function as the advisory body to the Plan. It shall consist of one superintendent representative of each member.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, 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 Plan’s financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the Plan’s financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

Operating receipts are those receipts that are generated directly from the primary activity of the Plan. Operating disbursements are necessary costs incurred to provide the service that is the primary activity of the Plan. All receipts and disbursements not meeting this definition are reported as non-operating.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

For the fiscal years ended June 30, 2008 and 2007, the Allen County Schools Health Benefit Plan has elected to present the financial statements in the GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" format.

The Plan's financial statements consist of a statement of net assets and statement of cash receipts, cash disbursements and changes in net cash assets.

C. Cash, Cash Equivalents 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.

D. Budgetary Process

The Plan is not required to follow the budgetary process by law, but incorporated in the bylaws that a budget should be prepared along with the other budgets prepared by the Allen County Educational Service Center.

E. Net Assets

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

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Plan has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Plan's deposits is provided by the 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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

the repayment of all public monies deposited with the institution.

The Plan primarily funds to meet the basic monetary demands of its claims and administration payments and has not had any Inactive or Interim deposits to invest.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided 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 twenty-five percent of the interim moneys available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At June 30, 2008, the carrying amount of the Plan's deposits was \$3,638,762 and the bank balance was \$4,523,334. Of the bank balance, \$300,000 was covered by Federal Depository Insurance and \$3,154,132 was uninsured and collateralized. At June 30, 2007, the carrying amount of the Plan's deposits was \$3,688,967 and the bank balance was \$4,348,228. Of this bank balance, \$400,000 was covered by Federal Depository Insurance and \$3,948,228 was uninsured and collateralized. Although the pooled securities serving as collateral were held by the pledging financial institution's trust department in the Plan's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Plan to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at cost. As of June 30, 2008, the Plan's investments were as follows:

	Market		Maturities (at Cost)	
	Value	Cost	< 1 yr	1-5 yrs
Federal Home Loan Bank Cons. Bond	\$1,990,630	\$2,000,896	\$ 0	\$2,000,896
Federal Home Loan Mortgage Corp.	1,503,550	1,500,760	0	1,500,760
Money Market	3,052	3,052	3,052	0
STAROhio	150,135	150,135	150,135	0
Total	\$3,647,367	\$3,654,843	\$153,187	\$3,501,656

As of June 30, 2007, the Plan's investments were as follows:

	Market		Maturities (at Cost)	
	Value	Cost	< 1 yr	1-5 yrs
Federal Home Loan Bank Cons. Bond	\$ 317,299	\$ 324,286	\$ 0	\$ 324,286
Federal National Mortgage Association	1,493,750	1,510,812	500,000	1,010,812
Federal Home Loan Bank Call Step	2,244,378	2,250,708	999,125	1,251,583
Federal Home Loan Bank Call Bond	676,108	692,938	0	692,938
Federal Home Loan Mortgage Corp.	247,637	249,034	249,034	0
Money Market	1,288	1,286	1,286	0
STAROhio	66,735	66,735	66,735	0
Total	\$5,047,195	\$5,095,799	\$1,816,180	\$3,279,619

Interest Rate Risk

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

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

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.”

Of the Plan’s investments, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and STAROhio all have credit ratings of AAA with Standard and Poor’s and are held by the investment’s counterparty and not in the name of the Plan. The Money Market account is held with JP Morgan Chase Bank who currently has a Standard and Poor’s rating of AA and is held by the investment’s counterparty and not in the name of the Plan.

Concentration Risk

The Plan places no limit on the amount that may be invested in any one issuer. During fiscal years 2008 and 2007, more than five percent of the Plan’s investments are in Federal Home Loan Bank Bonds and Federal Home Loan Mortgage Corporation. These investments are 54.75% and 41.06%, respectively, of the Plan’s total investments for the amounts listed.

During fiscal year 2007, more than five percent of the Plan’s investments are in Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Bank call step and Federal Home Loan Bank call bonds. These investments are 6.36%, 29.65%, 44.17% and 13.60%, respectively, of the Plan’s total investments for the amounts listed above.

NOTE 4 – RISK MANAGEMENT

A. Medical and Vision/Dental Benefits

The Plan contracts with a third party administrator, Allied Benefit Systems, Inc., to process and pay health claims and dental claims incurred by its members. Members pay monthly premiums to the Plan which are placed in a local bank account. The third party administrator then writes claim checks directly from this account and sends the Fiscal Officer a weekly check report of the claims processed that week.

B. Stop-Loss Coverage

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

C. Actuarial Valuation

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

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

NOTE 4 – RISK MANAGEMENT (continued)

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

	June 30, 2008	June 30, 2007
Cash and Investments	\$ 7,293,605	\$ 8,784,766
Actuarial liabilities	2,012,550	1,982,256

NOTE 5 – CONTRACTED SERVICES

The Plan contracts with Elaine Shafley, Plan Management Services, LLC, to provide services and advice for insurance plans that include medical, prescription drugs and dental. Contracts also exist with PharmaCare and National Vision Administrators for prescription and vision administration, respectively.

NOTE 6 – RESERVE FOR CLAIMS LOSSES

Allen County Schools Health Benefit Plan, under its terms of membership, shall establish adequate reserves for claims and unallocated loss adjustment expenses. In 2008, the Loss Reserve increased \$30,294 to \$2,012,550. The estimated expenses that have been incurred but not recorded represent 13.5% of the incurred and paid claims for fiscal year 2008. Total expenses for the year ended June 30, 2008 were approximately \$18.5 million.

In 2007, the Loss Reserve increased \$328,620 to \$1,982,256. The estimated expenses that have been incurred but not recorded represent 14.5% of the incurred and paid claims for fiscal year 2007. Total expenses for the year ended June 30, 2007 were approximately \$17.5 million.

The Plan also has a fluctuation reserve in excess of current liabilities established to neutralize the impact of claim level fluctuations not covered by insurance. The fluctuation reserve for fiscal years 2008 and 2007 is \$499,031 and \$529,325, respectively.

The total reserve for claim loss for fiscal years 2008 and 2007, including the loss reserve and fluctuation reserve is \$2,511,581.

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

<u>Fiscal Year</u>	<u>Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance</u>
2007	\$1,653,636	\$15,882,019	\$15,553,399	\$1,982,256
2008	1,982,256	16,380,988	16,350,694	2,012,550

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

Allen County, Ohio

Required Supplementary Information

Loss Development Information

	Plan Year	
	<u>7/1/2006 - 6/30/2007</u>	<u>7/1/2007 - 6/30/2008</u>
Premiums and Investment revenue:		
Earned	\$ 15,340,412	\$ 15,729,081
Ceded	(450,174)	(715,240)
Net Earned	<u>14,890,238</u>	<u>15,013,841</u>
Unallocated Expenses	1,023,006	1,038,924
Estimated losses and Expenses, end of accident year:		
Incurred	13,131,133	12,604,525
Ceded	0	0
Net incurred	<u>13,131,133</u>	<u>12,604,525</u>
Net Paid Cumulative as of:		
End of accident year	11,646,632	12,604,525
One year later	13,131,133	
Re-estimated ceded losses and expenses	0	0
Re-estimated net incurred losses and expenses:		
End of accident year	13,131,133	12,604,525



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 30, 2009

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Allen County Schools Health Benefit Plan as of and for the fiscal years ended June 30, 2008 and June 30, 2007, and have issued our report thereon dated June 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen County Schools Health Benefit Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Allen County Schools Health Benefit Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Allen County Schools Health Benefit Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 2008-01

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Allen County Schools Health Benefit Plan
Independent Auditor's Report on Internal Control
Over Financial Reporting and Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards
Page 2 of 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-01 to be a material weakness.

We noted other matters of internal control that we reported to management of Allen County Schools Health Benefit Plan in a separate letter dated June 30, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allen County Schools Health Benefit Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Rea & Associates, Inc.

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN
Allen County, Ohio

Schedule of Findings and Responses
For the Fiscal Years June 30, 2008 and 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2008-01

Significant Deficiency/Material Weakness

Sound reporting is the responsibility of the Allen County Schools Health Benefit Plan treasurer and is essential to ensure that the information presented to the readers of the financial statements is complete and accurate. We noted several audit adjustments were required to be posted to the Allen County Schools Health Benefit Plan's financial statements as recapped below.

June 30, 2008 financial statement balances were adjusted to reflect appropriate investment balances and understated disbursements.

June 30, 2007 financial statement balances were adjusted to reflect appropriate investment balances and understated disbursements.

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

The Health Benefit Plan treasurer should reconcile disbursements made for claims payment by Allied Benefits Services, Inc. on a monthly basis to prevent similar errors in the recording of non-payroll disbursements. The treasurer should also reconcile cash and investments to the accounting records without exception to assure appropriate and accurate balances are reported to the Board.

Management should review the adjustments identified above and the causes for these omissions to prevent similar errors in the compilation of the financial statements in subsequent audit periods.

Management's Response:

Management has implemented procedural changes to correct audit issues. New weekly and monthly reviews are being performed to attempt to eliminate errors. Additional communication with third party administrator has also been implemented to correct some issues.



Mary Taylor, CPA
Auditor of State

ALLEN COUNTY SCHOOLS HEALTH BENEFIT PLAN

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 3, 2009**